



2010 Annual Report

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

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I. Letter to Shareholders

1. A Letter to Shareholders

In 2010, the global economy was moving towards recovery with a series of economic recovery measures and moderate currency policies implemented by USA, Japan, EU countries. The economic growth of developed countries was slow. Their situation of low employment and high debt was getting worse due to sovereignty debt crisis in Greece and a series of financial tightening plans. As a result, international hot money kept flowing to emerging markets and helped emerging markets accomplish remarkable economic growth. In domestic economy, corporate tax reduction and the signing of ECFA contributed tremendous increase in exports, investment, and consumption. Consequently, the economic clutched a 10.82% annual growth rate.

The TAIEX in 2010 had once dropped to 7,032 from 8,188, the closing TAIEX in 2009, because of sovereignty debt crisis in Europe and fears of a potential second recession. Fortunately, in the second half of year, the economy turned out to be increasingly stronger benefited from ECFA and municipal elections. The index then bounced back to 8,972 and achieved a 9.57% growth rate.

In the first half of 2010, we ended up with limited profit because of difficulties in business given the differential global market trends and sharp fluctuations in Taiwan stock market. However, based on our expertise and experience, we immediately adjusted our steps, working in high spirit and with confidence. Therefore, we yielded net income after tax NT\$1.8 billion and the outcome certainly ranked among the tops. The 2010 revenue was NT\$5,174 million, cost was NT\$579 million, gross profit was NT\$4,595 million, operating expense was NT\$3,081 million, non-operating net income was NT\$350 million, net income before tax was NT\$1,863 million, net income after tax was NT\$1,803 million, earnings per share before tax was NT\$1.55, and earnings per share after tax was NT\$1.50. Compared with the top 14 brokers, we ranked 5th in terms of net income after tax and 2nd in earnings per share after tax.

In brokerage segment, we exerted our efforts to improve personnel quality, increase our efficiency as well as enhance our customer service and diversify our products. Last year, our brokerage market share was 4.09%, ranked 9th among peers. Our annual market share growth also ranked among the tops, and branch market share remained at 1st place.

In underwriting segment, we were major and co-lead underwriter for 49 times last year, ranked 8th among peers in total amount of 6,190 million. As for IPO, we kept looking for both international and domestic enterprises with good quality. We provide them counsel service and assist them to be listed on Taiwan stock market. As for SPO, we actively strived to gain more lead cases.

In proprietary trading segment, we kept strengthening trading skills for various products, expanding global market layout, enhancing our research lineup, cultivating outstanding traders, improving our sensibility to the economy,

maintaining our profitability. For warrant business in particular, since the set-up of our new system, the number of warrant issuance in 2010 was ranked 7th, moving up from 10th in 2009. As for the future proprietary business, we also performed exceptionally well with our efficient trading strategies and sound risk control. Pretax profit from the business was ranked 1st among peers.

Additionally, we intensified our corporate governance and the transparency of overall information. In the 2010 Information Transparency and Disclosure Ranking Result held by Securities and Futures Institute, we were awarded A+ ranking for 2 years consecutively, indicating our constant pursuit for excellence in corporate governance. Last year, Taiwan Ratings Corporation ranked our long-term/short term credit as twA & twA-1, showing that we enjoyed respectable market status, sufficient capital level as well as sound financial structure. Furthermore, our company was also committed to improving our working environment and gender equality. In 2010, we were awarded by the Bureau of Labor as the excellent business unit of friendly working environment.

We believe that the global economy has been on the right track since the QE 2 implemented by the USA Fed. However, there are still several uncertain factors need to be aware of, such as earthquake and nuclear plants incidents in Japan, regional political unrests in the Middle East and North Africa, devaluation of US dollars, and the rising price of commodities. It still takes time to build up market confidence. All of these events or trends mentioned above would present challenges to brokerage. However, they might also provide us great opportunities to pursue profit and growth. President Securities Company, in this highly competitive market, will keep our constant growth strategy, expand our various business segments with strict risk control, construct sound and secure trading and operating platform, and search for right directions and great opportunities. Besides expanding overseas market, we are also committed to seeking domestic opportunities and strengthening our local service as a way to maximize shareholder value. We are wholeheartedly grateful for long-term trust and supports from every stockholder. Our best wishes to you for your health and wealth.

Sincerely Yours,

Teng A-Hua

A-Hua Teng
Chairman



Kuan-Chen Lin
President

II. COMPANY PROFILE

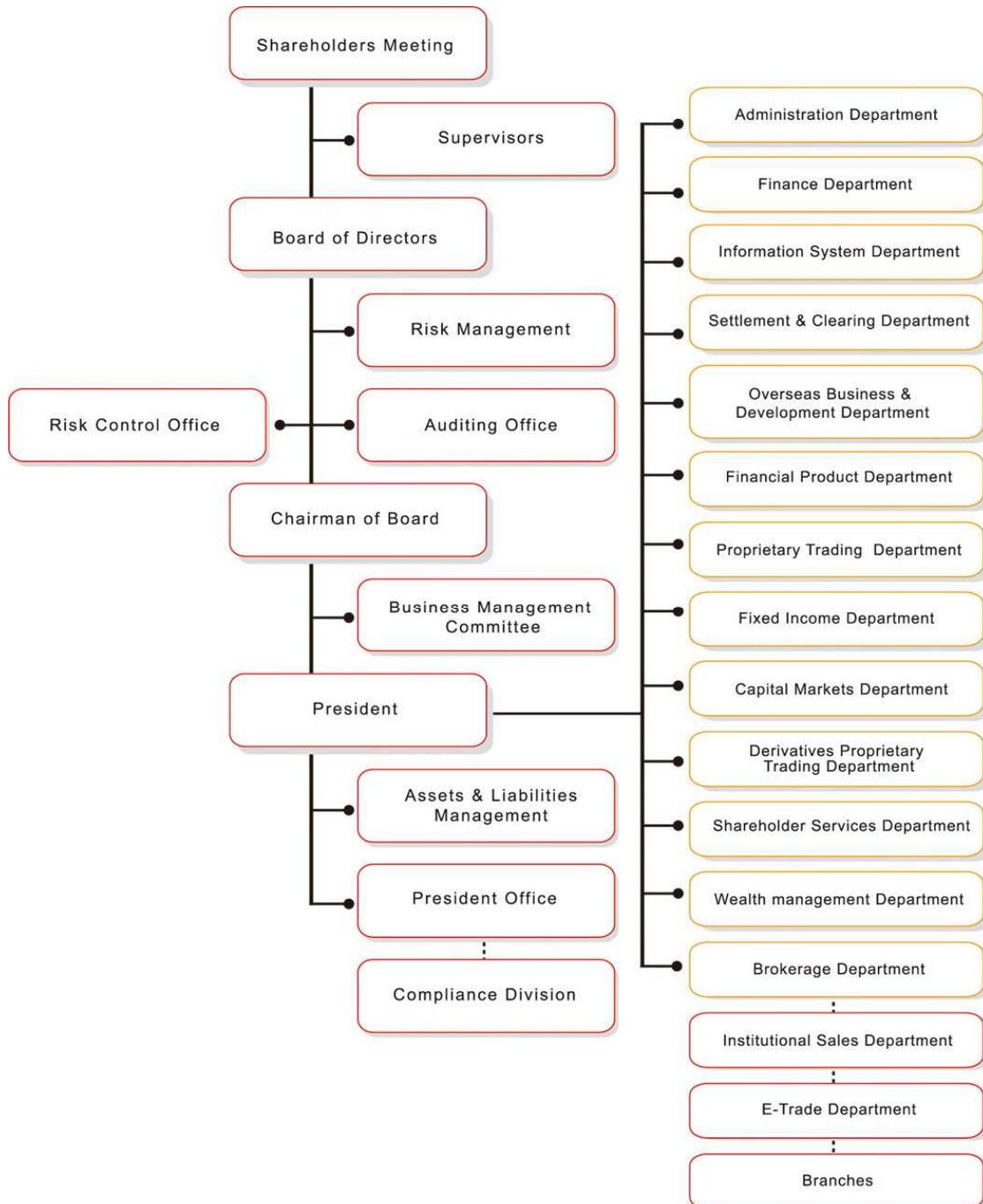
1. Date of incorporation: December 17, 1988

2. Company History

Year	Major Events
1988	Incorporated on Dec. 17, 1988 – President Securities Corp. (originally named President Securities Co., Ltd.) is a joint investment of Tung-Fu Investment Co., Ltd., Hsiang-Fa Investment Development Co., Ltd., Eternal Chemical Co., Ltd., Tung-Yi Investment Co., Ltd., and Uni-President Enterprises. Company was incorporated through the memorandum of Securities and Futures Commission, Ministry of Finance with no. (77) Tai-tsai-cheng-II-tzu-ti-20093 dated November 19, 1988.
1989	Amended business name to President Securities Corp on March 4.
1989	Commencement of official operations on April 3.
1991	Merged with Tung-Hsin, Tung-Yung, Tung-Wen, Tung-Ku, Tung-Fu, Tung-Yu, Tung-Hsing, Tung-Wang, Tung-Lai securities agencies under the President Securities banner on September 30; original place of business became a branch office. Founding capital of NT\$1.4 Billion increased to actual paid-in capital of NT\$3.362 Billion after the merger.
1994	Performed capital infusion; capital stock after infusion amounted to NT\$4.02 Billion.
1995	Opening of new branches (Sanmin, New Taichung, and Hsinying), thereby bringing number of nationwide offices to 16. Business expansion and a capital infusion that bolstered capital to NT\$7.03 Billion and made President Securities the largest securities company in the country. Then became the first Asian securities company to acquire the ISO9002 service quality certification.
1996	Opened new branches in Yenping, Taoyuan, Sanchung, Tunghsing, and Fengyuan.
1997	Opened new branches in Tienmu, Panchiao, Hankou, Tali, and Santo; thus bringing total offices to 26. Processed capital infusion; capital stock after infusion amounted to NT\$8.08 Billion.
1998	Processed capital infusion; capital stock after infusion amounted to NT\$10.18 Billion in May.
1999	In February, obtained official approval for OTC listing. In March, passed the credit rating of Taiwan Ratings Corporation with long-term twBBB and short-term twA-3 rating and “stable” outlook. In May, <u>listed on the OTC</u> . Relocated Hanko Branch to Szichih and was renamed Szichih Branch. In June, converted retained earnings to paid-in capital, capital stock after infusion amounted to NT\$10.91 Billion.
2000	In August, acquired Ta Feng Securities Co., Ltd.; opened two more branches – Sungshan and Tucheng. Converted retained earnings to paid-in capital, capital stock after infusion amounted to NT\$12.25 Billion.

	In September, opened the Kinmen Branch, total offices numbered 29.
2001	Opened new branches in Yuanlin, Ilan, total branches amounted to 30; total number of offices including head office is 31. In October, executed capital reduction through cancellation of treasury stock, capital stock after asset reduction amounted to NT\$11.279 Billion.
2002	Closed Sungshan Branch in March, bringing total offices down to 30. In July, converted retained earnings to paid-in capital, capital stock after infusion amounted to NT\$11.836 Billion. Listed on the main board in September. Executed capital reduction through cancellation of treasury stock, capital stock after asset reduction amounted to NT\$11.406 Billion.
2003	Ku Ting Branch (July) and Song Jiang Branch (November) were established, expanding the number of operational branches to 32 (including Business Branch). Obtained business license for structured notes in July; Fixed Income business unit licensed as the main dealer for business operation of government bonds issued by Central Bank of China in September.
2004	East Tainan Branch (April), Nei Hu Branch (April) and Renai Branch was established, expanding the number of operational branches to 35 (including Business Branch). Last August, PSC performed a capital reduction action on its treasury stocks, bringing the net worth of common stocks to NT\$11.40billion. In September, PSC was upgraded from twBBB to twBBB+. Following that, PSC was again upgraded to twA- in December.
2006	Obtained business license for wealth management in February. In June, PSC performed a capital reduction action on its treasury stocks, bringing the net worth of common stocks to NT\$11.371 billion. Received the 6 th annual National Charity Award, and was the only for-profit business entity among twelve recipients.
2007	In August, converted retained earnings to paid-in capital, capital stock after infusion amounted to NT\$11.768 billion. In December, PSC long-term credit rating was upgraded from TwA- to TwA, and short-term credit rating was upgraded from twA-2 to twA-1.
2008	Issued the first unsecured convertible corporate bond in Taiwan, and received NT\$ 3 billion from the offering in May. In August, converted retained earnings to paid-in capital, capital stock after infusion amounted to NT\$12.157 billion. Established PSC Xiamen business office in China on August 22 nd .
2009	In April, executed capital reduction through cancellation of treasury stock, capital stock after asset reduction amounted to NT\$11.857 Billion.
2010	Closed East Tainan Branch and established Ta An Branch in March. The number of operational branches remains 35 (including Business Branch). In August, converted retained earnings to paid-in capital, capital stock after infusion amounted to NT\$12.319 billion. In Sept. obtained trust business license issued by FSC.

3. Organization Chart



III. Corporate Governance

1. Major Corporate Functions

President Securities offers a diverse and comprehensive range of financial services, from brokerage, to underwriting, proprietary trading, fixed income dealing, financial product development, and shareholder services coordination. The following is a description of each of the President Securities' primary business units.

Brokerage	<ul style="list-style-type: none"> ■ Accept orders from clients to buy/sell listed securities and forward to TSE for execution. ■ Accept orders from clients to buy/sell listed securities and forward to the OTC exchange for execution. ■ Manage custodial services for clients. ■ Provide margin financing for securities trading. ■ Futures Introducing Broker Business
Underwriting (Corporate Finance)	<ul style="list-style-type: none"> ■ Assist corporations in application for public listing on TSE or OTC. ■ Conduct and advise on rights offerings ■ Underwrite euro-convertible bonds and foreign depository receipts. ■ Assist in M&A activities; provide consulting services on corporate finance and other specialized areas ■ Other various types of underwriting business
Proprietary Trading	<ul style="list-style-type: none"> ■ Trading of publicly listed securities on the TSE and OTC, using President Securities' own funds. ■ Hedge positions via futures and options markets ■ Coordinate with Corporate Finance Department (Underwriting) in ensuring smooth and successful launch of new issues by playing a market maker role.
Fixed Income Dealing	<ul style="list-style-type: none"> ■ Trading of government and corporate bonds via the OTC market using President Securities' own funds. ■ Accept orders from clients to buy/sell government bonds. ■ Repo and Reverse-Repo transactions. ■ Provide margin funds to clients for short-term and long-term investments; bond-related financial consulting services.
Financial Products	<ul style="list-style-type: none"> ■ Underwrite equity warrants and conduct option-based hedging strategies ■ Develop and issue structured-note products. ■ New financial product design and development.
Futures Proprietary Trading	<ul style="list-style-type: none"> ■ Trading of futures contracts on the TAIFEX (Taiwan Futures Exchange) using President Securities' own funds. ■ Trading of options contracts on the TAIFEX (Taiwan Futures Exchange) using President Securities' own funds.
Shareholder Services Coordinator	<ul style="list-style-type: none"> ■ Coordinate shareholder services on behalf of publicly listed companies. ■ Manage delivery of shareholder materials. ■ Assist in the coordination of shareholder meetings. ■ Coordinate the issue and transfer of cash and/or stock dividends to shareholders. ■ Manage the creation and delivery of tax forms to shareholders. ■ Respond to shareholder enquiries and legal issues.

<p>Wealth Management & Trust</p>	<ul style="list-style-type: none"> ■ Provide customers with the most complete asset arrangement and finance service planning service. ■ Provide customers with 「wealth management account」 for asset allocation with financial products such as, domestic/international funds, ■ Provide customers with 「trust account」 to proceed with assets arrangement, which includes current deposit/time deposit in foreign currency, domestic/international funds, overseas stock, overseas bond, derivative financial products that are approved by the authorities as a way to provide our customers with holistic investment & financial management service. ■ Satisfy customers with risk management and the goal of retirement planning by means of business integration with President Insurance Agency and President Personal Insurance Agency.
<p>Overseas Business</p>	<ul style="list-style-type: none"> ■ Establish development strategy in China for President Securities Group, and execute the investment and operation plan. ■ Develop the business cooperation in cross-strait capital market. ■ Strengthen the operation performance of our Hong Kong subsidiary to increase the earning ability of brokerage services, investment backing, proprietary trading, and wealth management. ■ Generate profit-making synergy though resource integration among the Group subsidiaries. ■ Evaluate overseas investment opportunities to strengthen President Securities Group as international financial services group.

■ For Supervisors

Unit: NT\$ thousands

Title/Name	Compensation						SUM of A,B and C / After-tax profit (%)		Whether or not any compensation is received from other re-invested businesses than subsidiaries
	Rewards(A)		Pension(B)		Earning Distribution(C)		PSC	Consolidation	
	PSC	Consolidation	PSC	Consolidation	PSC	Consolidation			
Supervisor / DUH, BOR-TSANG	0	0	7,678	7,678	1,080	1,080	0.4856	0.4856	none
Supervisor / CHEN, KUO-HUI									
Supervisor / LEE, SHU-FEN CHINA F.R.P CORPORATION									

3. Implementation of Corporate Governance

3-1 Attendance of Board of Directors Meeting

Total of 5 meetings of the board of directors were held in the year of 2010. Directors' attendance condition was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Notes
Chairman	Canking Investment Co., Ltd. Rep. Teng, A-Hua	5	0	100%	none
Independent Director	Wu, Tsai-Yi	5	0	100%	none
Independent Director	Fu, Kai-Yun	4	0	80%	none
Independent Director	Lee, Kwang Chou	4	1	80%	none
Director	Lin, Kuan-Chen	5	0	100%	none
Director	Cheng, Pi-Hua	2	3	40%	none
Director	Leg Horn Investment Co., Ltd. Rep. Chang, Ming Chen	5	0	100%	none
Director	Kai Nan Investment Co., Ltd. Rep. Sheh, Hong Huei-Tzu	5	0	100%	none
Director	Kai Nan Investment Co., Ltd. Rep. Lin, Cheng-Teh	4	1	80%	none
Director	Kai Nan Investment Co., Ltd. Rep. Sheh Tzu-Pon	0	5	0%	none
Director	Kai Nan Investment Co., Ltd. Rep. Lin, Ron-Kun	5	0	100%	none
Director	Hui Tung Investment Co., Ltd Rep. Pi, Chien-Kuo	4	1	80%	none
Director	Lee, Shy-Lou	5	0	100%	none
Director	Taleh Investment Holding Co., Ltd. Rep. Tuh, Li-Yang	5	0	100%	none

3-2 Attendance of Supervisors for Board Meeting

Total of 5 meetings of the board of directors were held in the year of 2010. Supervisors' attendance condition was as follows:

Title	Name	Attendance in Person	Attendance rate (%)	Notes
Supervisor	Duh, Bor-Tsang	4	80%	none
Supervisor	Kaiyo Investment Co. Ltd. Rep. Lee, Shu-Fen	4	80%	none
Supervisor	Chen, Kuo-Huei	4	80%	none

3-3 Status of Corporate Governance

The status of our corporate governance efforts, any discrepancies between our organization and what is outlined in the "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies", and the reasons for these differences.

Item	Status	Actual differences
<p>1. Company Share Structure and Shareholder Rights</p> <p>i) Methods for handling shareholder suggestions and disputes.</p> <p>ii) Maintain effective control over key shareholders and maintain the most up-to-date lists of key shareholders</p> <p>iii) Risk-control mechanism in form of fire-wall among subsidiaries.</p>	<p>i) We have assigned a spokesperson and a shareholder services representative to deal with any suggestions, complaints, or other problems from shareholders.</p> <p>On our corporate website, we have set up an "Investor's Area" as well as a "Investor Suggestion Box", which is managed by our shareholder spokesperson and by other management personnel who organize and forward all shareholder comments and questions on to the appropriate department for further action, if necessary.</p> <p>ii) PSC maintains close relationships with key shareholders and assigns dedicated shareholder services personnel to continually monitor any changes in the shareholdings of these key shareholders.</p> <p>iii) The finance and business of our company and its subsidiaries are in separate operation. In term of management right/obligation there is a clear line between our company and its subsidiaries. All the relations and trades are dealt with in accordance with law. 「Surveillance governing internal-control system for branch offices」 has also been set up as a controlling and governing mechanism for our branch offices.</p>	No Differences
<p>2. The Board of Directors, its organization and obligations</p> <p>i) The company has</p>	<p>i) At the company's 8th Board meeting (2009) PSC established 3 board seats specifically for independent directors.</p> <p>ii) In accordance with the "Corporate</p>	No Differences

Item	Status	Actual differences
<p>independent directors serving on its Board of Directors</p> <p>ii) Regularly evaluate the independence of the company's accounting firm</p>	<p>Governance Best-Practice Principles for Securities Firms", each year our company evaluates the independence of the company's accounting firm and resolves a motion to continue retaining said accounting firm's services.</p>	
<p>3. Lines of communication for company founders and with other stakeholders.</p>	<p>i) The Finance Department has assigned personnel specifically to deal with banks and creditors that we deal with regularly.</p> <p>ii) The Management Department has assigned personnel specifically to deal with employees, investments, and sales business partners.</p> <p>iii) On the PSC website, we have set up an "Investor Area" where users can access a "Customer's Suggestion Box" and an "Investor Suggestion box", which are managed by the company's Customer Service Department and its Management Department, respectively. These departments are responsible for responding to all messages received. For our internal-use website, we have set up an "Employee Suggestion Box", which is manned by our Management Department, who is responsible for responding to all comments received.</p>	<p>No Differences</p>
<p>4. Information Disclosure</p> <p>i) On the company website, we disclose our financial information and the status of our corporate governance.</p> <p>ii) Our company also uses other methods of disclosure (e.g., English version of our website, personnel assigned to collect and disclose information, a spokesperson, full records of everything that takes place at institutional investor meetings are posted to our website)</p>	<p>i) The company has already setup an "Investor Area" on our website (www.pscnet.com.tw), where we regularly disclose company financial information. We also post periodical and non periodical financial and operating information on the government-operated MOPS website.</p> <p>ii) Our company has assigned a spokesperson tasked with disseminating company information to investors and shareholders. We have also setup an "Investor Area" on our website where investors and shareholders can obtain information on the following:</p> <ul style="list-style-type: none"> ■ Company introduction in English ■ Company financial statements ■ Board of Director meeting minutes ■ Investor Suggestion Box, which is manned by Management Department Personnel who are responsible for replying to all comments received. 	<p>No Differences</p>
<p>5. Committees established to oversee nominations, compensation, etc.</p>	<p>The Company has established a Risk Control Committee.</p> <p>i) In accordance with governing principles</p>	<p>All such key strategies are handled in</p>

Item	Status	Actual differences
	<p>approved by the Board of Directors, the Risk Control Committee shall:</p> <ul style="list-style-type: none"> ■ Establish enterprise risk control policies and structures, and delegate to the appropriate departments. ■ Establish enterprise risk measurement standards. ■ Establish enterprise risk tolerance limits and department specific risk tolerance limits. <p>ii) The Risk Control Committee is comprised of three members; including one independent Board director, one Board supervisor, and the highest ranking officer from the Risk Control Office. Risk Control Committee meetings are convened quarterly, aiming to assist the Board of Directors with planning and monitoring of all risk related issues, reporting implementation progress, and recommending when appropriate.</p>	<p>accordance with the company's AOI and Board Meeting resolutions. With the exception of the Risk Management Committee, all other committees are still under review and evaluation.</p>
<p>6. If the company has implemented a set of practices in accordance with "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies", describe what practices were implemented and any differences between the practices implemented and those described in the abovementioned Principles</p>	<p>PSC has implemented a setoff operating principles that are in line with "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies" and with "Corporate Governance Best-Practice Principles for Securities Firms". The principles implemented serve to protect shareholder rights, to strengthen board effectiveness, to enhance monitoring functions, to respect the rights of interested parties, to increase information transparency, and to help the company achieve its operating goals.</p>	<p>No Differences</p>
<p>7. Other important information that can help shed light on the company's corporate governance operations (i.e., employee rights, hiring concerns, investor relations, supplier relations, the rights of interested parties, training for directors and supervisors, implementation of risk management policies and risk evaluation standards, implementation of customer policies, liability insurance purchased by the company for directors and supervisors):</p> <p>i) Environmental Protection Measures Our firm is a securities house and, therefore, has no environmental concerns to be addressed.</p> <p>ii) Community Participation In August of 2008, our firm conducted our first annual employee blood donation. Since 20010, the blood donation drive was increased to three times a year and has expanded to bring in even greater participation from the community.</p>		<p>No Differences</p>

Item	Status	Actual differences
<p>iii) Contributing to Society Every year since 2001, our firm has called together all staff members from across all of our different divisions, along with many of our clients, to participate in the “Send Them Our Love” charity event, which raises money for donation to charity groups such as Taiwan Fund for Children and Families (Yi-Lan), underprivileged children in Ping-Dong County, the United Way Taiwan, the Taiwan Foundation for Rare Disorders, the Taiwan Spinocerebellar Ataxia Association. PSC, as a long-standing supporter of social causes, was awarded the 6th annual National Civic Service Award.</p> <p>iv) Customer Rights Our company has assigned a spokesperson to be responsible for providing information to shareholders and investors, and for posting periodical and non periodical financial and operating information on the government-operated MOPS website. We have also setup an “Investor Area” on our website where investors and shareholders can obtain information on the following:</p> <ul style="list-style-type: none"> ■ Company introduction in Chinese and English ■ Company financial statements ■ Board of Director Minutes ■ Investor Suggestion Box, which is manned by Public Affairs personnel who are responsible for replying to all comments received. <p>v) Employee Rights and Hiring Concerns General accident insurance has been purchased for each of the company’s branches and work premises so as to protect customer rights. Employer insurance has also been purchased so as to protect the interests of all employees.</p> <p>vi) Stakeholder Rights Our company respects the right of stakeholders to voice their opinions and we have constructed lines of communication specifically for interested parties, such as:</p> <ul style="list-style-type: none"> ■ The Finance Department has assigned personnel specifically to deal with banks and creditors whom we deal with regularly. ■ The Management Department has assigned personnel specifically to deal with employees, investments, and sales business partners. ■ On the company website, we have set up an “Investor Area” where users can find a “Customer Suggestion Box” and an “Investor’s Suggestion box”, which are managed by the company’s Customer Service Department and its Management Department, respectively, who are responsible for responding to all messages received. On our internal corporate website, we have set up an “Employee Suggestion Box”, which is manned by our Management Department, who is responsible for responding to all comments received. <p>vii) Implementation of Customer Policy</p> <ul style="list-style-type: none"> ■ Our Policy: “3 Goods and One Fair”, “Good Quality”, “Good Trust”, “Good Service”, and “Fair Price”. This is combined with “Professional Leadership, Kind Service”, in providing all customers with comprehensive services. ■ Implementation: We have established a Customer Services 		

Item	Status	Actual differences
	<p>Department—The Customer Service Center, which offers customers an avenue through which to register complaints, which operates a customer service hotline which is manned by customer service specialists who help to solve customer problems, and which ensures that all account correspondence sent to clients includes clear product risk warnings.</p>	
<p>viii) Training for Directors and Supervisors</p> <p>In addition to supporting directors and supervisors who choose to attend external training on their own, our company will periodically organize corporate governance training classes and invite our directors and supervisors to attend these classes. In 2010, for example, in addition to the training that the directors and supervisor undertook on their own, our firm worked with the SFI to organize a training course on IFRS for all of our directors and supervisors focusing on corporate governance, and PRC-related financial analysis. This training allowed the directors and supervisors to gain a better understanding of the spirit of and practical application of corporate governance.</p> <p>ix) Risk Management Policy and Risk Evaluation Standards</p> <p>A. Risk Management Policy</p> <p>i) Ensure that the company can operate various types of business from a position of solid risk management. Using reasonable risk tolerance levels, continue to enhance profitability, create shareholder value, and achieve return on capital targets.</p> <p>ii) Set well-defined risk controls for every business area, implement risk management checks and balances, set clear obligations for each department so as to enhance risk management effectiveness by breaking it down into manageable pieces.</p> <p>iii) Our risk management operations take into accounts all key forms of risk: market risk, credit risk, liquidity risk, operational risk, legal risk, model risk.</p> <p>B. Risk Evaluation Standards</p> <p>Our firm has set risk management principles. In order to ensure that all of our organization's businesses adhere to our operating policies, operating goals, and capital levels, we have set suitability evaluation policies that can react to changes in our business and in the market:</p> <p>■ Market Risk Evaluation</p> <p>i) We use RiskMetrics market risk management system to manage our company's exposure to market risk. In addition to producing daily risk value tables, we perform simulation analysis and historical analysis so as to supplement missing risk values.</p> <p>ii) We evaluate the effectiveness of our evaluation models on various business areas: we review the assumptions, parameters, and data used for various product models, and then test that the models for the various products are reasonable.</p> <p>iii) Evaluate the effectiveness of risk control models: regularly perform back-testing to ensure the effectiveness of the models used.</p> <p>■ Credit Risk Evaluation</p> <p>i) Our company undergoes credit rating evaluations from Moody's, Standard & Poor's, Fitch, and Taiwan Ratings Corp.</p> <p>ii) Trading counter-partner credit risk: we assess our company's maximum exposure in the event that a trading counterparty defaults,</p>		

Item	Status	Actual differences
<p>and then use maximum exposure limits set by the board of directors, in determining the credit risk of a trading counterparty</p> <p>iii) Issuer's Credit Risk: we use KVM model to perform internal evaluations, and combine that with financial data and stock price data, to calculate the probability of a default. Then, based on these measurements, we develop an in-depth internal evaluation of the company, and then use this to protect ourselves from potential credit risks and potential capital shortfalls.</p> <p>■ Operational Risk Evaluation</p> <p>i) Operational risk is risk that is created when internal processes, employees, or systems, are inappropriate or cause errors; or risk that is caused by external factors. This type of risk is related to legal risks but not strategic risk or credit risk.</p> <p>ii) We create operations risk policy handbooks that entail every level of operations.</p> <p>iii) Through our risk report and audit report, we ensure that risk is appropriately evaluated, disclosed, and controlled.</p> <p>C. Risk Management Categories</p> <p>Our risk management takes into account market risk, credit risk, liquidity risk, operational risk, legal risk, etc., for both on-balance sheet business and off-balance sheet businesses.</p> <p>Each day, every level of operations, every manager, and every trader is given fresh figures on position risk and key sensitivity values. Through this, the company's risk controls and trading strategies can be properly analyzed and necessary alerts can initiated. Setting risk control guidelines for each level of operations allows for comprehensive monitoring of risk.</p> <p>D. Our Risk Control Architecture</p> <p>As part of our risk control measures, we have created an independent risk control department and constructed an integrated risk control architecture that encompasses all facets of the organization: the Board of Directors, the Risk Control Committee, the Office of the CEO, the Assets/liabilities Committee, the Risk Control Office, the Auditing office, the Legal Compliance and Legal Matters Department, the Finance Department, all sales departments. Each segment of the company has clearly spelled-out obligations and every level of the company has clearly defined authorities.</p> <p>■ Board of Directors: audits the company's risk management policy, supervises sales business strategies, approves all business proposals and trading permissions, is ultimately responsible for risk management.</p> <p>■ Risk Control Committee: a committee established by the Board of Directors tasked with integrating all risk management operations, with supervising and assisting all the various risk management and related operations. The committee is also tasked with setting the various risk authorities, limits, and targets, for a centralized supervision of the status of all of the company's risk management efforts.</p> <p>■ Office of the CEO: Supervises the daily implementation of all of the company's risk management operations and authorizes any exceptions to the risk management protocols.</p> <p>■ Assets/Liabilities Committee: controls the company's overall asset</p>		

Item	Status	Actual differences
	<p>structure, collects and analyzes domestic and international interest rates, exchange rates, and economic changes.</p> <ul style="list-style-type: none"> ■ Risk Control Office: within this office has been established the Trading Business Risk Management Team and the Operating Risk Management Team tasked with monitoring daily risk management operations: ■ Trading Business Risk Management Team: responsible for trading department risk management, for amendments to the business operational risk regulations, for the construction of a back-office risk control system, for ensuring compliance with trading regulations, and for creating trading business risk reports. ■ Operating Risk Management Team: responsible for the drafting of risk policies and regulations, for monitoring market and credit risks, for monitoring liquidity risks, for compiling data on operational risk control and management, for constructing and maintaining the risk management system, for implementation of risk management systems, for ensuring company-wide regulatory compliance. ■ Auditing Office: sets operations risk controls, sets the standards for risk control systems, puts in place internal auditing controls, implements daily check routines. ■ Legal Compliance and Legal Matters Department: implements legal risk controls and ensures that all businesses and risk management operations are in compliance with relevant laws and regulations. ■ Finance Department: monitors capital adequacy rates, liquidity risks, and analyzes the company's asset/liability structure and other key financial ratios. ■ Sales Department: based on the company's risk management policies and regulations, sets risk management guidelines for various businesses, and produces a report on abnormal risk items for the Risk Control Office. 	
<p>x) The Purchase of Liability Insurance for Directors and Supervisors Our company has already purchase liability insurance from ACE Insurance, Federal Insurance, and Fubon Insurance. (The policy is for US\$10 million with a term of Sept. 1, 2010 to Sept. 1, 2011.)</p> <p>8. Any other corporate governance evaluations conducted either by President Securities itself or by an external institution, the findings of this report, its main recommendations, and the status of any changes made: None</p>		<p>No Differences</p>

3-4 Compensation review committee

(If the company has established a compensation review committee, the composition of this committee, its obligations, and operation, should be disclosed.)

PSC will establish a compensation review committee by Sept. 30th, 2011 in accordance with the order from government.

3-5 Corporate Citizenship

Item	Status	Actual Differences
<p>1. Carry out company governance</p> <p>(1) Company sets up enterprise social obligation policies or systems and review implementation effects.</p> <p>(2) Company sets up an enterprise social obligation office (full or part time)</p> <p>(3) Company to holds moral education training and guidance for Directors, Supervisors and staff members. Integrate it into staff performance assessment system. Establish effective rewarding and punishment regulations.</p>	<p>(1) Our company has worked out 「President Securities Social Obligation Report」, which is put on the website. (Website: www.pscnet.com.tw)</p> <p>(2) The management Dept. is in charge of the enterprise social obligation. Some social obligation activities such as social contribution, social welfare, and community participation are held annually.</p> <p>(3) All of our Directors, Supervisors have completed the related advanced studies and trainings as required by regulations. Company also gives guidance to staff members. MBO management is slated to be launched in 2011. The results of the internal control and the related system will be included into assessment mechanism.</p>	<p>No Differences</p> <p>No Differences</p> <p>There is no difference between training and guidance. It will be connected with evaluation and included into assessment.</p>
<p>2. Develop sustainable environment</p> <p>Our company spares no efforts in green environment protection. The packing materials used for the imported machine are required for reuse. The lightening facilities in our office have been changed to T5 or LED as required by our government. Environment protections are also taken into consideration while procuring our office facilities. Our office room temperatures are also adjusted according to government regulations. We are also cooperative in the spot checking by our government.</p>		<p>No Differences</p>
<p>3. Maintain social interest or welfare</p> <p>(1) Company abides by the related labor regulations, safeguard employee's legal rights, set up proper management measures and procedures.</p>	<p>(1) In taking care of our employees, besides setting up internal regulations in accordance with the Labor Law, we also conduct regular checks on the differences between our internal regulations and the Labor Law. We also provide opinion boxes for employees as communication channel in order to protect employee's legal rights. The related mechanisms are as below:</p> <p>a. set up a complaints review access</p> <p>(a) In accordance with sexual harassment protection bill and sex equality in work place bill, our company has worked out measures of</p>	<p>No Differences</p>

Item	Status	Actual Differences
	<p>preventing, grievance-airing, investigating and handling sexual harassment. A committee is also set up to take charge of the related matters in order to prevent sexual harassment and protect victim's rights, including providing sexual harassment free environment.</p> <p>Sexual harassment tel.: (02)2746-3850 Fax: (02)2746-3799 e-mail: heart@uni-psg.com</p> <p>(b) All our employees can file their complains based on the labor law, labor safety hygiene bill, employee welfare fund bill, labor insurance bill, labor investigation bill etc.</p> <p>The channel is as below: e-mail: hr@uni-psg.com</p> <p>2. Attach importance to office safety</p> <p>(a) All the branches have selected some employees for training and obtaining certificate of fire-prevention. We also work out fire-prevention plans for offices. Public accident obligation insurance is also filed to protect customer's right. Employee accident obligation insurance is also filed to protect employee's rights.</p>	
(2) Company provides employees with safe and healthy working environment and provides with the related courses on regular basis.	(2) Company attaches importance to employee's working environment and their safety. In addition to reduce unfavorable working environment, employees also get physical check every year, letting them know well their own health status for early prevention and control.	
(3) Company sets up and publicizes its consumer's right policy and provides them with transparent and effective complaining procedures for its products and service.	<p>(3) Given the nature of financial service, we provide customers with the related handling procedures and rules in a speedy, transparent, stable and cautious manner.</p> <p>a. Procedures of customer service Our customer service center was established in 2000, providing customers with service telephone line and the first on-line customer service system in the brokerage field in a "special person special service" (consideration, efficiency, satisfaction, contentment) manner.</p> <p>b. Procedures of handling problems According to reactions of customers, deal with and follow the cases individually and by classification.</p> <p>(a) of service nature: to solve problems by giving clear explanations, giving clear guidance</p> <p>(b) of issue nature: clarify situation, focus on key points, explain in good manner, deal in fair manner.</p> <p>(c) of customer service nature: to treat</p>	

Item	Status	Actual Differences
	<p>customer with empathy, communicate with consensus, protect customer's right, deal in fair manner</p> <p>c. protect customer's right All by the law, putting customer's rights as first priority. It is our company's principle to think and deal with customer's asset rights from their viewpoint from the every beginning, letting customers can reach the goals of cumulating their individual asset without worries.</p>	
(4) Company cooperates with suppliers, working together to fulfill enterprise social obligation	(4) In our procurement regulations, we require to buy facilities that use green construction materials so as to play our role in energy saving and environment protection.	
(5) Company participates community development and welfare activities through commercial activities, donation, volunteer work.	(5) Since 2001, our company has held "Love-giving activities" for ten consecutive years, calling for all the employees in our business group including brokerage, futures, investment trust, investment consulting, insurance agent, and comprehensive insurance business to participate the activities. In 2006 we also held blood donation activities and called for community participation. The reaction was tremendously good. In 2010 we held blood donation three times. Our President brokerage group was honored with the 6 th National Public Welfare Award due to our long-term commitment to public welfare.	
<p>4. Step up information exposure Company has worked out 「President Securities Social Obligation report」, which has been put on our website (website: www.pscnet.com.tw)</p>		
<p>5. If a company has worked out its enterprise social obligation regulations based on 「Enterprise social obligation regulations for listed companies/over-counter companies」, please elaborate the differences of its operation and regulations. Company has not worked out any enterprise social obligation</p>		
<p>6. Other information about social obligation fulfillment</p> <p>In light of PSC's long-standing commitment to supporting key social causes, it was awarded the 7th annual Wenxin Award and the National Civic Service Award.</p> <p>Over the last several years, President Securities Corp. has planned and coordinated a number of charitable activities with respected organizations such as the Taiwan Fund for Children and Families, the Taiwan Foundation for Rare Disorders, and the United Way of Taiwan. We assist these organizations by mobilizing all company extensive employees, and customers. We contribute real money and resources to causes that we believe in and, in doing so, meet our social responsibilities as a good corporate citizen.</p> <ul style="list-style-type: none"> ■ Environmental Measures As a securities firm, our company does not have any environmental or polluting concerns. ■ Social Participation, Social Contribution, Social Service, Social Causes Every year since 2001, our firm has called together all staff members from throughout our 		

Item	Status	Actual Differences
	<p>various divisions, and even many of our clients, to participate in the “Send Them Our Love” charity event, which raises money for donation to charity groups such as Taiwan Fund for Children and Families (Yi-Lan), Underprivileged Children (in Ping-Dong County), the United Way of Taiwan, the Taiwan Foundation for Rare Disorders, and the Taiwan Spinocerebellar Ataxia Association. Beginning in 2007, we established a scholarship in partnership with the Taiwan Fund for Children and Families that assists elementary school children from underprivileged families.</p> <p>In August of 2006, our firm conducted the first employee blood donation drive, which was a rousing success. The blood donation drive was increased to twice a year from 2007 and was expanded to bring in even greater participation from the community.</p> <p>President Securities Group will continue to hold the spirit of “Giving to society what you get from society”, and will continue to support underprivileged groups and strive to support charitable activities.</p> <p>■ Customer Rights</p> <p>Our Policy is “3 Goods and One Fair System”, (meaning, Good Quality, Good Trust, Good Service, and Fair Price). We combine this with “Professional Leadership and Kind Service” to provide comprehensive service to all of our customers.</p> <p>Our company has assigned a spokesperson to be responsible for providing information to shareholders and investors, and to post periodical and non-periodical financial and operational information on the government-operated MOPS website. We have also setup an “Investor Area” on our website where investors and shareholders can obtain information on the following:</p> <ul style="list-style-type: none"> i) Company introduction in English ii) Company financial statements iii) Board of Director meeting minutes iv) Investor Suggestion Box, which is manned by Administration Department Personnel who are responsible for replying to all comments received. <p>We have established a Customer Services Department—The Customer Service Center, which offers customers an avenue through which to register complaints, which operates a customer service hotline which is manned by customer service specialists who help to solve customer problems, and which ensures that all account correspondence sent to clients includes clear product risk warnings.</p>	
7.	<p>If company's products or enterprise social obligation reports have passed the checking standards set by the related institutes, be sure to describe its details.</p> <p>Our company's enterprise social obligation report is worked out by ourselves and has not been certified by the related institutes.</p>	

4. Long-term Investment Ownership

As of 31/03/2011

Long-term Investment	Ownership by President Securities (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1) + (2)	
	Shares %	Shares %	Shares %	Shares %	Shares %	Shares %
President Futures Corp.	64,477,303	97.69%				
President Capital Management Corp.	12,400,000	100.00%				
President Securities (HK) LTD	10,000,000	5.19%	182,600,000	94.81%	192,600,000	100.00%
President Securities (BVI) LTD	67,746,000	100.00%				
Uni-President Assets Management Corp	13,570,830	38.66%	12,000	0.03%	13,582,830	38.69%
President Personal Insurance Agency Co.Ltd.	500,000	100.00%				
President Insurance Agency Corp.	500,000	100.00%				

IV. Capital Structure

1. Capital and Shares

1-1 Capitalization

Month/Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stork		Remark	
		1,000 Shares	Amount (NT\$ thousands)	1,000 Shares	Amount (NT\$ thousands)	Sources of Capital	Capital Increase by Assets Other than Cash
Jul-2002	10	1,500,000	15,000,000	1,183,651	11,836,510	Capital Increase by Earning	None
Dec-2003	10	1,500,000	15,000,000	1,140,673	11,406,730	Cancellation of Treasury Shares	None
Aug-2004	10	1,500,000	15,000,000	1,140,499	11,404,990	Cancellation of Treasury Shares	None
Jun-2006	10	1,500,000	15,000,000	1,137,072	11,370,720	Cancellation of Treasury Shares	None
Aug-2007	10	1,500,000	15,000,000	1,176,869	11,768,695	Capital Increase by Earning	None
Aug-2008	10	1,500,000	15,000,000	1,215,706	12,157,062	Capital Increase by Earning	None
Apr-2009	10	1,500,000	15,000,000	1,185,706	11,857,062	Cancellation of Treasury Shares	None
Aug-2010	10	1,500,000	15,000,000	1,231,933	12,319,334	Capital Increase by Earning	None

1-2 Capital and Shares

Unit : Share

Type of Stock	Authorized Share Capital		
	Issued Shares	Unissued Shares	Total
Common Stock	1,231,933,438	268,066,562	1,500,000,000

1-3 Structure of Shareholders

As of 26/04/2011

Structure of Shareholders	Government Agencies	Financial Institutions	Other Institutional Shareholders	Personal Shareholders	Foreign Institutions and Personal Shareholders	Total
Quantity						
Number of Holders	0	1	115	31,414	124	31,654

Shares	0	17,782,694	664,183,448	430,495,679	119,471,617	1,231,933,438
%	0	1.44%	53.91%	34.94%	9.71%	100%

1-4 Distribution Profile of Share Ownership

■ Common Shares

As of 26/04/2011

Shareholder Ownership (Unit : Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	13,946	2,427,598	0.197
1,000 ~ 5,000	8,830	19,709,462	1.600
5,001 ~ 10,000	3,099	21,130,473	1.715
10,001 ~ 15,000	1,899	22,061,529	1.791
15,001 ~ 20,000	654	11,471,701	0.931
20,001 ~ 30,000	980	23,110,741	1.876
30,001 ~ 50,000	737	28,346,951	2.301
50,001 ~ 100,000	675	47,100,101	3.823
100,001 ~ 200,000	394	54,494,368	4.423
200,001 ~ 400,000	223	60,338,925	4.898
400,001 ~ 600,000	57	27,200,170	2.208
600,001 ~ 800,000	44	30,928,744	2.511
800,001 ~ 1,000,000	20	17,564,455	1.426
Over 1,000,001	96	866,048,220	70.300
Total	31,654	1,231,933,438	100.000

1-5 Major Shareholders

April 26, 2011

Shareholders	Number of Shares	Ownership (%)
Uni-Present Enterprises Corp.	335,816,172	27.259
Kai Nan Investment Co., Ltd.	33,985,025	2.758
President Chain Store Corp.	32,611,167	2.647
Eternal Chemical Co., Ltd	29,224,842	2.372
Tainan Spinning Co., Ltd	27,424,115	2.226
Golo Chang Investment Co., Ltd.	24,469,636	1.986
Fubon Life Assurance Co., Ltd	22,400,000	1.818
President Securities Corp. Share Buy-back Account	20,064,000	1.628
President Securities' comprehensive Employee Stock Ownership Trust under Chinatrust's custody	17,782,694	1.443

JP Morgan Chase& Co investment fund under Citibank Taiwan's custody account	16,880,760	1.37
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1-6 Market Price Per Share, Net Value, Earnings & Dividends for Latest Two Years

Item		2009	2010	2011Q1
Market Price Per Share	Highest	22.30	22.70	19.90
	Lowest	8.35	14.85	16.40
	Average	16.99	17.92	19.74
Net Worth Per Share	Before Distribution	16.86	17.02	17.34
	After Distribution	16.04	-	-
Earnings Per Share	Weighted Average Shares (thousand shares)	1,148,748	1,201,908	1,201,102
	Earnings Per Share	1.76	1.50	0.15
		1.69	1.43	-
Dividends Per Share	Cash Dividends (NT\$)	0.82	0.47	-
	Stock Dividends	0.40	0.60	-
		-	-	-
	Accumulated Undistributed Dividend	-	-	-
Return on Investment	Price/Earnings Ratio	9.65	11.95	-
	Price/Dividend Ratio	20.72	42.67	-
	Cash Dividend Yield	4.83	2.34	-

2. Dividend Policy & Implementation Status

2-1 Dividend Policy

The Company takes a policy of dividend payment to maintain sound long-term financial structure and stabilize continual growth to maximize benefits to shareholders, in the following manners:

- The profit may be retained and not allocated if the total allocable profit is less than 5% of the paid-in capital after paying tax, making up the previous loss and setting aside the legal reserve in accordance with the Company Act.
- The total amount of dividend shall not be below 70% of the allocable profit as per the preceding paragraph.
- Out of the dividend which can be allocated according to the preceding paragraph, stock dividend shall not be below 50% and cash dividend shall not exceed 50%.
- Taking the operation situation of the year and the fiscal plan of next year into consideration, the Company may decide the best stock and cash dividend on its discretion.

2-2 Distribution of Profit

The Board adopted a proposal for 2010 profit distribution at its Meeting on March 28, 2011. The proposal will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 24, 2011.

Proposal to Distribute 2010 Profits

	Unit: NT\$
Cash Dividends (NT\$0.47 per share)	569,578,636
Stock Dividends (60 share for each 1,000 shares owned)	727,121,670

In addition, according to the Company's Articles of Association, PSC shall allocate 3% of earnings available for distribution (net income after a regulatory required deduction for prior years' losses and contributions to legal and special reserves) as a bonus to directors, and 2% as a bonus to employees.

The proposal for distribution of earnings approved by the Board of Directors on Mar. 28th, 2011 is as follows:

- It is proposed that a total of NT\$27,298,954 be distributed to employees as bonus, and that a total of NT\$40,984,430 be allocated for director/supervisor compensation. Employee bonus will be distributed in cash.
- It was estimated that employee bonus for 2010 would be NT\$27,327,603 and Director/Supervisor compensation for 2010 would be NT\$40,991,404. Employee bonus and Director/Supervisor compensation estimates are based on internal profit and loss figures and shares outstanding end of 2010, which resulted in a discrepancy in the distribution values. Any discrepancy between the estimates and the actual distributions approved at the General Shareholder Meeting will be booked in 2011's profits and losses.

3. Buyback of Common Stock

As of 31.3.2011

Buyback Plan	7 th Buyback Plan
Purpose	For transferring to employees
Period	2008.9.18-2008.11.17
Planned Buyback Price Range (i) &(ii)	NT\$10-NT\$20 per common share
Class and Number of Shares Bought Back	40,000,000 common shares
Value of Shares bought Back	NT\$388,639,599
Number of Shares Cancelled	19,936,000 common shares
Accumulated Number of Treasury Shares Held	20,064,000 common shares

Accumulated Treasury Shares Held as a % of Total Outstanding Shares	1.63%
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Note: (i) Minutes of Board of Directors revealed that if the market value was below the lower limit of buyback price range the buyback plan preceded.

(ii) Of the 7th buyback plan 9,975 shares bought back had transferred to employees on Oct.19th, 2009, and 9,961 shares bought back had transferred to employees on Jan, 26th, 2011.

4. Long-Term Borrowings

4-1 Issuance of Corporate Bond

Issuance		1 st Unsecured Convertible Corporate Bond in 2008
Issuing Date		2008.5.28
Denomination		NT\$100,000
Issuance and Transaction Location		Domestic
Offering Price		Par
Total Amount		NT\$3,000,000,000
Coupon Rate		0% p.a.
Tenure		3 years Maturity : 2011.5.28
Guarantor		None
Trustee		Taipei Fubon Commercial Bank
Underwriter		Fubon Securities Corporation Ltd.
Legal Counsel		None
Auditor		None
Repayment		Bullet
Outstanding		NT\$2,357,600,000 (i)
Redemption or Early Repayment Clause		Referring to Article 17 of the prospectus of the 1 st unsecured corporate convertible bond
Covenants		Referring to Article 17 of the prospectus of the 1 st unsecured corporate convertible bond
Credit Rating		None
Other rights of Bondholders	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities as of Printing Date	None
	Conversion Right	(ii)
Dilution Effect and Other Adverse Effects on Existing Shareholders		None
Custodian		None

Note : (i) As of 2009.12.31, the Company had bought back total face value of NT\$642,400,000 from 2008.9.16 and cancelled the bought-back on 2009.1.15 & 2009.6.8.

- (ii) Referring to the prospectus of the 1st Unsecured Convertible Corporate Bond in 2008 revealed on M.O.P.S.

4-2 Information of Convertible Corporate Bond

Type of Corporate Bond		1 st Unsecured Convertible Corporate Bond in 2008		
Year		2009	2010	2011 (As of March 31 st)
Market value	High	NT\$109.0	NT\$109.0	NT\$105.1
	Low	NT\$92.5	NT\$99.1	NT\$99.55
	Average	NT\$100.75	NT\$104.05	NT\$102.325
Conversion Price		NT\$21.86	NT\$20.06	NT\$20.06
Issuance Date and Conversion Price When Issued		2008.5.28 at NT\$28.23	2008.5.28 at NT\$28.23	2008.5.28 at NT\$28.23
Method of Fulfilling Obligation Conversion		None	None	None

V. Overview of Business Operation

1. Description of Business Activities

1-1 Business Scope

- Underwriting business
- Proprietary trading of listed securities
- Brokerage for listed securities
- Proprietary trading of listed securities through retail locations
- Brokerage of listed securities via retail locations
- Margin trading financing
- Securities borrowing and lending
- Shareholder services coordination
- Support for futures trading through equity-related business
- Concurrent operation of futures proprietary trading
- Brokerage for foreign listed securities
- Trust business
- Financial derivatives products approved by the SFB
- Other business areas approved by the SFC

1-2 Breakdown of Revenues for Latest Three Years

Unit: NT\$ thousands

Item	2008		2009		2010	
	Operating revenue	(%)	Operating revenue	(%)	Operating revenue	(%)
Brokerage	2,879,786	63.91	3,148,882	59.94	3,398,585	65.69
Proprietary Trading	1,349,458	29.95	1,857,311	35.35	1,498,770	28.97
Underwriting	276,424	6.14	247,161	4.71	276,231	5.34
Total	4,505,668	100.00	5,253,354	100.00	5,173,586	100.00

1-3 Products and Services

We offer a comprehensive range of financial services: brokerage, underwriting, proprietary trading, fixed income dealing, financial product development, wealth management, and shareholder services. The following is a brief description of PSC's primary business units.

Business Area	Description
Brokerage	<ol style="list-style-type: none"> 1. In 2010, the market share for our brokerage business stood at 4.09%, ranking us as the 9th largest brokerage house. 2. We currently operate 35 branches, and PSC currently holds the #1 market share position in each individual market for which we operate a branch—clear proof of our exceptional operating efficiency

Business Area	Description
	<ol style="list-style-type: none"> 3. We have been aggressively promoting our online trading business, and online trading now accounts for 30.3% of our overall trading. Thus, we are staying in tune with market trends and offering what our customers want. 4. We have developed an integrated online order entry system that allows customers to trade equities, futures, and options, all from the same application. This allows our customers to take full control of their trading objectives and, at the same time, encourages clients to trade a wider range of products. 5. By offering a more all-inclusive market monitoring and order entry environment, we can service a larger client base. 6. We integrate our sales of all types of products available in the market and thereby offer more value to our existing clients.
Proprietary Trading	<ol style="list-style-type: none"> 1. Market Position In 2010, the TAIEX climbed 784 points, for a gain of 9.6% due to the signing of ECFA, and the going-up price of China-concept, financial and raw material. Our proprietary trading department was able to keep in step with the movements in the market and was able to capitalize on both short term trends and on larger market sector reallocations. The resulting profits added up quickly. We coupled this investment strategy with prudent hedging using futures products and product diversification. Thus, when the dust settled, we had reaped exceptionally high profits from the market's impressive rise. 2. New Products/Services in Development <ol style="list-style-type: none"> i) We have been expanding our analysis of and investment in international spot and commodity markets that have been legally permitted by Taiwan's regulators, with particular interest in various Asian equities and global ETFs. ii) We have added quantitative analysis and technical indicator model analysis to our trading systems.
Fixed Income Dealing	<ol style="list-style-type: none"> 1. PSC held the number one ranking among all major brokerage houses in terms of outright purchases and sales of government bonds for each month of 2010, with an average monthly market share of 4.44%. Further, PSC was awarded the 2nd place in 2009 for Best Performing Government Bond Appraiser. It is clear that, in addition to turning in solid market share figures, PSC is also holding its own obligations as a key government bond trading firm. 2. PSC held 17.3% of the market in Interest Rate Swap brokerage, giving us an overall 2nd place ranking within the industry.
Futures Proprietary Trading	<ol style="list-style-type: none"> 1. Operating Performance Cumulative trading performance from January to December of 2010 for futures proprietary trading department was 1st among all domestic firms. 2. New Products/Services in Development As regulators continue to liberalize the industry and allow new financial products, we stand ready to add these new products to our trading and, in turn, to add to our revenue streams.

Business Area	Description
Financial Products	<p>In 2010, our Financial Products Division was primarily engaged in issuing new warrants, structured note products, convertible bond assets swaps, and other derivative products authorized by the Taiwan's regulators.</p> <ol style="list-style-type: none"> 1. Market Position <ol style="list-style-type: none"> (1) Warrants: We issued a total of 777 warrants in 2010, for a total dollar value of NT\$7,956,284,000. (2) Structured Products: in 2010, we had a total NT\$275,500,000 worth of structure note products in the market 2. New Products/Services in Development <p>We will focus on applying for permission to issue newly approved financial products and use leverage our financial engineering expertise to help those products bear fruit. We have a professional team that brings together skills from finance, information technology, and statistics, in developing profitable new products that help diversify our revenue streams.</p>
Underwriting (Capital Markets)	<ol style="list-style-type: none"> 1. Market Position <p>PSC underwrote 49 issues in 2010, for a total dollar value of NT\$6,195,500,000</p> 2. New Products/Services in Development <p>Our goal is to provide professional corporate financial services, to simultaneously act as both an effective market maker and also as a top-notch service provider, all with the aim of increasing our firm's overall added value. Going forward we will continue to focus our energy on landing mid- and large-sized deals, and will continue to bolster our presence within the Greater China Region (i.e., TDRs, IPOs (including primary listings on the TWSE/GreTai Market, M&A, Private Equity, and consulting, etc.), so as to become a more competitive securities firm.</p>
Shareholder Services	<ol style="list-style-type: none"> 1. Market Position <ol style="list-style-type: none"> i) By the end of 2010, we served as shareholder services representative for 131 companies, giving us a ranking of 8th in the industry. ii) The average size of companies that we represent has increased. As of the end of 2010, the total number of shareholders that we serviced stood at roughly 1.82million, giving us a ranking of 6th in the industry. 2. Operating Performance <p>The number of companies we represented in 2010 was the same as the previous year.</p> <p>The average number of shareholders we serviced in 2010 increase over the previous year, thus allowing us to achieve a higher economy of scale and more efficient operations.</p> 3. Long-term objectives <p>Work with other departments within PSC so as to implement cross-selling strategies and thereby become a shareholder services provider that can also provide financial management functions.</p>
Wealth Management	<ol style="list-style-type: none"> 1. Market ranking <ol style="list-style-type: none"> 1) The 1st and the only company in Taiwan that has started

Business Area	Description
& Trust Business	<p>fortune management business, a brokerage that assists customers to do assets arrangement under the 「asset management account」</p> <p>2) The 1st brokerage that has got the approval letter of having a side business of trust business</p> <p>3) As of the end of 2010, our company has represented 19 domestic fund companies and 12 offshore fund companies.</p> <p>2. Operation performance As of end of 2010, the number of the fortune management account customer totals 90 and the amount of the management customers assets totals NT\$122,201,716.</p> <p>3. Vision of our department We will become a pioneer in the field of domestic fortune management business with 「trust account」 to do assets arrangement for customers.</p> <p>We will do SBL business by way of trust measures in a hope to become a leading brokerage in the field of equity business.</p>

1-4 New Products and Services to be developed

Our company will conduct research planning in advance for the various related businesses to be approved by the authorities. We will keep developing new financial products in accordance with law, providing investors with multiple choices for investment and assets management. Meanwhile, we will provide customers with the most complete asset arrangement and finance service planning service with the combination of the business of our subsidiaries.

■ Business of Wealth Management and Trust.

(1) Specific individual capital management, investment, and trust

Authorities approved to let brokerage do money trust and equity trust under the trust business in 2009. In 2010 company got the approval from authorities to do specific individual capital management, investment, and trust. We expect to provide customers with 「trust account」 to proceed with assets arrangement, which includes current deposit/time deposit in foreign currency, domestic/international funds, overseas stock, overseas bond, derivative financial products that are approved by the authorities as a way to provide our customers with holistic investment & financial management service.

(2) Do SBL business by means of trust measure

We are planning to apply for an approval from the authorities in 2011 to do SBL business by means of trust measure. Customers with high net value, those holding huge stock but with low turnover, those long-term stock holders with gains from stock dividends are our main targets. We will, provide SBL in way of trust in accordance with customer's needs, meeting customer's needs for multiple asset management and to invigorate customer's equity assets.

2. Analysis of the Securities Industry

2-1 Overall Economic Environment

In retrospect, virtually all the developed countries were adopting loose financial policy and currency policy to stimulate economy in 2010. Their effects have been showing and the global economy has been gradually recovering from the financial crisis. The developing countries, under the spurs of consumption and investment, have shown relatively strong economy growth. The developed countries have shown slower economy growth due to their high unemployment rate and concerns of government debts.

As for Taiwan, according to the statistic of DGBAS, in 2010 the economy growth rate was roughly estimated at 10.82%, which was attributed to the factors such as the recovery of global economy, the expanding outsourcing of international technology companies as well as the signing of ECFA. Consequently enterprises increased their capital spending, resulting in a 25.59% growth in export and 32.79% growth in investment. The unemployment rate also dropped to 4.67%. Our Central Bank gradually raised interest rates in order to stabilize commodity prices. It also implemented credit control for specific areas as a way to inhibit real estate speculation. Those measures put the domestic commodity price under good control. The yearly consumer price index was up 0.96% only. But the yearly wholesale price index was up 5.46% due to the rise in international material prices. In 2010 based on the strong support of fundamentals, the weighted index of our stock market rose to 8972 from 8188, up 9.58% a year. Nevertheless, the weighted index once tumbled to 7032 because of the unfavorable international impacts from the sovereignty debt crisis in Europe, the US financial reform bills in US, the intense situation between North Korea and South Korea, and the credit tightening in China. In the second half of the year, the weighted index jumped over 8900 due to the favorable factors such as ECFA, five municipal Major elections, and the QE 2 policy by USA.

In 2011 internationally there exist uncertain factors such as the concerns of EU sovereignty debt, the slow pace in improvement of unemployment rate in the advanced countries, the global climate abnormality, the regional politic unrest in Middle East and North Africa. As a result, material prices are rising, causing inflation problems. Nevertheless with the effects of USA QE 2 policy, the international economy is in gradual recovery. Moreover, the developing economy as a whole is in strong growth. Thus the global economy is likely to keep in moderate growth. In Taiwan, the productivity has been shown due to huge investment by enterprises last year. The ECFA and the early harvest items have also hit the road. These factors will lead to stable growth in export. With the economy growth, the drop of domestic unemployment rate and the raise of average salary, public consumption will naturally be on the rise. According to the estimate provided by DGBAS in February, our economy growth can reach 4.92% this year. In terms of commodity prices, the ongoing rising prices of international agriculture and oil are very likely to have impact on our domestic commodity prices. Our Central Government is likely to tighten capital in order to stabilize commodity prices. As far as total economy is concerned, our stock market should be able to have moderate growth amid fluctuations.

2-2 Product Trends and Relevant Competition

■ Proprietary Trading

A. Equities Markets

In 2010 the countries in Asia such as India, S Korea, and Thailand had a 20% growth in their stock market due to the sufficient market capital caused by the US QE 2 policy. The stock market in Taiwan also rose 784, up 9.6%. It was mainly attributed to the

increasing inventory demands caused by China's 12th 5-yr. project. The electronic stock increased 95%, the best of all the stocks. China concept, asset play, financial stocks became a mainstream. Their share price performance outpaced that of the weighted index. Due to the increasing demands for foreign exchange reservation of China and India and the weak US dollars, the gold price reached a record high of 1430, leading to the rebounding and the rising trend of global material including hard and soft commodities. The rising trend in the stock market of the developing countries was still strong, including natural resources, replacement resources, and green technologies. They were also mainstreams of investment. Due to the capital sentiment and the increasing inventory demands, the Taiwan stock market reached 8,972 in the Q4 in 2010. Taiwan stock was also playing a part in the movement of capital flow with rising span reaching 9.6% in 2010. The amount of the stock bought by the FINI exceeded NT\$285,800 million, which was one of the reasons for pushing up stock in Taiwan.

Accordingly, the proprietary trading department used short-term trading strategies to capitalize on sharp market changes, nimbly adjusting portfolio positions and keeping systemic risk low, and ultimately reaping large profits by accumulating many small ones. Also, we were able to identify key fundamentals in individual stocks and then, based on changes in these fundamentals, moved quickly to drop weaker shares and pick up stronger ones, all the while using futures positions to hedge our positions and thus reduce risk and losses.

Going forward, we will continue to closely track market movements and be nimble in adjustments to our market positions and market strategies. When it comes to our foreign investments, we will use ETFs as a means of producing stable profits for the department. Thus, we fully expect our proprietary trading division to continue to be a leader in the industry and are confident that we can maintain our strong competitive advantage.

B. Risk Management

In addition to using VaR figures provided by the proprietary trading department's risk control office, stop losses and limit alerts are set for the stocks that each trader trades. Each trader is given trading limits and trading performances are updated in real time and, when necessary, trading authorizations can be immediately revoked. The effect of all of these measures is to ensure maximum protections for our shareholders.

C. Hedging Operations

Futures and options are our primary hedging tools. By nimbly adjusting our market positions and by using futures and options for effective hedging, PSC achieved the best return on assets rate in the industry in 2010.

■ Fixed Income Dealing

A. Outright Purchases and Sales of Government Bonds

Our company ranks 4th on the government bond subscription and redemption market. The market trading flow on the public bond market was too concentrated, which resulted in the loss of its mobility. Since major banks were dominant in manipulating stock price during the stock opening session, most government bond traders reduced their day-trade operation. Our company also reduced our trading frequency. Consequently our market share slightly dropped in the second half of the year. Nevertheless, our government bond subscription and redemption on the average was

still in a leading position.

B. Convertible Bonds

For operation of CB market our Bond Department kept strict control on the credit risk of investment position. Taking last year as an example, the total amount of CB investment in our Bond Dept. was in the range of NT\$1,300 million – NT\$2,000 million. Amount invested by the companies with bank's guarantee and TCR1 1-4 low bank risk accounted for over 80%. As for the small companies with their relatively high stock price fluctuation, besides keeping strict control on investment amount, we also followed 10% stop lose guidance. So even during the financial crisis period or when the weighted index rose up 1000 in the first half of last year, we did not suffer heavy losses in our investment amounts. It showed that PSC was stricter in the CB investment amount. The profit from CB of small-cap stock might be reduced, but our position credit risk control seemed to be better. Moreover CB of big-cap stock had the opportunities to perform well in turns. Considering risks and rewards over the past years, PSC's Bond Dept. performed better than their peers in terms of CB.

C. Government Bond Futures

The government bond future market was in standstill with the fact that its trade amount kept dwindling and the trade mechanism of spot borrowing and lending was not good enough. Virtually all the brokerage including PSC were not willing to take part in it. Since authorities did not require brokerage to perform their market makers' duties, the market came to a complete stop. The trade volume ended up in zero last year.

D. Bond Options

In terms of trade volume of bond option, the market share of PSC's business reduced mainly because the situation of too much outstanding flow in the bond option had got worse, which caused further reduction of the trade volume on the spot market. In case of huge trading volume, there would be heavy losses once the low market flow resulted in inconsecutive price quotation. Thus considering both risks and rewards, we reduced volume of open interest associated with bond option. But we also actively offered quotation on the market so as to keep the fluctuation of bond option market in our grasp.

E. Interest Rate Swaps (IRS)

IRS market experienced big fluctuation over the past years. The local banks and brokerages gradually withdrew from the IRS market. Thus overseas investment institutes and speculative hot money had impact on IRS market in Taiwan when they arranged their IR products all over the world. It also resulted in a record high IR difference between the IRS market and the government bond. Last year the IR difference was once tremendously reduced. Due to the huge fluctuation in IRS market and the tremendous spread dropping between IRS market and government bond, there were two great losses compared with government bonds. One was government bond spot hedge. The other was to short IRS when the global government bond market was dropping last year. Therefore, the IRS trading became even more difficult than that of previous years. In order to meet the particular change in IRS market, PSC has already reduced the exposure positions and is waiting for a good chance to launch.

F. Foreign Bonds

To ensure that our company's profits were not to be too concentrated on the Taiwan

bond market, PSC had conducted studies on overseas bonds from quite early time. Compared with our peers, therefore, we were in a better position to make use of trading opportunities of overseas bond. In spite of the NT dollar appreciation in the first half of last year, our company still enjoyed quite good capital gains due to the big fluctuation.

■ Financial Products Business

A. Equity Warrants

2010 saw strong expansion in Taiwan's equity warrant market, with all securities firms aggressively issuing warrant products. A total of 12,366 equity warrants were issued in 2010, for a total dollar value of just over NT\$171.813 billion.

The total dollar value of all equity warrants issued by PSC in 2010 was NT\$7.956billion, giving us a market share of **4.63%**. Most of the warrants that we issued were based on the value weighted stock or on quality large and mid-cap stocks. Through effective hedging we are able to enjoy stable profits from our warrant business and contribute to the depth of the warrant market overall.

B. Structured Note Products

In 2010, for the whole year, a total of NT\$110.937 billion in structure note products were issued, with NT\$11.447 billion still outstanding at year's end.

With the global economy in recovery in 2010, Taiwan's equity markets entered a clear bull market. This helped to attract many investors to structured note products and allowed PSC to issue NT\$2.524 billion worth of structured note products, giving us an industry ranking of 7th.

C. Convertible Bond Asset Swaps

Fixed Income Trading Department: with a total of NT\$14.139 billion worth of contracts currently outstanding. PSC had an accumulated trading volume of NT\$34.5 billion for 2010.

Option Trading Department: with a total of NT\$30.854 billion worth of contracts currently outstanding. PSC had an accumulated trading volume of NT\$46.543 billion for 2010.

■ Underwriting Business (Capital Markets)

A. Domestic Bond and Equity Underwriting

As of the end of 2010, there were a total of 758 companies listed on the TWSE, and a total of 546 companies listed on the GreTai Market, representing an annual increase of 2.3% and 3.3%, respectively. In 2010 the number of lead manager case totals 5 deals. Yuan-Da Financial Holding Co. has NT\$5,000 million unsecured CB, Golden Bridge Electech has NT\$250 million unsecured CB; Edimax has NT\$200 million CB; Ta Chen Stainless Pipe Company has NT\$1,020 million cash capital increase; TT Joinsoon Electronics has NT\$200 million cash capital increase.

Going forward, PSC will continue to adhere to a strict screening process and select only high quality companies to underwrite, all the while being mindful of prudent risk controls.

B. Financial Advisory

PSC aims to provide professional corporate financial advisory services and over the past several years we have been quite busy in this area. In addition to providing general consulting services, we are able to assist our clients with pre-planning and timeline advice, and can also assist with working with regulators.

As for our Greater China business, we have already signed a consulting agreement with a PRC-based Taiwan enterprise to provide that company with internal controls advice.

We will no doubt continue to develop our financial advisory services business with a particular emphasis securities related consulting (i.e., IPOs, mergers, private placements, and other consulting services) around the Greater China Region.

C. Offshore Underwriting

On March 5, 2008, Taiwan's Executive Yuan passed the "1-2-3 Plan for Attracting Foreign Companies to List in Taiwan", aimed at promoting Taiwan's equity markets as an attractive place for foreign companies to list their shares and, in the process, allow Taiwan's equity markets to develop. In an effort to capitalize upon this new opportunity, we have been aggressively pursuing foreign Taiwan-owned business who may be considering an IPO or a TDR listing in Taiwan. We are currently working with one Thailand listed company that we expect will be ready to submit its application for TDR listing by Q2 of 2011. Caiman is scheduled to submit for IPO listing in Taiwan by Q4. Beyond this, we will be pursuing other South East Asian listed companies and Hong Kong H-Share companies for potential TDRs listing in Taiwan.

D. Emerging Market Exchange

Although domestic equity markets stabilized in 2010, the number of companies listed on the Emerging Market Exchange in 2010 actually increased by 62, with a total of 285 companies listed on the exchange at the end of 2010, high from 223 the year before. PSC assists companies to trade on the Emerging Market Exchange in anticipation of their formal IPO and, by the end of 2010, we had sponsored 61 companies for trading on the Emerging Market Exchange. This year, we will continue to court high quality companies and work closely with them to achieve a listing on the Emerging Market Exchange.

■ Wealth Management

In June of 2005, the FSC formally began allowing securities firms to offer wealth management services to their clients and, to date. These services are targeted at high net-worth clients. The objective is to offer wealth management consulting that is based on the client's own financial planning objectives or asset/debt allocations and then provide a range of approved financial products and services.

Plus, on April 11, 2008, regulators officially began allowing securities firms to offer "Managed Account" services to their clients. These accounts can be used to purchase a range of financial products and services on behalf of the clients, products as diverse as foreign-listed equities, bond repos, domestic equity investment trusts, structured note products, and securitized products. In 2008, PSC was granted approval from regulators to begin offering these "Managed Accounts". We fully expect to launch this service in

2009 and, by doing so, provide our clients with more effective asset allocation thereby satisfying our clients' needs for diversified foreign and domestic investments. In 2010 company got the approval from authorities to do specific individual capital management, investment, and trust. We expect to provide customers with 「trust account」 to proceed with assets arrangement, which includes current deposit/time deposit in foreign currency, domestic/international funds, overseas stock, overseas bond, derivative financial products that are approved by the authorities as a way to provide our customers with holistic investment & financial management service.

We are planning to apply for an approval from the authorities in 2011 to do SBL business by means of trust measure. Customers with high net value, those holding huge stock but with low turnover, those long-term stock holders with gains from stock dividends are our main targets. We will, provide SBL in way of trust in accordance with customer's needs, meeting customer's needs for multiple asset management and to invigorate customer's equity assets.

3. R&D for Derivative Product

■ Various Technical Expertise and R&D

We have put together a complete and well-rounded financial engineering research team that is capable of researching both trading strategies and derivative products themselves. Our team is comprised of professionals from the areas of finance, statistics, and information technology. They are able to effectively synergize their diverse talents in developing valuable hardware and software for trading and product valuation. By coupling cutting-edge financial engineering techniques with comprehensive product research and substantial trading experience, we are able to design various new financial products and thus provide our clients with derivatives products and services that they need.

■ Our Research Analysts, Their Training, and Our R&D Costs for the Most Recent 5 years

PSC has been aggressively developing new products and working diligently to secure regulatory approvals for new products. Over the past 5-year period, we have spent an average of NT\$4.5 million per year on R&D efforts.

■ New products or Techniques Successfully Developed Within the Last 5 years

PSC has been successful in the design and pricing of many structured note products, equity swaps, credit derivative products, as well as equity-linked forex derivative products, bonds and interest rates, and we stand ready to issue these products whenever appropriate market timing emerges.

We have successfully developed several market operating strategies, as well as option market making models and strategies.

4. Future Business Development

In an effort to establish our core competitiveness, it is essential that we have a clear understanding of future trends in the securities industry and then establish a corresponding business development plan. We must also develop strategies that will allow us to

accommodate business areas newly approved by regulators so that we are in a position to move quickly in these new markets. Accordingly, we see our business developing in the following ways:

- Continue to recruit exceptional talent, and thereby improve our competitiveness and, in doing so, increase our market share.
- Implement risk management practices and technologies, thereby improving profitability and stabilizing overall business operations.
- Improve IT and enhance e-business infrastructure.
- Offer professional asset management and provide personalized financial planning services.
- Be ready to move on market liberalizations and, in particular, business opportunities across the Hong Kong-PRC-Taiwan market.
- Groom talented researchers and thus raise our abilities in designing new products.
- Move forward with consolidation within the President Group, thereby enhancing our securities business and financial services.
- Build and maintain alliances with financial institutions and corporations outside of the finance industry, relationships that allow for mutual cooperation and mutual benefit.

5. Market Conditions

5-1 Breakdown of Market Share According to Business Area

Business Area	Component	Market Share	Rank
Equity Brokerage	Equity Brokerage Trading Volume	4.09%	9
	Individual Branch	0.1168%	1
Financial Products	Warrants Issued (Value)	4.63%	11
	Structure Commodity Business Volume	2.28%	7
	Property Exchange Option Business Volume	0.23%	11
Fixed Income Dealing	Repo Transactions	1.60%	7 th vs. securities firms
	Outright Purchases / Sales	4.44%	4 th vs. securities firms
	Interest Rate Swaps	17.30%	2 nd vs. securities firms
Underwriting	Underwriting Deals (No.)	5.03%	4
	Underwriting Deals (Value)	4.56%	8

5-2 A Look at Future Growth as well as Supply and Demand in the Market

Looking beyond the current year, in spite of the unfavorable factors such as the EU sovereignty debt crisis, the global climate abnormality, the slow recovery of global economy caused by the US QE2 policy and the strong demand from the developing countries, the economy growth in Taiwan should be sustainable with the improvement of unemployment and consumption recovery. The increase in employment and average salary is conducive to a growth of company's performance. With the impact of economy recovery and the rising price of agriculture and oil materials, the commodity prices tend to climb up. Thus there still are latent worries that our Central Bank will gradually raise interest rates.

Furthermore, our company is expected to put callable bull/bear contracts(CBBC) products on the market this year. Authorities keep on promoting the listing for foreign companies or the issuing TDR in Taiwan. It should expand stock market both in width and depth, providing investors with more choices. Furthermore, the trade matching system has changed to consecutive and competitive bidding from batch competitive price bidding, which can cut down on waiting time for investors and provide them with more transparent information. It can help increase the stock trading volume.

Looking at our brokerage business, we will continue hosting promotion activities from time to time, enhancing our sales performance and getting people to know more about us. With our visions, we have started the electronic trading from very early stage. As of this year our electronic trade has grown over 30%. We intend to enhance our online trading platform by adding and integrating new functionalities thereby giving PSC an upper hand in the online trading. At the same time, we will keep expanding our electronic trade business and integrate the function of our trade platform, keeping our advantageous position in the field of electronic trade.

Looking at our underwriting business, given the intense competition that exists within the domestic securities industry for corporate underwriting deals, the reality is that not all deals end up being profitable endeavors. Accordingly, it is very important to carefully select convertible bond deals for high-quality companies with solid creditworthiness and sufficient assets. Having said that, the number of high-quality companies not yet publically listed are indeed fewer and harder to find. From increasing competition within certain industries is forcing a greater appetite for restructurings, which, in turn, driving the need for, and thus opportunities for, private placements, mergers, acquisitions, capital increases and reductions, and general financial consulting services.

Over the last few years, the Taiwan government has begun allowing access to more international business areas. This is allowing domestic underwriters to not only become more internationalized but more diversified. To this end, the Taiwan government hopes will encourage foreign companies to consider a primary, secondary listings, or TDR listing in Taiwan. Regulators are also considering allowing Hong Kong-listed H-Share companies to issue TDRs in Taiwan.

Going forward, then, PSC intends to offer investment banking services across the greater Hong Kong-PRC-Taiwan market, while continuing to search out quality foreign companies with an interest in listing their shares and/or raising capital in Taiwan.

Looking at our proprietary trading, with global capital flows moving so rapidly, a global investment strategy is key to the future of our proprietary trading operations. As regulators begin allowing domestic securities firms to participate more in global financial markets, domestic securities firms will be able to better diversify their investments. Thus, going forward, those securities firms that can best understand global industries and can best grasp global economic trends will be the ones that will turn in the most profits.

Looking at our wealth management business, authorities have approved to let brokerage concurrently conduct trust business and deal with the asset management business. So far the approved business items include the specific individual management and the securities trust, specific individual management and investment on collective basis, and the securities trust. At present there are 9 brokerages that have applied for 「trust account」 to do asset arrangement for customers, providing them with more choices in the brokerage. In the future authorities will keep expanding the scope of asset management business for brokerage, which will help increase brokerage's profit.

5-3 Market supply forecast, growth opportunity, and business competitiveness

■ Our Competitive Strengths

- a. Our corporate image is solid.
- b. We respect professional management and leadership.
- c. Our organization is flat and human resource costs are well-controlled.
- d. Our brokerage business market share grows up stability.
- e. Our position management performance is outstanding in winning percentage.
- f. Our operating costs and risk management are both well-controlled.

■ Positive Factors

- a. The global economy is in recovery; consumption and investment are picking up, which will drive domestic economic growth.
- b. Capital is readily available and the cost of capital is quite low.
- c. The financial MOU and ECFA between Taiwan and the PRC has been signed.
- d. Taiwan's regulators have been pushing for the internationalization of Taiwan's capital markets by encouraging foreign companies to have a primary or TDR listing on Taiwan's equity exchanges. The ultimate goal of the regulators is to expand the breadth of Taiwan's equity markets.
- e. Proprietary trading and brokerage business are both industry leaders. Market share for individual retail branches is quite high. Solid management practices are having a positive effect on the entire organization.
- f. Free from the shackles of a financial holding company and from restructuring and consolidation activities that would result from such M&A activities, employees can focus more on tasks at hand and the organization can enjoy smooth and unfettered development.
- g. Growth in online trading shows no signs of slowing down. President Securities' fast and reliable online trading technology is well-positioned to attract a new, young client base.
- h. The level of computerization and automation of information and processes is one of the highest in the industry. Such organization translates into increased efficiency for the organization, overall.
- i. Through President Group, the firm and its employees have access to superb sales channels and myriad resources.
- j. The government is continuing to open up new areas of business to domestic securities firms and allowing new forms of investments.
- k. With structured note products now available, products can be custom designed for either retail clients or institutional clients, thereby retaining clients who would have otherwise been drawn to banks and financial holding companies.
- l. The government is planning to bring tax policies on financial products in line with international standards and this will encourage financial product innovation and spur new business.
- m. President Securities encourages a corporate culture that emphasizes innovation and rising to challenges.
- n. As financial markets continue to mature and become increasingly democratized, overall efficiency in these markets will also rise.

■ Obstacles

- a. Gradual rising of interest leads to higher capital cost
- b. Financial holding companies have the advantage of capital employment and crisscross integration
- c. It is hard to mark up brokerage handling charge due to fierce competition.

■ **Strategies for Dealing with the Obstacles Identified**

Business Area	Strategy
Equity Brokerage	<ol style="list-style-type: none"> 1. Encourage various departments and subsidiaries to work together to develop new business. 2. Increase existing clients' trading volume and frequency of position turnover. 3. Modify client structure so as to develop more institutional clients. Expand spread trading business; 4. Expand our spread trading business, increase customer trading volumes and position turnovers rates. 5. Enhance internal auditing procedures, reduce client complaints 6. Customer- made online brokerage system for institutional investors. 7. Increase revenues from borrowed securities service to investors. 8. Cultivate all employees' abilities to cross-sell a range of financial products, particularly personal financial planning products and wealth management services. 9. Push forward with online brokerage business; implement comprehensive platform that integrates both information and trading systems. Bolster online trading system stability and order entry quality. 10. Promote our online trading business, create integrated information and trading platform, increase electronic trading stability and order entry. 11. Continue to bring in new blood, groom strong management trainees and financial planning professionals who are familiar with a wide range of products. Train back-office staff to take on sales roles thereby streamlining HR costs. 12. Use improved risk tolerance rates to stabilize incomes and control costs.
Proprietary Trading	<ol style="list-style-type: none"> 1. Recognize and adjust to different market conditions, switching between "Range Trading" and "Trend Trading" strategies, thereby maintaining an optimal market position. 2. Shorten the futures and options learning curve; reduce risk exposure. 3. Improve our research and trading of Emerging Market Exchange equities, foreign-listed equities, and futures markets, to create more diverse sources of revenue. 4. Add quantitative analysis and technical indicator model analysis to our operating systems.
Fixed Income Dealing	<ol style="list-style-type: none"> 1. Expand internal databases and develop additional system tools to aid in increasing profitability. 2. Expand the flexibility of our traders and the range of products they trade. 3. Utilize both IRS and options markets in properly ascertaining market trends and directions. 4. Improve research and analysis of offshore products.

Business Area	Strategy
Financial Products	<ol style="list-style-type: none"> 1. Refine hedging techniques and enhance trading system functionality so as to improve profits. 2. Be more responsive to consumer demand and develop new products to meet these demands. 3. Increase cooperation between the brokerage department, the asset management department, and the capital markets department. 4. Strengthen research and investment analysis for foreign markets, foreign underlyings, and foreign products; develop structured financial products based on foreign underlyings that meet client needs.
Future Proprietary Trading	<ol style="list-style-type: none"> 1. Diversify our trading strategies to better react to market changes. 2. Continue to improve the skills of our traders. 3. Increased the sharing of resources across multiple departments, thereby creating better synergies. 4. Expand our range of foreign products traded and increase profitability in foreign products.
Underwriting (Capital Markets)	<ol style="list-style-type: none"> 1. Leverage contacts from our International Business Department to search out foreign companies interested in a primary listing or TDR issue in Taiwan (such as Hong Kong H-shares issuing TDRs). 2. Leverage clients from across our Equity Brokerage Division, Financial Products Division, Shareholder Services Coordination Division, President Investment Consulting Corp., and President Investment Trust Corp. and provide these clients with financial planning products customized for either retail or institutional business, thereby implementing an effective cross-selling network. 3. Prior to taking initial steps on a given underwriting deal, consultations should be conducted with colleagues throughout President Securities' various departments and divisions so as to accurately assess the realistic profit opportunities and risks of the deal. Once a deal is ongoing, regular reassessments and revisions should be made in order to ensure the quality of the overall project. 4. When acting as exclusive sales agent for an issue, a risk assessment report must be generated to determine if risks fall within the firm's accepted parameters. Afterwards, daily risk values should be generated and market simulations should be conducted to as so have a clear and timely picture of risk exposure and thus determine when to initiate stop losses or when to take profits. The net effect of all of these efforts will be to lower overall risk while pursuing the largest possible profit.
Shareholder Services Coordination	<ol style="list-style-type: none"> 1. Improve quality of service <ol style="list-style-type: none"> a) Respond quickly to legal changes which affect procedures and materials. Improve efficiency of training cycles. Develop employee knowledge on various regulations and procedures. Enhance mutual support and flexibility among employees. Increase efficiency of human resource utilization. b) Enhance inter-department cooperation and verifications, thereby ensuring accuracy and security of processes. 2. Enhance efficiency of operations <ol style="list-style-type: none"> a) Follow the internal objective of "Customer satisfaction, unceasing improvement and innovation; strive to become a shareholder services coordinator that can provide investment

Business Area	Strategy
	planning functions”. Implementation of this philosophy will mean making this division an important conduit for developing new cross-selling opportunities from throughout the firm’s various divisions.
Wealth Management & Trust	<ol style="list-style-type: none"> 1. Emphasize the integration of various internal processes; expand strategic alliances with third party firms and individuals; construct an efficient and effective financial consulting dynamic. 2. Improve the overall level of professionalism of our staff, as well as their ability to execute services and their knowledge of the relevant industries, thereby raising the core competitiveness of the division, as a whole. 3. Emphasize customer relationship management and information service quality so as to maintain close long-term relationships with our clients and to provide those clients with more valuable services. 4. Expand the range and depth of products we offer so as to provide our clients with more complete and diversified financial options. 5. Create a consensus between our trade association and regulators on the direction of the wealth management industry and thereby pave the way for a wealth management industry that will continue to flourish going forward.

6. Employee Data

Analysis of Average Tenure, Age, and Education, for Sales Force in 2009, 2010, and the first quarter of 2011.

Year		2009	2010	2011 Q1
Number of Employees	Management	107	104	103
	Regular Staff	1,460	1,475	1,483
	Total	1,567	1,579	1,586
Average Age		38.31	39.82	40.05
Average Tenure		7.77	9.05	9.19
Education (%)	Doctorate Degree	0.13	0.06	0.06
	Master’s Degree	10.85	10.20	10.28
	Bachelor Degree / Junior College Graduate	71.92	72.89	72.89
	Senior High School	17.10	16.85	16.77
	High School or Less	--	--	--

Note: Management figures include position of “Manager” or senior.

7. Environmental Protection and Corporate Citizenship

7-1 Environmental Protection

Based on governmental order #0950007006, each company is required to disclose in its annual report its compliance with the European Union's Restriction of hazardous Substances Directive (RoHS). PSC is classified as a securities service business and, accordingly, pollution and other environmental concerns do not apply.

7-2 Corporate Citizenship

President Securities Group has been a long-standing supporter of important social charitable activities and, for its efforts, has been recognized with the 7th annual Wenxin Award and the National Civic Service Award. Indeed, over the last several years, President Securities Corp. has planned and run a number of activities with groups such as the Taiwan Fund for Children and Families, the Taiwan Foundation for Rare Disorders, and the United Way of Taiwan. We assist these organizations by mobilizing all of our group's extensive resources, employees, and customers. We contribute real money and resources to causes that we believe in and, in doing so, meet our responsibilities as a good corporate citizen.

Every year since 2001, our firm has called together all staff members from across all of our different divisions, along with many of our clients, to participate in the "Send Them Our Love" charity event, which raises money for donation to charity groups such as the Taiwan Fund for Children and Families (Yi-Lan), underprivileged children in Ping-Dong County, the United Way of Taiwan, the Taiwan Foundation for Rare Disorders, and the Taiwan Spinocerebellar Ataxia Association. In 2007, we began working with the Taiwan Fund for Children and Families to provide scholarships for underprivileged primary school students.

In August 2006, PSC held what would be its first annual employee blood donation drive. From the following year, in 2010, this successful annual blood donation drive was scaled up to three times a year and was further expanded to bring in members of the local community to participate.

President Securities Group will continue to hold the spirit of "giving to society what you get from society", and will continue to support underprivileged groups and strive to support charitable activities.

7-3 Work Environment Safety and Precautions

PSC is classified as a securities service business and, accordingly, pollution and other environmental concerns do not apply. Each branch office is required to select an individual to undergo training to be certified as a fire safety manager, and must establish a fire safety plan for the work premises in accordance with the law, and thereby ensure the overall safety of the work premises. General accident insurance has been purchased for each of the company's branches and work premises so as to protect customer rights. Employer insurance has also been purchased so as to protect the interests of all employees.

8. Labor Relations

8-1 Employee Benefits

President Securities has always maintained a harmonious relationship with its employees. We have spared no expense in providing attractive employee benefits, in providing opportunities for personal growth, in providing a pleasant work environment, and in providing clear and accessible communication channels to all levels of management.

In addition, President goes beyond simply offering benefits prescribed by domestic labor laws, such as annual leave time and number of working hours. Employees also enjoy

additional benefits such as group life insurance, worker's compensation coverage, and employee accident insurance. As well, the company offers employees funds for weddings and in time of bereavement, and organizes and subsidized employee outings aimed at strengthening relationships between the firm and its employees, and among employees themselves.

President Securities is committed to creating a reasonable, friendly, and efficient work environment for its employees, an environment that includes strong lines of communication for employees to express opinions and suggestions about the firm. With this in mind, the firm has established an "Employee Suggestion Center" and also organizes regular employee workshops to actively solicit, discuss, and then respond to employee concerns and suggestions.

In January of 2004, President Securities expanded its employee benefits to include an "Employee Savings Program", allowing those employees who participate to have a set portion of their monthly pay automatically deducted and placed in a special trust account, where matching funds will be provided by the company. The aim of this program is to promote long-term commitments from employees as well as encourage healthy savings habits and encourage responsible retirement planning.

Essentially, all such benefits and programs are designed to foster a harmonious relationship between employees and the company. Going forward, we are optimistic to continue to improve upon these relationships, always with the ultimate aim of allowing both the company and its employees to enjoy mutual benefit and growth.

8-2 Education Reimbursement and In-house Training

In 2010 our company had a breakthrough in training. Besides the training of performance improvement for all the sales staff, we also attached great importance to cultivation of talent staff. We held training courses for the cultivation of our reserve managers. This year we are also focusing on the training of management staff, aiming to enhance the management skills for both the first-line managers and the second-line managers. Furthermore, our company applied for the certification of 「training quality evaluation system」, and was given silver award. We were the only brokerage who got the award, indicating how we value cultivation of talent staff.

Also for 3 years since 2008, we pushed forward with aggressive recruitment of new brokers, bringing valuable new blood into the company. Each new employee that joins our firm is given a full month's training upon arrival, giving him/her a strong foundation from which to contribute to the company.

Beyond this, we also encourage our employees to develop on their own and to expand the depth of their professional abilities, knowledge, and value. So, in addition to providing our employees with regulator-sponsored training courses, we regularly organize various other training courses and also encourage employees to attend training classes on their own at reputable external training institutions. The end result of all of these efforts is to give our employees all of the tools they need to achieve their professional potentials and to have all of the skills they need to effectively perform their job functions.

8-3 Employee Pension Program and Related Benefits

- Based on required pension contributions as calculated by an actuary, we deposit 3.2% of each employee's monthly salary into a trust account held at the Bank of Taiwan.

- According to the New Pension Scheme instituted by the Labor Pension act instituted in July 2005, in the interest of providing for the retirement our employees, PSC has a total of over 1300 employees currently enrolled in the New Pension Scheme. In accordance with relevant regulations, PSC deposits 6% of each employee's monthly salary into a pension account maintained by the Department of Labor.

8-4 Employee Disputes and Protection of Employee Rights

In accordance with the Labor Standards Act, PSC has instituted its own set of work rules and has submitted a copy of these work rules to the Taipei City Government Department of Labor for approval. In addition to notifying all employees via internet of the content of these work rules, we also have posted a copy of these work rules on PSC's internal corporate web site where employees may view a copy of these rules at any time.

To date, President Securities has made every effort to maintain a harmonious and fulfilling work environment for all of its employees and, as such, has not suffered any loss or damage resulting from any employee disputes, in the firm's entire history. And, President Securities has every reason to believe that this harmonious dynamic will continue.

8-5 Loss or Damages Suffered as a result of Employee Disputes for recent 3 years: None.

8-6 Value of Present and Future Events with the Potential to Result in Financial Loss, and Corresponding Strategies for Dealing with These Events: None

8-7 Internal Legal Compliance and Material Information Management

- 99.6.29 Our Board of directors has passed and promulgated 「internal material information handling procedures」, assigning the Law-abiding Office to be in charge of internal major information in order to do coordination and prevent internal trading.
 - a) In accordance with the "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Listed Companies" and with the "Taiwan Stock Exchange Corporation Procedures for Press Conferences Concerning Material Information of Listed Companies", we have posted all such information on PSC's internal corporate website where employees and managers may view it.
 - b) Within the Office of the CEO, we have established a Legal Compliance Department, which is tasked with ensuring that all of the company's processes and administrative procedures are in compliance with the most recent laws and regulations, that all activities are conducted in accordance with relevant laws and regulations. This department is also tasked with conducting regular legal compliance evaluations of each department and each branch office and then conducting legal compliance training specific to their needs.
 - c) We have created a legal compliance section on our internal corporate website where we routinely post information on any recent amendments made to relevant laws and regulations. We have also set up a hotline where employees can call to learn more about insider trading, its key principles, definitions, and the potential civil and criminal exposures involved. All of these measures, taken together, provide our employees with comprehensive legal guidance.

VI. Financial Information

1. Balance Sheet from 2006 to 2011Q1

Unit: NT\$ thousands

Item		2006	2007	2008	2009	2010	2011Q1
Current Assets		37,070,803	43,393,049	22,454,699	33,703,331	40,453,654	39,407,867
Funds and Investments		5,411,319	6,440,005	3,544,465	3,730,479	3,693,808	3,746,349
Fixed Assets		2,267,372	2,258,141	2,260,863	2,291,386	2,418,697	2,417,590
Intangible Assets		-	-	-	-	-	-
Other Assets		2,175,065	1,806,075	1,831,136	1,869,513	1,699,346	1,659,837
Total Assets		47,057,045	53,940,612	30,112,983	41,594,709	48,265,505	47,261,741
Current Liabilities	Before Distribution	26,541,482	29,813,020	8,960,566	18,896,419	27,479,848	26,222,477
	After Distribution	27,639,655	31,072,269	8,960,566	19,844,078		
Long-term Liabilities		2,000,000	4,349,936	3,678,430	2,865,024	-	
Other Liabilities		292,756	207,744	233,025	342,278	323,441	29,078
Total Liabilities	Before Distribution	28,834,238	34,370,700	12,872,021	22,111,374	27,803,478	26,251,555
	After Distribution	29,932,411	35,629,949	12,872,021	23,059,033		-
Common stock		11,370,720	11,768,695	12,157,062	11,857,062	12,319,334	12,319,334
Capital surplus		47,002	50,110	255,234	317,109	399,809	404,127
Retained earnings	Before Distribution	6,912,012	7,822,209	5,644,976	7,670,170	8,063,587	8,595,444
	After Distribution	5,415,864	6,174,593	5,644,976	6,260,239		-
Unrealized Gain/loss on Financial Instruments		-759	-22,628	-231,626	18,281	256,992	155,744
Cumulative translation adjustments		-39,721	-48,474	-35,122	-87,565	-285,973	-269,522
Net loss on unrecognized pension cost		-	-	-3,017	-	-	-
Total Equity	Before Distribution	18,222,807	19,569,912	17,240,962	19,483,335	20,462,027	21,010,186
	After Distribution	17,124,634	18,310,663	17,240,962	18,535,676		-

2. Income Statement from 2006 to 2011Q1

Unit: NT\$ thousands

Item	2006	2007	2008	2009	2010	2011Q1
Operating Revenue	5,536,197	7,885,052	4,505,668	5,253,354	5,173,586	1,208,877
Gross Profit	5,116,577	6,201,219	2,786,760	4,907,951	4,594,514	995,583
Operating Income	2,384,910	3,014,108	319,872	1,856,462	1,513,063	214,366
Non-operating Income	361,020	409,697	264,726	523,184	523,230	62,514
Non-operating Expenses	245,729	523,101	930,802	147,739	173,016	49,447
Income(loss) from Continuing Operations - before Income Taxes	2,500,201	2,900,704	-346,204	2,231,907	1,863,277	227,433
Income(loss) from Continuing Operations - after Income Taxes	2,156,252	2,406,345	-529,617	2,025,194	1,803,348	180,652
Income (loss) from discontinued Operations	-	-	-	-	-	-
Extraordinary Income (loss)	-	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	5,216	-	-	-	-	-
Net Income(loss)	2,161,468	2,406,345	-529,617	2,025,194	1,803,348	180,652
Earnings Per Share	1.72	1.90	-0.42	1.70	1.50	0.15

3. Financial Analysis from 2006 to 2011Q1

Item		2006	2007	2008	2009	2010	2011Q1
Capital Structure Analysis (%)	Debt Ratio	61.28	63.72	42.75	53.16	57.61	55.55
	Long-term Fund to Fixed Assets Ratio	891.91	1,059.27	925.28	975.32	845.99	869.05
Liquidity Analysis (%)	Current Ratio	139.67	145.55	250.59	178.36	147.21	150.28
	Quick Ratio	139.55	145.44	250.27	178.24	147.11	150.17
Profitability Analysis	Return on Assets (%)	4.74	5.69	-0.44	5.75	4.15	0.43
	Return on Equity (%)	12.31	12.73	-2.88	11.03	9.03	0.87
	Operating Income to Paid-in Capital Ratio (%)	20.97	25.31	2.63	15.66	12.28	1.74
	Pre-tax Income to Paid-in Capital Ratio (%)	21.99	24.65	-2.85	18.82	15.12	1.85
	Net income ratio (%)	39.03	30.52	-11.75	38.55	34.86	14.94
	Earnings Per Share (NT\$)	1.79	1.98	-0.44	1.76	1.50	0.15
Cash Flow	Cash Flow Ratio (%)	6.98	-	175.20	-	-	4.41
	Cash Flow Adequacy Ratio (%)	111.94	86.03	278.58	284.19	340.73	383.01
	Cash Flow Reinvestment Ratio (%)	5.41	-4.14	66.7	-	-4.42	5.34

VII. Financial Status ,Operation Performance & Risk Management

1. Financial Status

Unit: NT\$ thousands

Item	Year	2010	2009	Fluctuation	
				Amount	(%)
Current Assets		40,453,654	33,703,331	6,750,323	20.03%
Funds and Investments		3,693,808	3,730,479	-36,671	-0.98%
Fixed Assets		2,418,697	2,291,386	127,311	5.56%
Other Assets		1,699,346	1,869,513	-170,167	-9.10%
Total Assets		48,265,505	41,594,709	6,670,796	16.04%
Current Liabilities		27,479,848	18,896,419	8,583,429	45.42%
Long-term Liabilities		0	2,865,024	-2,865,024	-100.00%
Other Liabilities		323,441	342,278	-18,837	-5.50%
Total Liabilities		27,803,478	22,111,374	5,692,104	25.74%
Capital Stock		12,319,334	11,857,062	462,272	3.90%
Capital surplus		399,809	317,109	82,700	26.08%
Retained earnings		8,063,587	7,670,170	393,417	5.13%
Total Equity		20,462,027	19,483,335	978,692	5.02%

2. Analysis of Operating Results

Unit: NT\$ thousands

Item	Year	2010	2009	Amount	(%)
Operating Expenses		3,660,523	3,396,892	263,631	7.76%
Operating Income		1,513,063	1,856,462	-343,399	-18.50%
Non-operating Income		523,230	523,184	46	0.01%
Non-operating Expenses		173,016	147,739	25,277	17.11%
Income(loss) from Continuing Operations - before Income Taxes		1,863,277	2,231,907	-368,630	-16.52%
Income Tax Expense		59,929	206,713	-146,784	-71.01%
Cumulative Effect of Changes in Accounting Principles		-	-	-	-
Net Income		1,803,348	2,025,194	-221,846	-10.95%

3. Long-term Investment Policy and Results

Many of our overseas investments were able to keep reaping profits in 2010. By using strict risk controls that take into account the parent company and all its subsidiaries, we are able to view cumulative positions in real time and then set appropriate profit-taking and stop-loss points, thereby decreasing overall risk and increasing profits.

As for our present direct investment policy, we consider all areas of business currently permitted by Taiwan's regulators and look for effective cross-selling strategies and other possible synergies, with the overall aim of best leveraging all of PSC's resources. Looking to the coming year, we expect regulators to again open up many new areas of business and we intend to be ready to move on each of these.

We are building international alliances with other industry players so as to expand into new business areas, to develop and promote new financial products. In particular, we are looking to Hong Kong and the PRC as key areas of expansion to bolster our presence in international financial services and our cross-strait business.

4. Analysis of Risk Management

4-1 Our Risk Management Policies

- In order to ensure that we have a solid and effective risk management system in place, our system has been developed so as to encompass all of our business areas. Then, with appropriate risk tolerance levels in place, we can effectively raise profits, create value for the company, and achieve our return on asset targets.
- By constructing risk controls for each individual business area, we are able to achieve a measured approach to risk management. Accordingly, each department is assigned risk parameters based on its respective responsibilities, thereby achieving layered yet comprehensive risk management.
- PSC's risk management measures take into account the following forms of risk: market risk, credit risk, liquidity risk, operational risk, legal risk, and model risk.

4-2 Related Risk Management System Architecture

- Board of Directors: audits the company's risk management policy, supervises sales business strategies, approves all business proposals and trading permissions, is ultimately responsible for risk management.
- Risk Control Committee: a committee established by the Board of Directors tasked with integrating all risk management operations, with supervising and assisting all the various risk management and related operations. The committee is also tasked with setting the various risk authorities, limits, and targets, for a centralized supervision of the status of all of the company's risk management efforts.
- Office of the CEO: Supervises the daily implementation of all of the company's risk management operations and authorizes any exceptions to the risk management protocols.
- Assets/Liabilities Committee: controls the company's overall asset structure, sets limits for different businesses, collects and analyzes domestic and international interest rates, exchange rates, and economic changes.
- Risk Control Office: within this office has been established the Trading Business Risk Management Team and the Operating Risk Management Team tasked with monitoring daily risk management operations:
- Trading Business Risk Management Team: responsible for trading department risk management, for amendments to the business operational risk regulations, for the construction of a back-office risk control system, for ensuring compliance with trading regulations, and for creating trading business risk reports.
- Operating Risk Management Team: responsible for the drafting of risk policies and regulations, for monitoring market and credit risks, for monitoring liquidity risks, for compiling data on operational risk control and management, for constructing and maintaining the risk management system, for implementation of risk management systems, for ensuring company-wide regulatory compliance.
- Auditing Office: sets operations risk controls, sets the standards for risk control systems, puts in place internal auditing controls, implements daily check routines.
- Legal Compliance and Legal Matters Department: implements legal risk controls

and ensures that all businesses and risk management operations are in compliance with relevant laws and regulations.

- Finance Department: monitors capital adequacy rates, liquidity risks, and analyzes the company's asset/liability structure and other key financial ratios.
- Sales Department: based on the company's risk management policies and regulations, sets risk management guidelines for various businesses, and produces a report on abnormal risk items for the General Manager Office.

4-3 Risk Evaluation Standards

Our firm has set risk management principles. In order to ensure that all of our organizations businesses adhere to our operating policies, operating goals, and capital levels, we must set suitability evaluation policies that can react to changes in our business and in the market:

- Market Risk Evaluation

- i) We use RiskMetrics market risk management system to manage our company's exposure to market risk. In addition to producing daily risk value tables, we perform simulation analysis and historical analysis to supplement missing risk values.
- ii) Evaluate the completeness of the evaluation models for different business areas: evaluate the assumptions, parameters, and data for various product models, and then test that the models for the various products are reasonable.
- iii) Evaluate the effectiveness of risk control models: regularly perform backtesting to ensure the reasonableness of the models used.

- Credit Risk Evaluation

- i) Our company undergoes credit rating evaluations from Moody's, Standard & Poor's, Fitch, and Taiwan Ratings Corp.
- ii) Trading counter-partner credit risk: assess our company's maximum exposure in the event that the counterparty defaults, and use maximum exposure limits set by the board of directors in determining the credit risk of a trading counterparty
- iii) Issuer's Credit Risk: we use KVM models to perform an internal evaluation, and combine that with financial data and stock price data, to calculate a probability of default. Based on these measurements, we then develop an internal evaluation, Z-Score model, to control the external credit risk gaps from issuers and augment.

- Operational Risk Evaluation

- i) Operational risk is risk that is created when internal processes, employees, or systems, are inappropriate or cause errors; or risk that is caused by external factors. This type of risk is related to legal risks but not strategic risk or credit risk.
- ii) We create operations risk policies handbooks that encompass every level of operations.
- iii) Through our risk report and audit report, we ensure that risk is appropriately evaluated, disclosed, and controlled.

4-4 Risk Factors and Corresponding Responses

- Management Crisis Risk: Management risk refers to significant market changes, a lack of access to capital, or significant losses from direct investments, that affect a company's operations and cause losses.

Response: We have implemented a “Management Crisis Response Policy” that clearly lays out what steps should be followed in the event of a serious crisis so as to ensure normal operation of the company.

- **Market Risk:** Market risk refers to dramatic changes in pricing or volatility in interest rates, equities, or foreign exchange rates, that can result in serious losses to open positions.

Response: We will attempt to lessen the impact of such market risks through prudent business analysis, product analysis, and process analysis, so as to clearly identify sources of market risk. Based on this, we then set effective management controls, we monitor investment position risk levels, risk structure, and risk changes, to ensure that they are all in line with our forecasts.

- **Credit Risk:** Credit risk refers to the exposure for underwriters for the terms and conditions of the securities that underwrite and for losses that may result from a counterparty being unable to fulfill its obligations to the security.

Response: In an effort to shield ourselves from potential credit risk, we conduct extensive credit risk evaluations prior to a deal being executed and then conduct repeated evaluations after the deal has been executed. Based on these evaluations and a worst-case scenario for the counterparty in question, we set credit risk limits for that counterparty. In evaluating the risk to the underwriter for debt-related securities, we look not only at the TCRI rating, but also at default rates based on KMV models.

- **Operational Risk:** Operational risk refers to the risk created when internal processes, employees, or systems are inappropriate or cause errors, or the risks caused by external factors. This type of risk is related to legal risks but not strategic risk or credit risk.

Response: In order to reduce the probability of such operation risk occurring, we have created an operating manual that addresses every level of our operations, we perform regular audits of every business segment, as well as every work flow, every legal risk point, and every risk control point. Finally, we compile an audited risk report that helps us to ensure that our operating quality is properly balanced, controlled, and disclosed.

- **Legal/Regulatory Risk:** Legal/Regulatory risk refers risk related to non-compliance with laws and regulations governing our investment strategies and our business operations, and any resulting corrective orders or penalties from relevant authorities, or any civil or criminal actions taken against us. It also refers to risk related to our inability to perform our obligations under agreements that we have entered into with other parties.

Response: In order to reduce our exposure to legal/regulatory risks, we have created a Legal Compliance and Legal Matters Department.

- **Liquidity Risk:** Liquidity risk refers to position liquidity risks and capital liquidity risks. Sometimes losses can be suffered as a result of illiquid markets that make it difficult to open or close a position at normal market prices requiring that a position be either bought at a premium or sold at a discount. Capital liquidity risks result when positions are increased beyond planned levels, leaving the company with insufficient funds to meet settlement requirements for a position.

Response: In an effort to better manage liquidity risks, we have created centralized risk management standards that take into consideration all departments and that set

position limits for each department. We also have a team that performs daily forecasts of capital requirements based on the needs of all company guarantees and of departments that are required to service loans, and then monitors daily capital adjustments accordingly. We also produce a monthly “Capital Liquidity Risk Simulation Analysis Table” that analyzes multiple scenarios, forecasts the potential liquidity risks for those scenarios, and estimates the capital levels that each such scenario would require.

- **Model Risk:** Model risk refers to potential situations where market values and other variables are beyond normal and predictable conditions and therefore exceed the ability of the model to handle.

Response: We effectively maintain and manage our models, with particular emphasis on financial product risk management. We have created a set of “Model Use Management Procedures” that clearly spell out procedures for developing models, for validating models, for managing variables, and for discontinuing the use of problem models.

4-5 An Evaluation of Key Risks

An Evaluation of Key Risks in Recent Years and the Status of those Risks at the Time of Printing of this Annual Report

- **Effects of recent interest rates, foreign exchange rate fluctuations, and inflation concerns on our company and our strategies for dealing with these concerns**

- i) **Interest Rates:** Changes in interest rates have a direct impact on the income we derive from our fixed income-related businesses. In addition to conducting our own thorough research on domestic and foreign interest rate trends, we utilize various interest rate derivative tools as well a risk control system that manages our interest rate-related risks, that creates an effective interest rate hedging system for our fixed income-related businesses.

Changes in interest rates also affect our company’s financing costs. Going forward, we intend to utilize interest rate hedging and other capital raising avenues as ways to control our company’s financing costs.

- (A) **Bond and interest derivative product business:**

The amount of our company’s major interest products in 2010 and the likely loss of NT\$36,338 thousand due to the 1% interest rate exchange

item	Amount (in thousand dollars)	Profit/loss based on 1% Interest rate change (in thousand dollars)
Government bond	3,200,000	-26,407
Corporate bond, financial bond	600,000	-302
Interest rate exchange	-2,850,000	-9,629

Countermeasures: Our Company has risk management rules and operational procedures on government bond, corporate bond, financial bond and interest rate exchange. Our company has put the interest risk under good control by means of buying by evaluation beforehand and risk control afterward.

- (B) **Borrowing:** The main risk of borrowing is the fluctuation of interest rate. Our company can adjust methods, conditions and terms of borrowing according to the likely interest changing trend. We can also avert risks through the product of

- interest exchange etc.
- i) Our total debt amount of short-term borrowing, and payable short-term bill totals NT\$13,100 million. They are both borrowing with interest rate risks. With every 1bp change in market interest rate, our company has to pay NT\$1,300,000 more interest every year.
 - (ii) Exchange rate: Our business customers and business area are mainly in Taiwan; therefore the exchange rate has little impact in our company. The likely exchange risk is from the foreign currency investment of overseas reinvestment or divestment by our company. There will be exchange rate risk when those companies remit their profits back to Taiwan. The overseas subsidiaries invested by our company shall be in long-term operation, thus there will be little impact on our profit. In our financial report of 2010, the cumulative exchange amount due to the foreign exchange rate has been adjusted to NT\$198,000,000.
 - (iii) Inflation: In 2010, Taiwan's CPI saw a decline of 0.96%. Thus, our company's operations and profits were not overly affected. Inflation had No Meaningful Effect on Operations or on Profits

PSC will continue to keep a close watch on interest rate changes, currency fluctuations, and inflation, and their effects on our profitability and we will develop appropriate strategies for dealing with these concerns, when necessary.

■ Recent High-Risk or High-Leverage Investments, Loans to Third Parties, Pledges Given for Third Parties, Derivative Products Trading Policy and Profitability and Losses, Reasons for Losses and Strategies for Correcting Such Losses Going Forward

- i) In 2010, PSC did not engage in any high-risk or highly-leveraged investments, did not provide any loans to third parties, and did not provide any pledge for any third parties.
- ii) PSC only trades those derivative products which have been approved by the relevant authorities and which are permitted by our company's Articles of Incorporation. We have also created and follow a "Derivatives Trading Procedures" in an effort to further reduce our exposure to related risk.
- iii) PSC invests primarily in exchange-traded derivative products, such as warrants, equity index futures, and equity index options, all with the ultimate goal of hedging risk to our spot market positions and thereby producing more stable and consistent earnings.

■ Future Development Plans and Expected R&D Investments

To assist with our development of ever-better products and trading strategies, we have assembled a professional financial engineering team, which brings together experts from finance, statistics, mathematics, and information technology, to create trading and valuation software and hardware resources. Our annual spending on human resources and R&D in this area is in the millions of dollars every year. Please see Chapter 5 for more information on the status of our operations and on our R&D efforts.

■ Effects of Significant Policy and Legal Changes both in Taiwan and Abroad and Measure for Dealing with These Issues

Our firm is constantly on watch for significant policy and legal changes both inside Taiwan and abroad and, to that end, routinely enlists the help of professional legal

and accounting firms to assist in evaluating these changes, to help create effective responses to these changes, and to ensure compliance with these changes, thereby working to reduce the effects of policy and legal changes on our business. In recent years, PSC has been quite effective in adjusting to policy and legal changes both within and beyond Taiwan and, thus, our overall solid financial health has seen little impact from such changes.

- “Brokerage Governing Regulations” was formally implemented in Jan. 13, 2011 by the Finance Surveillance Governing Committee with a registered number of 09900738571. Rule 11 “Reserve for trading losses” and Rule 12 “Reserve for breach of contract losses” were deleted in the Regulations. As of end of Dec. 2010, if brokerage had set aside the provision amount as “Reserve for trading loss” and “Reserve for default”, the brokerage should transfer this amount to “Appropriated Return Earning”. This transferred amount cannot be used otherwise unless it is used to make up for company’s losses or as capital when the transferred amount is over 50% of company’s capital. PSC’s Appropriated Return Earning is NT\$275 million.
 - “Loan book and account receivable” was included in the “Accounting Handling Rules” in the #34 Official Bulletin. It stipulates that enterprise shall measure loan book and account receivable with amortization cost and evaluate loss reduction. The implementation of the Official Bulletin has no impact on our 2011 Q1 financial statement.
 - According to “Exposure of operation department information” in the #41 Official Bulletin in 2011, Jan.1st, it recognizes enterprise’s operation department from the viewpoint of enterprise’s operation decision maker and exposes the department information for audition by operation decision maker.
- Effects of Industry Changes and Technological Changes and Measures for Dealing with These Changes

In response to changes in technology and subsequent increases in online trading in recent years, PSC moved to meet this market demand and has invested considerable effort and resources into developing and improving our online trading platform and ultimately providing a system that matches the habits of Taiwan’s online traders.

To this end, we not only need to keep pace with technological changes, but we also need to create an online trading platform with unique features that set us apart from other firms. Thus, we set regular development goals and periodic system evaluations. Not surprisingly, the proportion of our brokerage revenues derived from online trading as compared to overall brokerage revenues rose from 26.7% in 2008 to 26.7% in 2009, showing a clear year-on-year growth trend.

- Significant Impairment of Corporate Image and Measures for Dealing with that Damage

Our company has a core philosophy of “3 Goods and One Fair” (“Good Quality”, “Good Trust”, “Good Service”, and “Fair Price”). This is combined with “Professional Leadership, Kind Service”. We have no negative corporate image issues to report.

- Expected Benefits from On-Going M&A Activities, Potential Risks, and Measures for Dealing with Those Risks

None.

- Expected Benefits from Expansion of Facilities, Potential Risks, and Measures for Dealing with Those Risks

None.

- Potential Inventory Risks and Measures for Dealing with Those Risks

As a securities firm, our business does not involve any manufacturing or inventory concerns. We routinely perform financial evaluations and risk management evaluations on our major clients. Our ultimate aim is to ensure an overall healthy trading environment and sufficient information collection which make for strong internal controls and internal auditing and thus better risk control.

- Effects of Large Transfers or Large Conversions of Company Stock by Directors, Supervisors, or Shareholders Holding More than 10% of the Company's Shares, Potential Risks, and Measures for Dealing with Those Risks

None.

- Effects of Change in Management Control, Potential Risks, and Measures for Dealing with Those Risks

None.

- Litigation and Non-litigation Issues

i) Judgments already handed down or any ongoing litigation, non-litigation, or administrative action over the previous two years up to the time that this annual report was published, the potential effects on shareholder rights and on the company's share price, the key facts of the dispute, dollar values involved, the date that the litigation was initiated, the key parties involved, and the current status of said litigation(s).

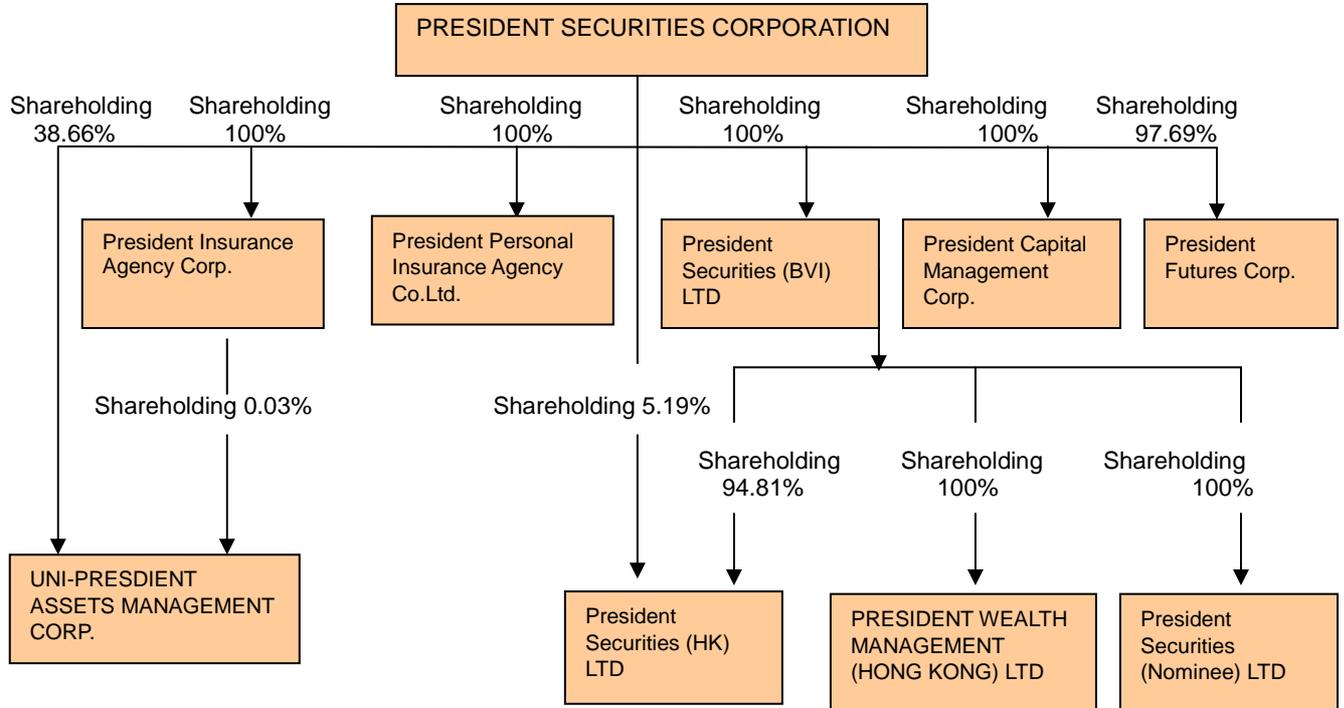
ii) Any Company director, supervisor, manager, responsible person, or company shareholder holding more than 10% of the company's shares that is involved in any Judgments already handed down or any ongoing litigation, non-litigation, or administrative action over the previous two years up to the time that this annual report was published, the potential effects on shareholder rights and on the company's share price, the key facts of the dispute, dollar values involved, the date that the litigation was initiated, the key parties involved, and the current status of said litigation(s): None.

iii) Any company director, supervisor, manager, responsible person, or company shareholder holding more than 10% of the company's shares that has been found in violation of Article 157 of the Securities and Exchange Act over the previous two-year period and up to the time that this annual report was published, and the current status of any related action taken or being taken against that person: None.

- Other Important Risks: None

VIII. Other Disclosures

1. Affiliated Companies Chart



2. Basic Information of Affiliates

Unit: NTD\$1,000
Up to March 30, 2011

Company	Established Date	Address	Currency	Paid-in Capital	Main business
President Futures Corp.	83.03.01	B1.,No.8, Dongxing Rd., Taipei City	NTD	660,000	Futures brokerage
President Capital Management Corp.	86.04.15	3F.,No.8, Dongxing Rd., Taipei City	NTD	124,000	Securities Investment Consulting
President Securities (HK) LTD	83.07.26	Unit 3-6,26/F., Vicwood Plaza ,199 Des Voeux Road, Central , Hong Kong	HKD	192,600	Securities brokerage, underwriting , and consulting
President Securities (BVI) LTD	87.02.26	Unit 3-6,26/F., Vicwood Plaza ,199 Des Voeux Road, Central , Hong Kong	USD	67,746	Securities Investment and holding company
President Securities (Nominee) LTD	84.07.06	Unit 3-6,26/F., Vicwood Plaza ,199 Des Voeux Road, Central , Hong Kong	HKD	1,000	Agent Business
President Wealth Management (Hong Kong) Ltd.	91.03.31	Unit 3-6,26/F., Vicwood Plaza ,199 Des Voeux Road, Central , Hong Kong	HKD	23,400	Wealth Management
Uni-President Assets Management Corp	81.09.03	8F.,No.8, Dongxing Rd., Taipei City	NTD	300,000	Mutual funds and discretionary management
President Personal Insurance Agency Co.Ltd.	95.12.21	3F.,No.8, Dongxing Rd., Taipei City	NTD	5,000	Insurance Agent
President Insurance Agency Corp.	97.05.06	3F.,No.8, Dongxing Rd., Taipei City	NTD	5,000	Insurance Agent

3. Operational Highlights of Affiliated Companies

As of 31/12/2010 unit : Thousand

Company	Currency	Capital	Total Assets	Total Liabilities	Total Equity	Operating Revenue	Operating Income	Net Income (Loss)	EPS
President Futures Corp.	NTD	660,000	7,510,241	6,476,956	1,033,285	728,472	72,157	87,275	1.322
President Capital Management Corp.	NTD	124,000	147,594	3,794	143,801	26,033	(2,180)	(1,491)	(0.120)
Uni-President Assets Management Corp.	NTD	351,000	614,157	75,406	538,751	466,379	101,846	93,674	2.669
President Personal Insurance Agency Co. Ltd.	NTD	5,000	6,247	521	5,726	5,301	796	1,128	2.257
President Insurance Agency Corp.	NTD	5,000	9,461	1,312	8,149	7,610	2,112	3,105	6.210
President Securities (HK) Ltd.	HKD	192,600	888,518	521,838	366,680	100,878	60,376	61,928	0.322
President Securities (BVI) Ltd.	USD	67,746	67,169	5	67,164	0	(109)	7,666	0.113
President Securities (Nominee) Ltd.	HKD	1,000	669	9	660	0	(22)	(18)	(0.018)
President Wealth Management (Hong Kong) Ltd.	HKD	23,400	14,649	9	14,640	0	(34)	(16)	(0.001)

Notes : Foreign exchange rates for balance sheet amounts as follows: USD/NTD= 29.13 HKD/NTD : 3.7480
 Foreign exchange rates for income statement amounts as follows: USD/NTD=31.4942
 HKD/NTD : 4.0540

4. Capital Adequacy Rate:

Within the securities industry, a company's capital adequacy rate is viewed as a key performance indicator. Many BIS regulations require that a securities firm have a minimum capital adequacy rate of 200% in order to be permitted to operate in many key business areas. As such, this level can be seen as an important benchmark in evaluating a securities firm's business performance and risk management measures. As of March of **2011**, PSC's capital adequacy rate stood at **305%**, well above this key 200% level.