

**Cathay Securities Co.,Ltd.**  
**Financial Statements**  
**Together with**  
**Independent Auditors' Report**  
**As of December 31, 2011 and 2010**

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling", "Regulations Governing the Preparation of Financial Reports by Securities Firms", and the "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese  
Independent Auditors' Report

To: Board of Directors  
Cathay Securities Co., Ltd.

We have audited the accompanying balance sheets of Cathay Securities Co., Ltd. (the "Company") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" and generally accepted auditing standards in the Republic of China ("ROC"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Co., Ltd. as of December 31, 2011 and 2010, and the results of its operations and their cash flows for the years ended December 31, 2011 and 2010 in conformity with requirements of the "Business Entity Accounting Act" and "Regulations on Business Entity Accounting Handling" with respect to financial accounting standards, "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC.

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2011 and 2010, and expressed an unqualified opinion.

Ernst & Young  
Taipei, Taiwan  
Republic of China  
March 16, 2012



Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Co., Ltd.  
Balance sheets  
As of December 31, 2011 and 2010  
(Expressed in thousands of dollars)

ASSETS	NOTES	December 31, 2011		December 31, 2010	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4(1),5	\$266,078	\$8,790	\$312,723	\$10,732
Financial assets at fair value through profit or loss - current	2,4(2),5,6,10	3,189,710	105,375	2,746,553	94,254
Securities margin loans receivable	2,4(3)	1,362,756	45,020	2,024,778	69,484
Collateral for securities refinancing	2	2,078	69	-	-
Collateral for securities borrowed		366,228	12,099	87,878	3,016
Deposits for securities borrowed		1,990,015	65,742	299,327	10,272
Accounts receivable		47,927	1,583	17,051	585
Accounts receivable - related parties		1,974	65	2,355	81
Prepayments		13,193	436	1,812	62
Other receivables		30,894	1,021	29,998	1,029
Other receivables- related parties	5	152,759	5,047	28	1
Restricted assets - current	5,6	587,900	19,422	-	-
Available-for-sale financial assets - current	2,4(4)	581,774	19,219	511,957	17,569
Other current assets		1,211	40	690	24
<b>Total current assets</b>		<b>8,594,497</b>	<b>283,928</b>	<b>6,035,150</b>	<b>207,109</b>
<b>Funds and investments</b>					
Long-term investments under equity method	2,4(5)	773,814	25,563	738,676	25,349
Available-for-sale financial assets - noncurrent	2,4(6)	18	1	18	1
<b>Total funds and investments</b>		<b>773,832</b>	<b>25,564</b>	<b>738,694</b>	<b>25,350</b>
<b>Property and equipment</b>	2,4(7)				
Equipment		136,676	4,515	115,182	3,952
Prepayment for equipment		2,357	78	992	34
Leasehold improvement		64,544	2,132	60,368	2,072
Less: Accumulated depreciation		(157,236)	(5,194)	(142,347)	(4,885)
<b>Net property and equipment</b>		<b>46,341</b>	<b>1,531</b>	<b>34,195</b>	<b>1,173</b>
<b>Intangible assets</b>					
Deferred pension cost	2	2,620	87	2,620	90
Other intangible assets	2,4(8)	8,477	280	5,072	174
<b>Total intangible assets</b>		<b>11,097</b>	<b>367</b>	<b>7,692</b>	<b>264</b>
<b>Other assets</b>					
Operating deposits	4(9)	245,000	8,093	245,097	8,412
Settlement and clearance funds	4(10)	84,720	2,799	83,238	2,856
Guarantee deposits paid	5	8,673	287	8,668	297
Deferred income tax assets - noncurrent	2,4(19)	5,218	172	4,944	170
Cash and cash equivalents - funds for subscription of shares collected		19	1	-	-
<b>Total other assets</b>		<b>343,630</b>	<b>11,352</b>	<b>341,947</b>	<b>11,735</b>
Securities brokerage debit accounts - net	4(11)	27,935	923	-	-
<b>Total assets</b>		<b>\$9,797,332</b>	<b>\$323,665</b>	<b>\$7,157,678</b>	<b>\$245,631</b>

(The exchange rate of December 31, 2011 and 2010 provided by the Federal Reserve Bank of New York was NT\$30.27 and NT\$29.14 to US\$1.00, respectively)  
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Co., Ltd.  
Balance sheets  
As of December 31, 2011 and 2010  
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	December 31, 2011		December 31, 2010	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Commercial paper payable	4(12)	\$2,290,000	\$75,652	\$1,450,000	\$49,760
Liabilities for bonds with repurchase agreements	2,4(13)	1,000,000	33,036	460,000	15,786
Financial liabilities at fair value through profit or loss - current	2,4(14),10	1,534,719	50,701	529,807	18,181
Short sale margins	2	164,037	5,419	67,522	2,317
Payables for short sale collateral received	2	179,810	5,940	74,445	2,555
Accounts payable		148,762	4,915	122,000	4,187
Accounts payable - related parties		115	4	46	2
Advance receipts		-	-	66	2
Receipts under custody		14,547	481	11,948	410
Other payables		45,641	1,508	65,775	2,257
Other payables - related parties	5	-	-	28,558	980
Deferred income tax liabilities - current	2,4(19)	151,327	4,999	4,325	148
Other current liabilities		35	1	9	-
<b>Total current liabilities</b>		<b>5,528,993</b>	<b>182,656</b>	<b>2,814,501</b>	<b>96,585</b>
<b>Long-term liabilities</b>					
Other long-term liabilities		1,797	59	681	23
<b>Other liabilities</b>					
Reserve for default losses	2	-	-	60,279	2,069
Reserve for trading losses	2	-	-	1,902	65
Guarantee deposits received		106	4	-	-
Accrued pension liability - noncurrent	2,4(15)	11,264	372	9,651	331
<b>Total other liabilities</b>		<b>11,370</b>	<b>376</b>	<b>71,832</b>	<b>2,465</b>
Securities brokerage credit accounts - net	4(11)	-	-	6,893	237
<b>Total liabilities</b>		<b>5,542,160</b>	<b>183,091</b>	<b>2,893,907</b>	<b>99,310</b>
<b>Stockholders' equity</b>					
Capital stock					
Common stock	4(16)	3,700,000	122,233	3,700,000	126,973
Capital surplus	4(17)	258,434	8,537	258,434	8,869
Retained earnings	4(18)				
Legal reserve		47,706	1,576	25,513	876
Special reserve		158,000	5,220	51,025	1,751
Unappropriated retained earnings		92,339	3,051	221,930	7,616
<b>Equity adjustments</b>					
Unrealized gains or losses on financial instruments	4(4)	(1,307)	(43)	6,869	236
<b>Total stockholders' equity</b>		<b>4,255,172</b>	<b>140,574</b>	<b>4,263,771</b>	<b>146,321</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$9,797,332</b>	<b>\$323,665</b>	<b>\$7,157,678</b>	<b>\$245,631</b>

(The exchange rate of December 31, 2011 and 2010 provided by the Federal Reserve Bank of New York was NT\$30.27 and NT\$29.14 to US\$1.00, respectively)  
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Co., Ltd.  
Statements of income  
For the years ended December 31, 2011 and 2010  
(Expressed in thousands of dollars, except for earnings per share)

ITEMS	NOTES	For the year ended December 31, 2011		For the year ended December 31, 2010	
		NT\$	US\$	NT\$	US\$
Revenue	2,5				
Brokerage fee revenue		\$347,604	\$11,483	\$362,729	\$12,447
Revenue from borrowed securities		31	1	-	-
Revenue from underwriting business		30,316	1,002	53,176	1,825
Interest revenue		141,184	4,664	127,551	4,377
Dividend revenue		57,432	1,897	47,639	1,635
Gains on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements		73,445	2,426	-	-
Gains on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements		49,812	1,646	-	-
Gains on issuance of call (put) warrants	10	416,561	13,761	357,780	12,278
Brokerage commissions for introducing futures contracts		28,205	932	28,747	987
Gain from derivative financial instruments - futures	10	263,912	8,719	120,960	4,151
Other operating revenue		26,654	881	25,842	887
Non-operating revenue and profits		43,334	1,432	24,242	832
Total revenue		<u>1,478,490</u>	<u>48,844</u>	<u>1,148,666</u>	<u>39,419</u>
Expenses	2,5				
Broker's exchange fees		(29,415)	(972)	(29,869)	(1,025)
Dealer's exchange fees		(6,923)	(229)	(6,312)	(217)
Refinancing transaction fees		(83)	(3)	(80)	(3)
Underwriting handling fees		(210)	(7)	(307)	(11)
Loss on sale of securities held for operations		(666,199)	(22,008)	(32,446)	(1,113)
Interest expense		(6,089)	(201)	(2,086)	(72)
Loss on measurement at fair value through profit or loss for securities held for operations		(22,217)	(734)	(63,499)	(2,179)
Losses on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements		-	-	(4,970)	(171)
Losses on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements		-	-	(11,203)	(384)
Loss from borrowed securities		(14,586)	(482)	(2,908)	(100)
Expenses from issuing call (put) warrants		(24,485)	(809)	(18,307)	(628)
Clearing and settlement fees		(652)	(22)	(374)	(13)
Loss from derivative financial instruments - futures	10	(94,097)	(3,108)	(134,318)	(4,609)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(9,845)	(325)	(2,024)	(69)
Operating expenses		(652,112)	(21,543)	(610,800)	(20,961)
Other operating expenses		-	-	(3)	-
Non-operating expense and losses		(13,398)	(443)	(8,161)	(280)
Total expenses		<u>(1,540,311)</u>	<u>(50,886)</u>	<u>(927,667)</u>	<u>(31,835)</u>
Income (loss) from continuing operations before income taxes		(61,821)	(2,042)	220,999	7,584
Income tax (expense) benefit	2,4(19)	(11,438)	(378)	931	32
Net income (loss)		<u>\$(73,259)</u>	<u>\$(2,420)</u>	<u>\$221,930</u>	<u>\$7,616</u>
Earnings per share (in dollars)	4(21)				
Net income (loss)		<u>\$(0.20)</u>	<u>\$(0.01)</u>	<u>\$0.60</u>	<u>\$0.02</u>

(The exchange rate of December 31, 2011 and 2010 provided by the Federal Reserve Bank of New York was NT\$30.27 and NT\$29.14 to US\$1.00, respectively)  
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Statements of changes in stockholders' equity

For the years ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

SUMMARY	Retained earnings								Equity adjustments				Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		(NT\$)	(US\$)
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Balance on January 1, 2010	\$3,700,000	\$126,973	\$258,434	\$8,869	\$10,231	\$351	\$20,462	\$702	\$152,816	\$5,244	\$68,670	\$2,357	\$4,210,613	\$144,496
Appropriations and distributions for 2009:														
Legal reserve					15,282	525			(15,282)	(525)			-	-
Special reserve							30,563	1,049	(30,563)	(1,049)			-	-
Cash dividends									(106,971)	(3,670)			(106,971)	(3,670)
Changes in unrealized gains or losses on financial instruments											(61,801)	(2,121)	(61,801)	(2,121)
Net income for the year ended December 31, 2010									221,930	7,616			221,930	7,616
Balance on December 31, 2010	\$3,700,000	\$126,973	\$258,434	\$8,869	\$25,513	\$876	\$51,025	\$1,751	\$221,930	\$7,616	\$6,869	\$236	\$4,263,771	\$146,321
Balance on January 1, 2011	\$3,700,000	\$122,233	\$258,434	\$8,537	\$25,513	\$843	\$51,025	\$1,686	\$221,930	\$7,332	\$6,869	\$227	\$4,263,771	\$140,858
Special reserve result from reverse of reserve for default losses and trading losses							51,933	1,716	10,247	338			62,180	2,054
Special reserve result from recognition of investee's reverse of reserve for default losses							10,656	352					10,656	352
Appropriations and distributions for 2010:														
Legal reserve					22,193	733			(22,193)	(733)			-	-
Special reserve							44,386	1,466	(44,386)	(1,466)			-	-
Changes in unrealized gains or losses on financial instruments											(8,176)	(270)	(8,176)	(270)
Net loss for the year ended December 31, 2011									(73,259)	(2,420)			(73,259)	(2,420)
Balance on December 31, 2011	\$3,700,000	\$122,233	\$258,434	\$8,537	\$47,706	\$1,576	\$158,000	\$5,220	\$92,339	\$3,051	\$(1,307)	\$(43)	\$4,255,172	\$140,574

(The exchange rate of December 31, 2011 and 2010 provided by the Federal Reserve Bank of New York was NT\$30.27 and NT\$29.14 to US\$1.00, respectively)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Co., Ltd.  
Statements of cash flows  
For the years ended December 31, 2011 and 2010  
(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2011		For the year ended December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss)	\$ (73,259)	\$(2,420)	\$221,930	\$7,616
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	15,925	526	17,905	614
Amortization	3,577	118	3,352	115
Loss on valuation of securities held for operations	22,217	734	63,499	2,180
Loss on valuation of open-end funds and currency market instruments	5,633	186	1,723	59
Valuation (gains) losses on securities borrowing and short sales of bonds with reverse repurchase agreements	(49,812)	(1,646)	11,203	384
Recoveries on reserve for trading losses	-	-	(10,682)	(367)
Reserve for trading losses	-	-	12,584	432
Reserve for default losses	-	-	14,351	492
Investment income recognized by equity method in excess of cash dividends received	(24,481)	(809)	(8,105)	(278)
Loss on disposal of property and equipment	369	12	-	-
Changes in assets and liabilities				
Financial assets at fair value through profit or loss - current				
Increase in securities held for operations - dealing	(1,017,853)	(33,625)	(205,440)	(7,050)
Decrease in securities held for operations - underwriting	429,619	14,193	25,720	883
Decrease in securities held for operations - hedging	316,360	10,451	33,455	1,148
Decrease in long options - futures	2,730	90	223	8
(Increase) decrease in margin for futures trading - proprietary funds	(241,963)	(7,993)	153,485	5,268
Decrease in derivative financial instrument assets - GrE'ai (over-the-counter)	5,100	168	43,832	1,504
Decrease (increase) in securities margin loans receivable	662,022	21,871	(665,163)	(22,826)
Decrease in margin deposits for securities refinancing	-	-	4,470	153
(Increase) decrease in collateral for securities refinancing	(2,078)	(69)	4,949	170
Increase in collateral for securities borrowed	(278,350)	(9,196)	(31,874)	(1,094)
Increase in deposits for securities borrowed	(1,690,688)	(55,853)	(227,571)	(7,809)
Increase in accounts receivable	(30,876)	(1,020)	(2,235)	(77)
Decrease in accounts receivable - related parties	380	13	203	7
(Increase) decrease in prepayments	(11,382)	(376)	779	27
Increase in other receivables	(896)	(30)	(15,665)	(538)
(Increase) decrease in other receivables - related parties	(152,730)	(5,046)	14,170	486
(Increase) decrease in other current assets	(521)	(17)	179	6
Increase in cash and cash equivalents — funds for subscription of shares collected	(19)	(1)	-	-
Increase in liabilities for bonds with repurchase agreement	540,000	17,839	460,000	15,786
Financial liabilities at fair value through profit or loss - current				
Increase (decrease) in liabilities for issuance of call (put) warrants	5,891	195	(42,076)	(1,444)
Decrease in short options - futures	(32,019)	(1,058)	(1,679)	(58)
Increase in liabilities for securities and bonds borrowed — hedging	313,712	10,364	21,424	735
Increase in liabilities for securities and bonds borrowed — non-hedging	767,140	25,344	100,400	3,446
Increase (decrease) in short sale margins	96,516	3,189	(41,196)	(1,414)
Increase (decrease) in payables for short sale collateral received	105,366	3,481	(51,553)	(1,769)
Increase in accounts payable	26,762	884	59,892	2,055
Increase in accounts payable - related parties	68	2	19	1
(Decrease) increase in advance receipts	(66)	(2)	66	2
Increase in receipts under custody	2,599	86	40	1
Decrease in other payables	(20,134)	(665)	(13,836)	(475)
Decrease in other payables - related parties	(28,558)	(943)	(172,753)	(5,928)
Increase (decrease) in other current liabilities	25	1	(21)	(1)
Net change in deferred income tax assets/liabilities	146,728	4,847	136,401	4,681
Increase (decrease) in other long-term liabilities	1,115	37	(414)	(14)
Net change in pension assets/liabilities-net	1,613	53	884	30
Net change in securities brokerage debit/credit accounts - net	(34,828)	(1,151)	59,287	2,035
Net cash used in operating activities	(219,046)	(7,236)	(23,838)	(818)

(The exchange rate of December 31, 2011 and 2010 provided by the Federal Reserve Bank of New York was NT\$30.27 and NT\$29.14 to US\$1.00, respectively)  
The accompanying notes are an integral part of these financial statements.



English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Statements of cash flows

For the years ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2011		For the year ended December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Cash flows from investing activities</b>				
Financial assets at fair value through profit or loss - current				
Decrease (increase) in open-end funds and currency market instruments	35,000	1,156	(27,335)	(938)
Increase in restricted assets - current	(587,900)	(19,422)	-	-
(Increase) decrease in available-for-sale financial assets - current	(77,993)	(2,577)	364,089	12,494
Acquisition of property and equipment	(29,052)	(960)	(13,870)	(476)
Disposal of property and equipment	16	1	-	-
Increase in other intangible assets	(6,387)	(211)	(3,475)	(119)
Decrease (increase) in operating deposits	98	3	(15,000)	(515)
Increase in settlement and clearance funds	(1,482)	(49)	(9,100)	(312)
Increase in guarantee deposits paid	(5)	-	(1,391)	(48)
Net cash (used in) provided by investing activities	(667,705)	(22,059)	293,918	10,086
<b>Cash flows from financing activities</b>				
Decrease in short-term loans	-	-	(300,000)	(10,295)
Increase in commercial paper payable	840,000	27,750	280,000	9,609
Increase in guarantee deposits received	106	4	-	-
Cash dividends	-	-	(106,971)	(3,671)
Net cash provided by (used in) financing activities	840,106	27,754	(126,971)	(4,357)
(Decrease) increase in cash and cash equivalents	(46,645)	(1,541)	143,109	4,911
Cash and cash equivalents at the beginning of period	312,723	10,331	169,614	5,821
Cash and cash equivalents at the end of period	\$266,078	\$8,790	\$312,723	\$10,732
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$5,982	\$198	\$2,819	\$97
Interest paid (excluding capitalized interest)	\$5,982	\$198	\$2,819	\$97
Income tax paid	\$41,026	\$1,355	\$20,694	\$710

(The exchange rate of December 31, 2011 and 2010 provided by the Federal Reserve Bank of New York was NT\$30.27 and NT\$29.14 to US\$1.00, respectively)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese  
**Cathay Securities Co., Ltd.**  
**Notes to financial statements**

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)  
**As of December 31, 2011 and 2010**

**1. Organization and business scope**

Cathay Securities Co., Ltd. (the “Company”) was incorporated in Taipei on May 12, 2004, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). The Company mainly engages in the business of securities dealing, brokerage and underwriting, margin lending and securities lending, dealing and brokerage services related to futures, and other operations approved by the authorities. As of December 31, 2011, the Company had 5 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of December 31, 2011 and 2010, the Company had 358 and 329 employees, respectively.

**2. Summary of significant accounting policies**

These financial statements have been prepared in accordance with requirements of the “Business Entity Accounting Act” and “Regulations on Business Entity Accounting Handling” with respect to financial accounting standards, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants” and generally accepted accounting principles in the ROC. A summary of significant accounting policies is as follows:

**(1) Current and noncurrent assets and liabilities**

Cash and cash equivalents that are not restricted in use, assets held for the purpose of trading, or assets that will be held on a short-term basis and are expected to be converted to cash within 12 months after the balance sheet date are classified as current assets; otherwise, they are classified as noncurrent assets.

Liabilities that must be fully liquidated within 12 months after the balance sheet date are classified as current liabilities; otherwise, they are classified as noncurrent liabilities.

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**(2) Foreign currency transactions**

Foreign currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from different foreign exchange rates applied when foreign currency assets and liabilities are settled, are credited to or charged against income in the period of actual settlement. Foreign currency monetary assets or liabilities shall be translated using the applicable exchange rate at each balance sheet date and differences shall be recognized in current income.

Non-monetary assets or liabilities are measured using historical rates, but fair value is calculated using the exchange rates at the balance sheet date when the fair value is determined. When a gain or loss on a non-monetary asset or liability is recognized through profit and loss, any gain or loss of exchange component shall be recognized in current income. When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any gain or loss of exchange component shall be recognized in equity.

**(3) Cash equivalents**

Cash equivalents refer to short-term and highly liquid investments that are both:

A. Readily convertible to known amounts of cash ; and

B. Near maturity and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

**(4) Financial assets and financial liabilities**

Pursuant to the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No. 34 “Accounting for Financial Instruments” and “Regulations Governing the Preparation of Financial Reports by Securities Firms” the Company’s financial assets are categorized as “financial assets at fair value through profit or loss”, “held-to-maturity financial assets”, “derivative financial assets at hedging”, “investments in debt securities with no active market” or “available-for-sale financial assets”. Financial assets are initially recognized at fair value. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging”, or “financial liabilities carried at cost”.

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All “regular way” purchases and sales of financial assets are recorded as of the trade date (i.e. the date that the Company commits to purchase or sell the asset). “Regular way” purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as financial assets held for trading or designated as assets to be measured at fair value. Gains and losses from changes in fair values of such assets are reflected in the income statement.

Apart from derivatives and financial instruments designated as financial assets at fair value through profit or loss, financial instruments may be reclassified out of the fair value through profit or loss category if the financial instruments are no longer held for the purpose of selling them in the near term, and the following requirements are met:

① Financial instruments that meet the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold them for the foreseeable future or until maturity.

② Financial instruments that do not meet the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

The financial instrument shall be reclassified at its fair value on the date of reclassification. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable. Any gain or loss already recognized in profit or loss shall not be reversed.

a. Open-end funds and currency market instruments

Investments in open-end funds are initially recognized at cost and valued at fair value as of the balance sheet date. The fair value of the beneficiary certificates of open-end funds are based on the net asset value of the funds as of the balance sheet date. The cost of sale is calculated using the weighted-average method.

b. Securities held for operations

Securities held for operations include securities and call(put) warrants held by the dealing department with trading purpose.

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These securities are initially recognized at cost with their unit cost calculated by weight average method and valued at fair value as of the balance sheet date.

Emerging stocks are valued at cost; listed stocks, call (put) warrants and convertible bonds are valued at the closing price of Taiwan Stock Exchange or the GreTai (Over-the-counter) on the balance sheet date; government bonds and corporate bonds are valued at market price of GreTai (Over-the counter). Cost of sale is adopting the weighted average method. Stock dividend only remark as number of shares increase instead of investment income.

**c. Long options and short options**

Long options and short options are recorded based on option premium. Changes in market values are reflected in “long options – futures”, “short options – futures” and “gain (loss) from derivative financial instruments – futures”.

The difference between the market value and the exercise price of options at the exercise date is recognized as current period earnings. The difference between the settlement price and the average cost of open interest options at the balance sheet date is recognized as current period earnings.

**d. Margin for futures trading – proprietary funds**

The margin and premium resulting from trading futures and options are recorded as “margin for futures trading –proprietary funds”. The profit or loss from the trading or valuation of futures and options is recorded as “gain (loss) on futures contracts” or “gain (loss) from options transactions”, and the amount of “margin for futures trading –proprietary funds” is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is present separately base on realized or not.

**B. Held-to-maturity financial assets**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus cumulative amortization using the effective interest method of any difference between cost and the maturity amount, and less any impairment. Contract terms related to the financial assets, transaction costs, fees, and premiums/discounts are taken into consideration by the Company when calculating the effective interest rate.

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**C. Investments in debt securities with no active market**

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair values are recognized when investments in debt securities with no active market are derecognized, impaired, or amortized.

**D. Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the aforementioned categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses recognized as a separate component of stockholders' equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in stockholders' equity is included in the current period income statement.

According to "Regulations Governing the Preparation of Financial Reports by Securities Firms", equity securities not listed on the Taiwan Stock Exchange or the GreTai(over-the-counter) market and where there is no significant influence are classified as available-for-sale financial assets and measured at cost as of the balance sheet date.

**E. Derivative financial assets for hedging**

Derivative financial assets for hedging are derivative financial assets that have been designated as hedges based on hedge accounting and are effective hedging instruments. These assets are measured at fair value.

The fair value of a listed stock or a depository receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

**F. Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are categorized as financial liabilities held for trading or designated as assets to be measured at fair value. Gains and losses from changes in fair values of such liabilities are reflected in the income statement.

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Liabilities for issuance of call (put) warrants / Repurchase of issued call (put) warrants.

Issuances of call (put) warrants are accounted for and subsequently valued at fair value and recognized as “liabilities for issuance of call (put) warrants”. Repurchases of call (put) warrants previously issued are recorded as “repurchase of issued call (put) warrants”, and are deemed to be deductions to “liabilities for issuance of call (put) warrants”.

**(5) Derecognition of financial assets and liabilities**

**A. Financial assets**

A financial asset or a portion of a financial asset is derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. A transfer of a financial asset or a portion of the asset in which the Company surrenders control over the asset in exchange of consideration received is deemed a sale.

If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the Company accounts for the transaction as a secured borrowing. In that case, the Company’s right to reacquire the asset is not a derivative financial instrument.

**B. Financial liabilities**

An entire or a part of a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Where an existing financial liability is replaced by another one from the same creditor with substantially different terms of agreement, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized as a gain or loss for the period.

**(6) Repo bond transaction**

Repo bonds include “liabilities for bonds with repurchase agreements” and “investments in bonds with reverse repurchase agreements” and are treated as financing activities when the interest and risk not transferred from the seller. The difference between the recorded cost and the amount, at which the bond will be resold or reacquired, as specified in the respective agreements, is accrued as interest income or expense.

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- (7) Assessment of impairment for loans and margin trading of securities
- A. Margin loans extended to stock investors are recorded as “securities margin loans receivable” and the stocks purchased by the investors are held by the Company as collateral. The collateral is recorded in a memorandum and is returned to the investors when the loans are repaid.
- B. Guarantee deposits received from stock investors on short sales are recorded as “short sale margins”. The proceeds from short sales (less the securities transaction tax and processing fees) are held by the Company as guarantee deposits and recorded as “payables for short sale collateral received”. The stocks lent to the investors are recorded in a memorandum. When the stocks are returned to the Company, the guarantee deposits and proceeds from the short sales are returned to the investors accordingly.
- C. Loans borrowed by the Company from other securities finance firms when the Company is short of funds in dealing margin trading business are recorded as “margin loans from other securities finance firms”. When the Company has insufficient stocks to conduct securities lending, the Company borrows stocks from other securities finance firms and the guarantee deposits paid are recorded as “deposits paid for securities refinancing”. The proceeds from short sales are then paid to the securities lenders as additional guarantee deposits and are recorded as “collateral for securities refinancing”.
- D. Prior to January 1, 2011, assessment of impairment for loans and margin trading of securities is based on historical experience in determining the aging analysis and collectability of loans Margin trading of securities as at balance sheet date.
- Since January 1, 2011, the Company first assesses whether objective evidence of impairment exists individually for loans and margin trading of securities that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Company shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, for loans and margin trading of securities with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment.



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(8) Long-term investments under equity method

Long-term investments are accounted for under the equity method if the Company has more than 20% of the investee's voting shares or has significant influence over the operating and financial policies of the investee. Cost is determined by the weighted-average method when long-term investments are disposed.

The difference between the acquisition cost and the Company's interest in the book value is analyzed and accounted for in the manner similar to the acquisition cost allocation as provided in ROC SFAS No. 25 "Business Combination-Accounting Treatment under Purchase Method". Amounts attributable to goodwill cannot amortize.

With respect to investees over which the Company has significant influence, the Company must account for such investment under the equity method and prepare semi-annual and annual consolidated financial statements.

(9) Property and equipment

Property and equipment are stated at cost. Renewals and leasehold improvements are capitalized and depreciated accordingly; repairs and maintenance are expensed when incurred. Except for land, depreciation of equipment is calculated using the straight-line method over the estimated useful lives of the respective assets which are 3~5 years. Additional depreciation is recorded on the remaining salvage value of fully depreciated properties and equipments that are still in use over their remaining estimated economic lives. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements. The disposed profit or loss is reflected in the non-operating income or loss.

(10) Intangible assets

The Company adopted the ROC SFAS No. 37 "Accounting for Intangible Assets" since January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair value. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets of the Company are deemed finite.

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets are found. The Company and Subsidiaries revaluates the amortization periods and amortization methods for the intangible assets with finite useful lives at each balance sheet date and any resulting changes are treated as changes in accounting estimates.

The intangible assets of the Company are mainly computer software and are amortized over the estimated useful lives of three to five years using the straight-line method.

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(11) Accounting for asset impairment

Pursuant to R.O.C. SFAS No. 35, the Company evaluates whether indicators of impairment exist at each balance sheet date for all assets subject to guidelines set forth under the Statement. If impairment indicators exist, the Company shall perform impairment testing by comparing the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”). Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount which is defined as the higher of fair values less costs to sell and the values in use. Conversely, if there is any evidence that the impairment loss may no longer exist or may have decreased, the recoverable amount of the asset shall be subsequently re-evaluated. The impairment loss may be reversed to reflect the asset’s estimated increase in future service potential since the date of its last recognition of impairment loss. However, the carrying amount of the asset after the reversal of impairment loss should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. If the recoverable amount of the CGU assets or the group of CGUs assets is smaller than their carrying amount, impairment loss should be recognized to reduce the carrying amount of the assets. First, the carrying amount of the goodwill allocated to the CGU or group of CGUs shall be reduced. Then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the CGU or group of CGUs. Recognized impairment loss for goodwill should not be reversed.

Impairment loss (reversal) is classified as non-operating losses (income).

(12) Accounting for impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in earnings, is transferred from stockholders’ equity to the income statement. Reversals of impairment losses on assets classified as available-for-sale are not recognized in earnings but, instead, are recognized as a separate component of stockholders’ equity. The decrease of impairment losses on debt instruments that can be related to an event occurring after an impairment loss was recognized should be reversed and recognized in current period earnings.

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(13) Reserve for default losses and trading losses

According to the Regulations Governing Securities Firms, a securities firm trading securities for customer accounts must allocate 0.0028% of the transaction volume of the traded securities on a monthly basis as a reserve for default losses. The reserve for default losses can only be used to offset actual losses resulting from customer defaults on securities transactions or other purpose approved by the Financial Supervisory Commission, Securities and Futures Bureau ("SFB"). When the accumulated reserve for default losses reaches NT\$200,000(US\$6,607) thousand reserving is suspended.

According to the Regulations Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT\$200,000(US\$6,607) thousand. Such reserve can only be used to offset the excess of securities trading losses over gains.

According to the Regulations Governing Futures Commission Merchants, 10% of the realized gains of trading futures must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches an amount equal to minimum legal paid-in capital or operating capital. Such reserve can only be used to offset the excess of futures trading losses over gains.

According to Article No.09900738571 and Article No. 10000002891 issued by SFB on January 13, 2011, the accumulated reserve for trading losses and default losses as of December 31, 2010 should be transferred as special reserve. The special reserve can't be used under purposes other than offset the accumulated deficit nor to distribute half of the special reserve to shareholders by common stock when the reserve exceed 50% of the capital.

(14) Pension

The Company has established a retirement plan and reserved for a retirement fund in an amount equal to 2% of total regular salaries and wages paid. Starting from December 2004, the Company has made contributions to the retirement fund, which is administered by the Employees' Retirement Fund Committee and deposited in the Committee's name in the Central Trust of China under the Labor Standards Law. The activities of the retirement fund are separated from those of the Company and therefore, they are not reflected in the accompanying financial statements.

The Company adopted ROC SFAS No. 18 "Accounting for Pensions". Based on an actuarial report, the minimum pension liability was recorded to reflect the amount by which the accumulated pension obligation exceeded the fair value of pension assets.

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The Labor Pension Act of the ROC (“the Act”), which adopted a defined contribution scheme, took effect on July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees’ individual pension accounts on a basis no less than 6% of the employees’ monthly wages.

(15)Income taxes

The Company adopted ROC SFAS No. 22, “Accounting for Income Taxes”, which requires inter-period and intra-period tax allocations in addition to computing current period income taxes payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year loss carry-forwards and investment tax credits. The realization of deferred income tax assets will be assessed and a valuation allowance will be estimated, if needed.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company file joint corporate income tax returns and 10% surcharge on unappropriated retained earnings returns under the consolidated income tax return system since 2005. If there are any tax effects due to the adoption of the consolidated income tax return system, the parent company can proportionately allocate the effects to the deferred income tax, taxes payable and other receivables of the Company and the parent company.

The deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, if a deferred item cannot be related to an asset or liability in the financial statements, then it will be classified as current or noncurrent items based on the expected reversal date of the temporary difference.

Effective from January 1, 2006, the Company adopted “Income Basic Tax Act” and “Enforcement Rules of Income Basic Tax Act” to estimate and file joint income basic tax.

(16)Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2010, employee bonus and remuneration of directors are accounted for as expenses rather than distribution of earnings.

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(17) Recognition of revenue and expenses

The Company's major revenue and expense recognition principles are as follows:

- A. Brokerage commissions, profit or loss from disposal of securities held for operations are recognized at the transaction date.
- B. Interest revenue or expense from margin loans are recognized on an accrued basis.
- C. The Company engages in futures introducing broker and collects commissions from futures agencies. Commissions are recognized as "brokerage commissions for introducing futures contracts" on an accrued basis.

(18) Operating segment information

An operating segment is a component of an entity that has the following characteristics:

- A. engaging in business activities from which it may earn revenues and incur expenses,
- B. whose operating results are regularly reviewed by the entity's chief operating decision maker in order to make resources allocation decision to the segment and assess its performance,
- C. for which discrete financial information is available.

(19) Convenience translation into US dollars

These financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these financial statements solely for the convenience of the reader using the noon buying rate of NT\$30.27 and NT\$29.14 to US\$1.00 effective on December 31, 2011 and 2010, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at these rates or any other rates of exchange.

**3. Change in accounting and its effects**

(1) Effective from January 1, 2011, the Company adopted the third revision of the SFAS No.34 "Financial Instruments: Recognition and Measurement". This change in accounting principles has no significant impact on net income and earnings per share for the year of 2011.

(2) Effective January 1, 2011, the Company adopted SFAS No.41, "Operating Segments", to present operating segment information. The new SFAS No.41 replaces SFAS No.20, "Segment Reporting"; the comparative operating segment information has been restated accordingly.

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**4. Breakdown of significant accounts**

(1) Cash and cash equivalents

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$190	\$6	\$140	\$5
Savings accounts	215,883	7,132	312,583	10,727
Checking accounts	5	-	-	-
Time deposits	50,000	1,652	-	-
<b>Total</b>	<b>\$266,078</b>	<b>\$8,790</b>	<b>\$312,723</b>	<b>\$10,732</b>

A. Time deposits are defined as deposits with maturity shorter than one year. The ranges of interest rate for the years ended 2011 and 2010 are between 0.3% ~ 1.215 and 0.1~0.74% respectively.

B. No pledged were made for the cash and cash equivalents mentioned above.

(2) Financial assets at fair value through profit or loss – current

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Open-end funds and currency market instruments</b>	<b>\$58,440</b>	<b>\$1,931</b>	<b>\$99,073</b>	<b>\$3,400</b>
Securities held for operations – dealing	1,916,030	63,297	915,219	31,408
Securities held for operations – underwriting	12,263	405	442,175	15,174
Securities held for operations – hedging	702,068	23,194	1,023,310	35,118
Long options - futures	603	20	3,333	114
Margin for futures trading –proprietary funds	498,904	16,482	256,941	8,817
Derivative financial instrument assets –				
GreTai (over-the-counter)	1,402	46	6,502	223
<b>Total</b>	<b>\$3,189,710</b>	<b>\$105,375</b>	<b>\$2,746,553</b>	<b>\$94,254</b>

Please refer to note 6 for financial assets at fair value through profit or loss – current pledged as loan collaterals.

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A. Open-end funds and currency market instruments

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$65,000	\$2,147	\$100,000	\$3,432
Valuation adjustment	(6,560)	(216)	(927)	(32)
Net	\$58,440	\$1,931	\$99,073	\$3,400

B. Securities held for operations – dealing

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$994,696	\$32,861	\$325,738	\$11,178
OTC stocks	10,388	343	3,082	106
OTC corporate bonds	694,806	22,954	117,545	4,034
Real Estate Asset Trusts (REATs)	-	-	125,129	4,294
Emerging stocks	108,653	3,589	202,489	6,949
Exchange Traded Funds (ETF)	107,437	3,549	124,144	4,260
Subtotal	1,915,980	63,296	898,127	30,821
Valuation adjustment	50	1	17,092	587
Net	\$1,916,030	\$63,297	\$915,219	\$31,408

As of December 31, 2011, the company provides NT\$550,000(US\$18,170) thousands of securities held for operations-dealing repurchase agreement.

C. Securities held for operations – underwriting

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$12,503	\$413	\$-	\$-
Real Estate Asset Trusts (REATs)	-	-	442,122	15,172
Subtotal	12,503	413	442,122	15,172
Valuation adjustment	(240)	(8)	53	2
Net	\$12,263	\$405	\$442,175	\$15,174

D. Securities held for operations – hedging

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$493,011	\$16,287	\$634,423	\$21,772
OTC stocks	113,803	3,760	328,933	11,288
Exchange Traded Funds (ETF)	39,853	1,317	39,657	1,361
Call (Put) Warrants	50,283	1,661	10,297	353
Subtotal	696,950	23,025	1,013,310	34,774
Valuation adjustment	5,118	169	10,000	344
Net	\$702,068	\$23,194	\$1,023,310	\$35,118

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E. Margin for futures trading – proprietary funds

As of December 31, 2011 and 2010, the amounts of each account for margin deposits funds in future department are summarized as follows:

Futures Commission Merchants	December 31, 2011					
	Account balance		Gain (loss) on open interest		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$451,145	\$14,904	\$3,562	\$118	\$454,707	\$15,022
Capital Futures Co., Ltd.	44,040	1,455	157	5	44,197	1,460
	<u>\$495,185</u>	<u>\$16,359</u>	<u>\$3,719</u>	<u>\$123</u>	<u>\$498,904</u>	<u>\$16,482</u>

Futures Commission Merchants	December 31, 2010					
	Account balance		Gain (loss) on open interest		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$234,154	\$8,035	\$(5,171)	\$(177)	\$228,983	\$7,858
Polaris Man Financial Futures Co., Ltd.	27,958	959	-	-	27,958	959
	<u>\$262,112</u>	<u>\$8,994</u>	<u>\$(5,171)</u>	<u>\$(177)</u>	<u>\$256,941</u>	<u>\$8,817</u>

Please refer to note 10 for details of the Company's transactions on futures and options.

F. Long options – futures and derivative financial instrument assets – GreTai (over-the-counter)

Please refer to note 10.

(3) Securities margin loans receivable

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Securities margin loans receivable	\$1,362,756	\$45,020	\$2,024,778	\$69,484
Allowance for bad debts	-	-	-	-
Net	<u>\$1,362,756</u>	<u>\$45,020</u>	<u>\$2,024,778</u>	<u>\$69,484</u>

For the years ended December 31, 2011 and 2010, securities margin loans receivable had an annual interest rate between 3.25%~6.90%.



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(4) Available-for-sale financial assets-current

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$-		\$16,320	\$560
OTC corporate bonds	583,081	19,262	488,768	16,773
Subtotal	583,081	19,262	505,088	17,333
Valuation adjustment	(1,307)		(43)	236
Net	<u>\$581,774</u>	<u>\$19,219</u>	<u>\$511,957</u>	<u>\$17,569</u>

As of December 31, 2011 and 2010, the face values of financial assets in available for sales-current provided for repurchase agreement are both NT\$450,000 thousands.

The above available-for-sale financial assets-current were not pledged.

(5) Long-term investments under equity method

A.

Name of investee	December 31, 2011		December 31, 2010	
	NT\$	US\$	Percentage of ownership	Percentage of ownership
Cathay Futures Co., Ltd.	<u>\$773,814</u>	<u>\$25,563</u>	99.99%	<u>\$738,676</u> <u>\$25,349</u> 99.99%

B. Changes in investments under the equity method for the years ended December 31, 2011 and 2010 are listed below:

Item	For the year ended December 31, 2011		For the year ended December 31, 2010	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$738,676	\$24,403	\$730,571	\$25,071
Investment income recognized under the equity method	33,146	1,095	12,377	425
The recognition of investee's default losses transfer to special reserve	10,656	352	-	-
Cash dividends	(8,664)	(287)	(4,272)	(147)
Balance on December 31	<u>\$773,814</u>	<u>\$25,563</u>	<u>\$738,676</u>	<u>\$25,349</u>

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C. The investment income recognized by the equity method for the years ended December 31, 2011 and 2010 is listed below:

Name of investee	For the year ended		For the year ended	
	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$33,146	\$1,095	\$12,377	\$425

D. The Company's investment income recognized was determined based on the audited financial statements of the investee for the same period.

E. None of the long-term investments under equity method were pledged to other parties.

(6) Available-for-sale financial assets – noncurrent

Name of investee	December 31, 2011		December 31, 2010	
	Percentage of		Percentage of	
	NT\$	US\$	ownership	ownership
Stock:				
Taiwan Futures Exchange				
Co.,Ltd.	\$18	\$1	-	\$18
	\$1	\$1	-	\$1

None of the available-for-sale financial assets – noncurrent were pledged to other parties.

(7) Property and equipment

Item	December 31, 2011				December 31, 2010			
	Original cost		Accumulated depreciation		Original cost		Accumulated depreciation	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$136,676	\$4,515	\$103,983	\$3,435	\$32,693	\$1,080		
Prepayment for equipment	2,357	78	-	-	2,357	78		
Leasehold improvement	64,544	2,132	53,253	1,759	11,291	373		
Total	\$203,577	\$6,725	\$157,236	\$5,194	\$46,341	\$1,531		

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Item	December 31, 2010					
	Accumulated			Carrying amount		
	Original cost		depreciation			
Item	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$115,182	\$3,952	\$95,856	\$3,289	\$19,326	\$663
Prepayment for equipment	992	34	-	-	992	34
Leasehold improvement	60,368	2,072	46,491	1,596	13,877	476
Total	\$176,542	\$6,058	\$142,347	\$4,885	\$34,195	\$1,173

None of the property and equipment were pledged to other parties.

(8) Other intangible assets

Item	January 1, 2011		Increase		Reclassification		Decrease		December 31, 2011	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:										
Computer software	\$9,565	\$315	\$6,387	\$211	\$595	\$20	\$(2,956)	\$(98)	\$13,591	\$448
Amortization and impairment:										
Amortization	(4,493)	(148)	(3,577)	(118)	-	-	2,956	98	(5,114)	(168)
Book value	\$5,072	\$167							\$8,477	\$280

Item	January 1, 2010		Increase		Reclassification		Decrease		December 31, 2010	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:										
Computer software	\$8,840	\$303	\$3,475	\$119	\$600	\$21	\$(3,350)	\$(115)	\$9,565	\$328
Amortization and impairment:										
Amortization	(4,491)	(154)	(3,352)	(115)	-	-	3,350	115	(4,493)	(154)
Book value	\$4,349	\$149							\$5,072	\$174

The other intangible assets of the Company is computer software which is amortized using the straight-line method over estimated useful lives of 3~5 years.

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(9) Operating deposits

As stipulated in the Regulations Governing Securities Firms, Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms and Regulations Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$245,000 (US\$8,093) and NT\$245,097 (US\$8,412) as of December 31, 2011 and 2010, respectively.

(10) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC Rules for Administration of the Joint Responsibility System Clearing and Settlement Fund, the Company deposited NT\$84,720 (US\$2,799) and NT\$83,238 (US\$2,856) in settlement and clearance funds as of December 31, 2011 and 2010, respectively.

(11) Debit items for trade brokerage-net

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Debit items for trade brokerage:				
Cash and cash equivalents – settlement account	\$193	\$6	\$4,696	\$161
Accounts receivable from TSE for settlement	1,519,623	50,202	-	-
Accounts receivable-settlement	949,981	31,384	2,576,989	88,434
Credit transaction	4,959	164	-	-
Subtotal	<u>2,474,756</u>	<u>81,756</u>	<u>2,581,685</u>	<u>88,595</u>
Credit items for trade brokerage:				
Accounts payable-settlement	2,446,821	80,833	1,230,643	42,232
Accounts payable to TSE for settlement	-	-	1,357,935	46,600
Subtotal	<u>2,446,821</u>	<u>80,833</u>	<u>2,588,578</u>	<u>88,832</u>
Net	<u>\$27,935</u>	<u>\$923</u>	<u>\$(6,893)</u>	<u>\$(237)</u>

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(12) Commercial Papers Payable

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Commercial papers payable	\$2,290,000	\$75,652	\$1,450,000	\$49,760
Less: discount on commercial papers payable	-	-	-	-
Net	\$2,290,000	\$75,652	\$1,450,000	\$49,760
Interest rate	0.47%~0.9%		0.162%~0.57%	

(13) Liabilities for bonds with Repurchase Agreements

Liabilities for bonds with repurchase agreements amounted to NT\$1,000,000(US\$33,036) thousand dollars and NT\$460,000(US\$15,786) thousand dollars, respectively, as of December 31, 2011 and 2010. The bonds sold will be repurchased as specified in respective agreements plus accrued interest amounted to NT\$ 1,000,671(US\$33,058) thousand dollars and NT\$ 460,198(US\$15,793) thousand dollars, respectively, as of December 31, 2011 and 2010.

(14) Financial liabilities at fair value through profit or loss – current

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Liabilities for issuance of call (put) warrants	\$1,426,164	\$47,115	\$1,465,289	\$50,284
Repurchase of issued call (put) warrants	(1,226,103)	(40,506)	(1,271,118)	(43,621)
Short options - futures	302	10	32,321	1,109
Liabilities for securities and bonds borrowed				
— hedging	374,345	12,367	91,656	3,145
Liabilities for securities and bonds borrowed				
— non-hedging	960,011	31,715	211,659	7,264
Total	\$1,534,719	\$50,701	\$529,807	\$18,181

A. Liabilities for issuance of call (put) warrants/Repurchase of issued call (put) warrants

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Warrants issued	\$2,334,861	\$77,135	\$1,544,734	\$53,010
Gains from valuation	(908,697)	(30,020)	(79,445)	(2,726)
	1,426,164	47,115	1,465,289	50,284
Repurchased warrants	1,778,827	58,766	1,228,663	42,164
(Losses) gains from valuation	(552,724)	(18,260)	42,455	1,457
	1,226,103	40,506	1,271,118	43,621
Net	\$200,061	\$6,609	\$194,171	\$6,663

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- ① The call (put) warrants issued by the Company typically have contract periods of six to nine months commencing from the date the warrants are listed.
- ② The call (put) warrants can be settled by delivery of securities or, at the election of the Company, in cash.
- ③ For other information related to the issuance of call (put) warrants, please refer to note 10.

B. Short options-futures.

Please refer to note 10

C. Liabilities for securities and bonds borrowed—hedging

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$366,452	\$12,106	\$65,622	\$2,251
OTC stocks	33,416	1,104	13,600	467
Exchange Traded Funds (ETF)	-	-	6,933	238
Subtotal	399,868	13,210	86,155	2,956
Valuation adjustment	(25,523)	(843)	5,501	189
Net	<u>\$374,345</u>	<u>\$12,367</u>	<u>\$91,656</u>	<u>\$3,145</u>

D. Liabilities for securities and bonds borrowed—non-hedging

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$934,869	\$30,884	\$136,163	\$4,673
OTC stocks	23,387	773	-	-
Exchange Traded Funds (ETF)	-	-	54,953	1,886
Subtotal	958,256	31,657	191,116	6,559
Valuation adjustment	1,755	58	20,543	705
Net	<u>\$960,011</u>	<u>\$31,715</u>	<u>\$211,659</u>	<u>\$7,264</u>

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(15) Pension/Accrued pension liability

Pursuant to SFAS No. 18, "Accounting for Pensions", information pertaining to the Company's pension is as follows:

A. Net pension cost	For the year ended		For the year ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	NT\$	US\$	NT\$	US\$
1) Service cost	\$2,400	\$79	\$2,429	\$83
2) Interest cost	321	11	312	11
3) Expected return on plan assets	(180)	(6)	(194)	(7)
4) Amortization of transitional net benefit obligation	138	5	138	5
Net pension cost	<u>\$2,679</u>	<u>\$89</u>	<u>\$2,685</u>	<u>\$92</u>

B. Pension funding status

	December 31, 2011	December 31, 2010
	NT\$	US\$
1) Vested benefit obligation (VBO)	\$486	\$16
2) Non-vested benefit obligation	8,994	297
3) Accumulated benefit obligation (ABO)	9,480	313
4) Effect from projected salary increase	5,229	172
5) Projected benefit obligation (PBO)	14,709	485
6) Fair value of plan assets	<u>(8,823)</u>	<u>(291)</u>
7) Pension funding status	5,886	194
8) Unrecognized transitional net benefit obligation	(2,069)	(68)
9) Unrecognized pension gain (loss)	7,447	246
10) Adjustment required to recognize minimum pension liability	-	-
11) Accrued pension liability = 7)+8)+9)+10)	<u>\$11,264</u>	<u>\$372</u>
		<u>\$9,651</u>
		<u>\$331</u>

C. Actuarial assumptions

	For the year ended	For the year ended
	December 31, 2011	December 31, 2010
Discount rate	2.0%	2.0%
Rate of increase in future salaries	2.5%	2.5%
Expected long-term rate of return on plan assets	2.0%	2.0%

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(16) Capital Stock

As of December 31, 2011 and 2010, the Company's total authorized shares and the number of shares outstanding were both 370,000,000 with a par value of NT\$10 per share.

(17) Capital surplus

According to the Company Act in the ROC, capital surplus result from additional paid in capital or granted revenue can be used to increase share capital when the Company has no accumulated deficit. However, the amount capitalized cannot exceed a specific percentage of paid in capital. Any remaining amounts can only be used to make up deficiencies. The Company shall not use capital surplus to make up deficiencies unless the legal reserve and special reserve are insufficient to offset such deficiencies.

(18) Retained earnings

A. According to the Company's articles of incorporation, the Company's annual earnings, after paying applicable income taxes and offsetting deficits, if any, shall be appropriated as legal reserve and special reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 1% of the aforementioned amount should be distributed as the employee bonus.

B. Legal reserve is only used for offsetting deficits according to law. However, the Company may distribute the legal reserve by issuance of new shares or cash in accordance with the resolution by the stockholders' meeting if no deficit occurred and limited to the part that exceed 25% of issued share capital.

C. Under the Regulations Governing Securities Firms, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 20% of the remaining amount shall be set aside as special reserve. However, if the accumulated amount reaches the paid-in capital amount, no further fund needs to be set aside. The special reserve shall not be used for purposes other than make up the deficit or, when the special reserve reaches 50% of the amount of paid-in capital, half of it may be used for capitalization.

D. Pursuant to the Article No.0950000507 issued by SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments since 2007.



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E. According to Article No.09900738571 and 10000002891 issued by SFB, the provisions for trading losses and default losses are no longer required to reserve. The remaining balances should be reclassified to special reserve starting from 2012. This portion of special reserve can only be used to offset deficit or half of it may be used for capitalization when the reserve reaches 50% of the amount of paid-in capital.

F. According to the amended Income Tax Act (“Tax Act”) in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

(19) Income taxes

A. The applicable income tax rate of the Company was originally 25%. In accordance with the amendment to the Income Tax law announced on May 27, 2009, the applicable Income Tax rate for the Company was reduced from 25% to 20% starting from 2010. Furthermore, in accordance with the recent amendment to the Income Tax law announced on June 15, 2010, the applicable Income Tax rate for the Company has been further reduced to 17% starting from 2010. The reconciliation between estimated income tax and net income (loss) before income tax in the statements of income for the years ended December 31, 2011 and 2010, are as follows:

Item	For the year ended		For the year ended	
	December 31, 2011	December 31, 2011	December 31, 2010	December 31, 2010
	NT\$	US\$	NT\$	US\$
Tax (benefits) expenses after adjusting temporary and other differences	\$ (136,092)	\$ (4,496)	\$ 39,936	\$ 1,370
Prior year adjustment	803	27	(35,459)	(1,217)
Deferred tax expenses (benefits)	146,727	4,847	(6,705)	(230)
Tax effects under the change in tax rate on deferred tax assets / liabilities	-	-	1,268	44
Others	-	-	29	1
Income tax expenses (benefits)	\$ 11,438	\$ 378	\$ (931)	\$ (32)

B. Deferred income tax assets and liabilities are as follows:

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	\$ 372,938	\$ 12,320	\$ 106,356	\$ 3,650
b. Total deferred income tax liabilities	\$ 519,047	\$ 17,147	\$ 95,490	\$ 3,277
c. Allowance of deferred income tax assets	\$ -	\$ -	\$ 10,247	\$ 351

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d. Deferred income tax assets resulting from the following temporary differences:

	December 31, 2011			
	(Income)		(Tax)	
	NT\$	US\$	NT\$	US\$
Reserve for default losses	\$-	\$-	\$-	\$-
Provision for pensions	9,351	309	1,590	53
Unrealized (gain) loss on valuation of securities held for operations – hedging	(5,118)	(169)	(870)	(29)
Realized gain of futures contracts – hedging	-	-	-	-
Unrealized loss of futures contracts – hedging	-	-	-	-
Losses (gains) on sale of securities– warrant hedge – unexpired	201,338	6,651	34,227	1,131
Gains on issuance of call(put) warrant	(908,697)	(30,019)	(154,478)	(5,103)
Losses on repurchase of issuance of call(put) warrant	-	-	-	-
– Deferred losses on sale – unexpired	1,395,968	46,117	237,315	7,840
– Unrealized valuation losses (gains)	552,724	18,260	93,963	3,104
Gains on overdue of issuance of call (put) warrants- unexpired	(2,018,884)	(66,695)	(343,211)	(11,339)
Expenses on issuance of call(put) warrant- unexpired	13,030	430	2,215	73
Losses(gains) on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements – unexpired	(25,523)	(843)	(4,339)	(143)
Gains on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements- unexpired	(93,405)	(3,086)	(15,879)	(525)
Unrealized exchange (gains)losses	(1,590)	(53)	(270)	(9)
Tax effects under consolidated income tax system	21,341	705	3,628	120
Total	<u>\$(859,465)</u>	<u>\$(28,393)</u>	<u>\$(146,109)</u>	<u>\$(4,827)</u>

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	December 31, 2010			
	(Income)		(Tax)	
	NT\$	US\$	NT\$	US\$
Reserve for default losses	\$60,278	\$2,069	\$10,247	\$352
Provision for pensions	7,739	266	1,316	45
Unrealized (gain) loss on valuation of securities held for operations –				
hedging	(10,000)	(343)	(1,700)	(58)
Realized gain of futures contracts –				
hedging	(1,216)	(42)	(207)	(7)
Unrealized loss of futures contracts –				
hedging	196	7	33	1
Losses (gains) on sale of securities –				
warrant hedge – unexpired	(6,101)	(209)	(1,037)	(36)
Gains on issuance of call(put) warrant	(79,445)	(2,727)	(13,506)	(463)
Value change losses on repurchase of issuance of call(put) warrant				
– Deferred losses on sale – unexpired	518,433	17,791	88,134	3,024
– Unrealized valuation losses (gains)	(42,455)	(1,457)	(7,217)	(248)
Gains on overdue of issuance of call (put) warrants- unexpired	(422,490)	(14,499)	(71,823)	(2,465)
Expenses on issuance of call(put) warrant- unexpired	8,783	301	1,493	51
Losses(gains) on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements – unexpired	5,501	189	935	32
Gains on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements- unexpired	-	-	-	-
Unrealized exchange (gains)losses	3,354	115	570	20
Tax effects under consolidated income tax system	21,341	732	3,628	125
Total	\$63,918	\$2,193	\$10,866	\$373

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	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
e. Deferred income tax assets – current	\$367,720	\$12,148	\$91,165	\$3,129
Deferred income tax liabilities – current	(519,047)	(17,147)	(95,490)	(3,277)
Net deferred income tax assets				
(liabilities) – current	\$(151,327)	\$(4,999)	\$(4,325)	\$(148)
Deferred income tax assets – noncurrent	\$5,218	\$172	\$15,191	\$521
Allowance of deferred income tax assets - non current	-	-	(10,247)	(351)
Net deferred income tax assets – noncurrent	\$5,218	\$172	\$4,944	\$170

C. Imputation credit account and creditable ratio:

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$6,458	\$213	\$2	\$-
Imputation credit account ratio	2011(Estimated)		2010 (Actual)	
	6.99%		2.71%	

D. Information related to unappropriated earnings:

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
After year 1998	\$92,339	\$3,051	\$221,930	\$7,616

E. The Company's income tax returns have been filed and assessed by the National Tax Administration through 2006.

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(20) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the years ended December 31, 2011 and 2010 are summarized as follows:

Item	For the year ended December 31, 2011 (NT\$)			For the year ended December 31, 2011 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$289,774	\$289,774	\$-	\$9,573	\$9,573
Labor & health insurance expenses	-	19,753	19,753	-	653	653
Pension expenses	-	14,239	14,239	-	470	470
Other expenses	-	13,954	13,954	-	461	461
Depreciation	-	15,925	15,925	-	526	526
Depletion	-	-	-	-	-	-
Amortization	-	3,577	3,577	-	118	118

Item	For the year ended December 31, 2010 (NT\$)			For the year ended December 31, 2010 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$271,628	\$271,628	\$-	\$9,321	\$9,321
Labor & health insurance expenses	-	16,905	16,905	-	580	580
Pension expenses	-	12,508	12,508	-	429	429
Other expenses	-	12,111	12,111	-	416	416
Depreciation	-	17,905	17,905	-	614	614
Depletion	-	-	-	-	-	-
Amortization	-	3,352	3,352	-	115	115

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(21)Earnings per share

		For the year ended December 31, 2011								
		Amount	Outstanding shares	EPS (in dollars)						
				(thousands)						
		Before income taxes	After income taxes	Before income tax	After income tax	After income tax				
		NT\$	US\$	NT\$	US\$	NT\$	US\$			
Net loss		\$(61,821)	\$(2,042)	\$73,259	\$(2,420)	370,000	\$(0.17)	\$(0.01)	\$(0.20)	\$(0.01)

For the year ended December 31, 2010

		Amount				Outstanding shares	EPS (in dollars)			
						(thousands)				
		Before income taxes	After income taxes	Before income taxes	After income taxes	Before income tax	After income tax	After income tax	After income tax	After income tax
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	US\$
Net income		\$220,999	\$7,584	\$221,930	\$7,616	370,000	\$0.60	\$0.02	\$0.60	\$0.02

(22)Earnings distribution and dividend policy

According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve and special reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 1% of the aforementioned amount should be distributed as the employee bonus.

According to the company's articles of incorporation for the dividend policy, except the additional requirements by law, not only the company's products, operations, and services provided are taken into considerations, but also the goal of stable dividend distribution. Cash dividend is the major way to distribute the earnings to the stockholders. Also, stock dividend is another form but limited to the 50% of total dividend amounts. The policy might adjust depending upon the requirement and condition of the operations and other relevant factors.

The employee bonus and remuneration of directors in the Company for the years ended December 31, 2011 and 2010, amounting to NT\$0 thousands and NT\$14 thousands, respectively, was accrued based on after-tax current profit without deducting the employee bonus and remuneration minus estimated legal reserves, special reserves, and other reserves and recognized as operating expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.

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The Company's distribution of 2011 retained earnings has been approved by the board of directors and the annual earnings are not distributed except appropriated as special reserves amounting to NT\$1,306 thousands. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Co.,Ltd..

The actual amount of employee bonus distributed is NT\$0 thousands which has NT\$ 14 thousands difference from the accrued amounts and it is adjusted in the year 2011.

The Company's distribution of 2010 retained earnings has been approved by the board of directors and the annual earnings are not distributed except appropriated as legal reserves and special reserves amounting to NT\$22,193 thousands and NT\$44,386 thousands respectively.

(23) Operating segment information

Segment information has been disclosed in the consolidated financial report.

(24) Presentation of financial statements

Certain accounts in the financial statements for the year ended December 31, 2010 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2011.

**5. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd
Cathay Venture Inc.	Subsidiary of Cathay Financial Holding Co., Ltd
Cathay Securities Investment Trust Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd
Cathay Life Insurance Co., Ltd. (China)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.

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Name	Relationship
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Indovina Bank Limited	Subsidiary of Cathay United Bank Co., Ltd.
Cathay Life Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank Co., Ltd.
Cathay Property Agent Co., Ltd.	Subsidiary of Cathay United Bank Co., Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co., Ltd.
Cathay Futures Co., Ltd.	Subsidiary of the Company
Cathay Insurance Company Limited (Shanghai)	Subsidiary of Cathay Century Insurance Co., Ltd.
Cathay Insurance Company Limited. (Vietnam)	Subsidiary of Cathay Century Insurance Co., Ltd.
Other related parties(Cathay Securities Investment Trust Funds managed by Trust Co., Ltd.)	Investment Trust Funds managed by Cathay Financial Holding's equity method investee, Cathay Securities Investment Trust Co., Ltd.

(2) Transactions with related parties

A. Cash in bank

Name	Item	For the year ended December 31, 2011				
		Ending balance	Interest rate	Interest income		
Cathay United		NT\$	US\$	NT\$	US\$	
Bank Co., Ltd.	Cash in bank	\$746,384	\$24,658	0.02%~1.345%	\$-	\$-
		For the year ended December 31, 2010				
Name	Item	Ending balance	Interest rate	Interest income		
Cathay United		NT\$	US\$	NT\$	US\$	
Bank Co., Ltd.	Cash in bank	\$310,162	\$10,644	0.02%~1.10%	\$-	\$-

As of December 31, 2011, the amount of NT\$587,900(US\$19,422) thousands in bank account is pledged as collateral for the overdraft in settlement account and accounted as restricted assets-current. No other cash in bank has been pledged as collateral.



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B. Open-end funds and currency market instruments

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Money Market Funds				
-Cathay China Domestic Demand Growth	\$10,000	\$330	\$-	\$-
-Cathay Global Resources	-	-	10,010	344
Total	\$10,000	\$330	\$10,010	\$344

C. Other receivables

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.(Note1)	\$152,759	\$5,047	\$-	\$-

Note 1: Due to the adoption of the Consolidated Income Tax System.

D. Other payables

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.(Note2)	\$-	\$-	\$28,238	\$969

Note 2: Due to the adoption of the Consolidated Income Tax System.

E. Brokerage commissions for introducing futures contracts

	For the year ended		For the year ended	
	December 31, 2011		December 31, 2010	
Name	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$28,205	\$932	\$28,747	\$987

Terms of the transactions between the Company and related parties were comparable to general market terms.

F. Clearing and settlement fees, dealing handling fee expense and margin for futures trading – proprietary funds

	For the year ended December 31, 2011			
	Clearing and settlement fees	Dealing handling fee expense	Accounts payable	Margin for futures trading – proprietary funds
Name	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$-	\$-	\$-	\$-
				\$454,707
				\$15,022

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		For the year ended December 31, 2010							
		Clearing and settlement fees	Dealing handling fee expense	Accounts payable	Margin for futures trading—proprietary funds				
Name		NT\$	US\$	NT\$	US\$	NT\$	US\$		
Cathay Futures Co., Ltd.		\$-	\$-	\$-	\$-	\$-	\$-	\$228,983	\$7,858

**G. Rental expenses and guarantee deposits paid**

		For the year ended December 31, 2011				For the year ended December 31, 2010			
		Guarantee		Guarantee					
Name		Rental expenses	deposits paid	Rental expenses	deposits paid	Rental expenses	deposits paid	Rental expenses	deposits paid
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.		\$20,563	\$680	\$5,182	\$171	\$21,486	\$738	\$4,710	\$162
Cathay United Bank Co., Ltd.		10,789	356	-	-	8,082	277	-	-
<b>Total</b>		<b>\$31,352</b>	<b>\$1,036</b>	<b>\$5,182</b>	<b>\$171</b>	<b>\$29,568</b>	<b>\$1,015</b>	<b>\$4,710</b>	<b>\$162</b>

The rents on the above rental properties were comparable with those in the surrounding area and were payable monthly.

**H. Operating expenses**

		For the year ended		For the year ended	
		December 31, 2011		December 31, 2010	
Name	Description	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurance	\$3,419	\$113	\$3,116	107
Cathay United Bank Co., Ltd.	Other fees	8,868	293	6,852	235
Symphox Information Co., Ltd.	Cable service etc.	10,140	335	6,719	231
<b>Total</b>		<b>\$22,427</b>	<b>\$741</b>	<b>\$16,687</b>	<b>\$573</b>

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I. Key management personnel compensation in total:

Item	For the year ended		For the year ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	NT\$	US\$	NT\$	US\$
Wages, bonuses, special payments, service payments, distributions	\$34,106	\$1,127	\$17,494	\$600

The management of the Company includes directors, inspectors, vice presidents and above. Please refer to the resolution of the annual shareholders' meeting for details of the remuneration paid to the management.

**6. Pledged assets**

Item	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Restricted assets-time deposits	\$587,900	\$19,422	\$-	\$-
Securities held for operations -dealing	"	-	125,144	4,295
Securities held for operations -underwriting	"	-	442,175	15,174
Total	<u>\$587,900</u>	<u>\$19,422</u>	<u>\$567,319</u>	<u>\$19,469</u>

(1) The assets above were the collaterals for the over-loaning of settlement accounts.

(2) The assets above were disclosed at their net carrying amounts.

**7. Other important matters and contingent liabilities**

As of December 31, 2011, a total amount of NT\$560,000(US\$18,500) thousand financial institutions' letter of guarantee was issued to the Company for hedging securities borrowing businesses.

**8. Significant disaster losses**

None.

**9. Subsequent events**

None.

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**10. Other important events**

(1) Information related to financial instruments

	December 31, 2011			
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
<b>Non-derivative</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$266,078	\$266,078	\$8,790	\$8,790
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	58,440	58,440	1,931	1,931
Securities held for operations – net	2,630,361	2,630,361	86,896	86,896
Securities margin loans receivable	1,362,756	1,362,756	45,020	45,020
Collateral for securities refinancing	2,078	2,078	69	69
Collateral for securities borrowed	366,228	366,228	12,099	12,099
Deposits for securities borrowed	1,990,015	1,990,015	65,742	65,742
Receivables - net	233,554	233,554	7,716	7,716
Restricted assets – current	587,900	587,900	19,422	19,422
Available-for-sale financial assets – current	581,774	581,774	19,219	19,219
Long-term investments under equity method	773,814	773,814	25,563	25,563
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	245,000	245,000	8,093	8,093
Settlement and clearance funds	84,720	84,720	2,799	2,799
Guarantee deposits paid	8,673	8,673	287	287
<b>Liabilities:</b>				
Commercial paper payable	2,290,000	2,290,000	75,652	75,652
Liabilities for bonds with repurchase agreements	1,000,000	1,000,000	33,036	33,036
Financial liabilities at fair value through profit or loss – current				
Liabilities for securities and bonds borrowed—hedging	374,345	374,345	12,367	12,367
Liabilities for securities and bonds borrowed—nonhedging	960,011	960,011	31,715	31,715
Short sale margins	164,037	164,037	5,419	5,419
Payables for short sale collateral received	179,810	179,810	5,940	5,940
Payables	194,518	194,518	6,427	6,427
Guarantee deposits-in	106	106	4	4

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	December 31, 2011			
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
<b>Derivative Assets:</b>				
Financial assets at fair value through profit or loss – current				
Long options – futures	\$603	\$603	\$20	\$20
Margin for futures trading – proprietary funds	498,904	498,904	\$16,482	\$16,482
Derivative financial instrument assets				
–Gre Tai (over – the – counter)	1,402	1,402	46	46
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,426,164	1,426,164	47,115	47,115
Repurchase of issued call (put) warrants	(1,226,103)	(1,226,103)	(40,506)	(40,506)
Short options – futures	302	302	10	10
December 31, 2010				
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
<b>Non-derivative Assets:</b>				
Cash and cash equivalents	\$312,723	\$312,723	\$10,732	\$10,732
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	99,073	99,073	3,400	3,400
Securities held for operations – net	2,380,704	2,380,704	81,700	81,700
Securities margin loans receivable	2,024,778	2,024,778	69,484	69,484
Collateral for securities borrowed	87,878	87,878	3,016	3,016
Deposits for securities borrowed	299,327	299,327	10,272	10,272
Receivables - net	49,432	49,432	1,696	1,696
Available-for-sale financial assets – current	511,957	511,957	17,569	17,569
Long-term investments under equity method	738,676	738,676	25,349	25,349
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	245,097	245,097	8,412	8,412
Settlement and clearance funds	83,238	83,238	2,856	2,856
Guarantee deposits paid	8,668	8,668	297	297

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	December 31, 2010			
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
<b>Liabilities:</b>				
Commercial paper payable	1,450,000	1,450,000	49,760	49,760
Liabilities for bonds with repurchase agreements	460,000	460,000	15,786	15,786
Financial liabilities at fair value through profit or loss – current				
Liabilities for securities and bonds borrowed—hedging	91,656	91,656	3,145	3,145
Liabilities for securities and bonds borrowed—nonhedging	211,659	211,659	7,264	7,264
Short sale margins	67,522	67,522	2,317	2,317
Payables for short sale collateral received	74,445	74,445	2,555	2,555
Payables	216,379	216,379	7,426	7,426
<b>Derivative</b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss – current				
Long options – futures	3,333	3,333	114	114
Margin for futures trading—proprietary funds	256,941	256,941	8,817	8,817
Derivative financial instrument assets				
—Gre Tai (over – the – counter)	6,502	6,502	223	223
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,465,289	1,465,289	50,284	50,284
Repurchase of issued call (put) warrants	(1,271,118)	(1,271,118)	(43,621)	(43,621)
Short options – futures	32,321	32,321	1,109	1,109

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Methods and assumptions for estimating the fair value of financial instruments are as follows:

- A. Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, Securities margin loans receivable, collateral for securities refinancing, collateral for securities borrowed, deposits for securities borrowed, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, commercial paper payable, liabilities for bonds with repurchase agreements, short sale margins, payables for short sale collateral received, payables and guarantee deposits-in.
- B. Available-for-sale financial assets – current/noncurrent is estimated based on market prices, if available. If available-for-sale financial assets – current/noncurrent of the Company is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.
- C. If no quoted market prices exist for the Company’s long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- D. If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, the Company assesses fair value by using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value information of financial assets and liabilities as of December 31, 2011 and 2010:

	December 31, 2011			
	Based on quoted market price (NT\$)	Based on valuation method (NT\$)	Based on quoted market price (US\$)	Based on valuation method (US\$)
Assets:				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$58,440	\$-	\$1,931	\$-
Securities held for operations – net	2,630,361	-	86,896	-

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As of December 31, 2011 and 2010

	December 31, 2011			
	Based on quoted market price (NT\$)	Based on valuation method (NT\$)	Based on quoted market price (US\$)	Based on valuation method (US\$)
Long options – futures	603	-	20	-
Margin for futures trading – proprietary funds	498,904	-	16,482	-
Derivative financial instrument assets – GreTai (over –the – counter)	-	1,402	-	46
Available-for-sale financial assets – current	581,774	-	19,219	-
Available-for-sale financial assets – noncurrent	18	-	1	-
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,426,164	-	47,115	-
Repurchase of issued call (put) warrants	(1,226,103)	-	(40,506)	-
Liabilities for securities and bonds borrowed – hedging	374,345	-	12,367	-
Liabilities for securities and bonds borrowed – nonhedging	960,011	-	31,715	-
Short options – futures	302	-	10	-



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	December 31, 2010			
	Based on quoted market price (NT\$)	Based on valuation method (NT\$)	Based on quoted market price (US\$)	Based on valuation method (US\$)
<b>Assets:</b>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$99,073	\$-	\$3,400	\$-
Securities held for operations – net	2,380,704	-	81,700	-
Long options – futures	3,333	-	114	-
Margin for futures trading – proprietary funds	256,941	-	8,817	-
Derivative financial instrument				
assets – GrETai (over-the-counter)	-	6,502	-	223
Available-for-sale financial assets – current	511,957	-	17,569	-
Available-for-sale financial assets – noncurrent	18	-	1	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,465,289	-	50,284	-
Repurchase of issued call (put) warrants	(1,271,118)	-	(43,621)	-
Liabilities for securities and bonds borrowed – hedging	91,656	-	3,145	-
Liabilities for securities and bonds borrowed – nonhedging	211,659	-	7,264	-
Short options – futures	32,321	-	1,109	-

The above derivative financial instrument assets (liabilities)-GrETai (over-the-counter) is valued using Binomial Tree.

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(2) Financial risk information

A. Market risk

The Company invests in equity securities that have active public market prices. When adverse market conditions exist, the Company is exposed to market risk as prices fluctuate. Although the Company controls and quantifies its market risk by establishing stop-loss limits and measuring Value-at-Risk, evaluates its risk utilizing historical prices and controls its overall investment portfolio, it is still exposed to market risk.

B. Credit risk

In accordance with the Company's policy, credit evaluations are required for all credit transactions. Credit limits are established based on customers' credit ratings. Margin ratios are also evaluated continuously to control default risk.

The counterparties to the Company's other financial assets (including cash and cash equivalents and all other current and non current investments) are all creditworthy and well-known financial institutions in the ROC. As a result, counterparty credit risk is relatively low.

C. Liquidity risk

The Company believes its working capital is sufficient for its operations and that the risk of contract defaults resulting from a lack of capital is low.

The financial assets held by the Company all have active markets and can be sold at prices approximate to fair values. As the result, the Company believes there is no significant cash flow risk.

D. Cash flow risk from interest rate fluctuations

The Company currently has no exposure to floating interest rates related to financial assets or liabilities and thus the Company believes there is no significant cash flow risk from interest rate fluctuations.

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(3) Financial derivatives

A. Issuance of call(put) warrants

a. Nominal principal or contract amount and credit risk

Financial instruments For trading purposes	December 31, 2011		December 31, 2010	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
Issuance of call(put) warrants	NT\$2,334,861 (US\$77,135)	NT\$- (US\$-)	NT\$1,544,734 (US\$53,010)	NT\$- (US\$-)

b. Market risk

Market risk for call(put) warrants issued arises from changes in prices of the underlying securities. Although market risk can be avoided by adjusting the Company's warrant and hedging positions, market risk still exists.

c. Risk from liquidity, cash flow and future cash requirements

When issuing call (put) warrants, the underlying securities and futures of the warrants held are all actively traded and it is expected that they can be sold in the open market at fair prices. As a result, there should not be significant liquidity risk. Risk from cash requirements results from the need to adjust hedge positions in response to changes in the prices of the underlying securities. Assuming favourable market liquidity, risk from cash requirements is relatively low.

The call(put) warrants issued by the Company typically have contract periods of six to nine months starting from the date when the warrants are listed (OTC). Except for cash required for the related hedging transactions, there are no other cash requirements.

d. Types, purposes, and strategies for financial derivatives

The Company's hedging positions are not held for trading purposes but instead, are held to minimize the risk of investors exercising warrants. The Company's hedging strategy is focused on avoiding market price risks. The value of the underlying securities for hedging are highly correlated to the fair value of the issued call(put) warrants. The Company's hedging positions are evaluated and adjusted periodically.

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**e. Financial statement presentation of derivative financial instruments**

As of December 31, 2011 and 2010, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

	December 31, 2011		December 31, 2010	
	NT\$	US\$	NT\$	US\$
<b>Balance sheet</b>				
	December 31, 2011		December 31, 2010	
	Financial liabilities at		Financial liabilities at	
	fair value through profit		fair value through profit	
	and loss-current		and loss-current	
	NT\$	US\$	NT\$	US\$
Liabilities for insurance of call (put) warrants	\$1,426,164	\$47,115	\$1,465,289	\$50,284
Repurchase of issued call (put) warrants	(1,226,103)	(40,506)	(1,271,118)	(43,621)
Total	\$200,061	\$6,609	\$194,171	\$6,663

**Statement of income**

	For the year ended		Account	Comments
	December 31, 2011	December 31, 2010		
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$226,028	\$7,467	Profit from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(3,910,019)	(129,171)	Loss from issuing call (put) warrants	
- Loss from valuation	(595,179)	(19,662)	Loss from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	4,695,733	155,128	Profit from issuing call (put) warrants	
Securities held for operations – hedging				
-Loss on disposal	(378,462)	(12,503)	Loss from securities held for operations	
-Loss from valuation	(4,882)	(161)	Gain on valuation of securities held for operations	Fair value method

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Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of December 31, 2011 and 2010

	For the year ended		Account	Comments
	December 31, 2011	December 31, 2010		
	NT\$	US\$		
Liabilities for securities and bonds borrowed – hedging				
-Gain on disposal	87,651	2,896	Gains (loss) on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements	
-Gain from valuation	31,024	1,025	Valuation gains on securities borrowing and short sales of bonds with reverse repurchase agreements	Fair value method
Trading futures – hedging				
-Loss on disposal	(229)	(8)	Losses (gains) on derivative financial instruments- future	
-Gain from valuation	196	6	Gains (losses) on derivative financial instruments- future	Fair value method
<b>Total</b>	<b>\$151,861</b>	<b>\$5,017</b>		
	For the year ended			
	December 31, 2010			
	NT\$	US\$	Account	Comments
Liabilities for issuance of call (put) warrants	\$ (464,230)	\$ (15,931)	Loss from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(2,952,993)	(101,338)	Loss from issuing call (put) warrants	
- Gain from valuation	1,741	60	Profit from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	3,773,262	129,487	Profit from issuing call (put) warrants	
Securities held for operations – hedging				
-Loss on disposal	(137,889)	(4,732)	Loss from securities held for operations – hedging	
-Loss from valuation	(59,340)	(2,036)	Gain on valuation of securities held for operations	Fair value method

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	For the year ended		Account	Comments
	December 31, 2010			
	NT\$	US\$		
Liabilities for securities and bonds borrowed—hedging			Gains (loss) on the covering of securities borrowing and short sales	Fair value method
-Loss on disposal	(11,231)	(385)	of bonds with reverse repurchase agreements	
-Gain from valuation	2,442	84		
Trading futures – hedging				
-Gain on disposal	2,752	94	Losses (gains) on derivative financial instruments- futures	
-Loss from valuation	(196)	(7)	Gains (losses) on derivative financial instruments- futures	Fair value method
Total	<u>\$154,318</u>	<u>\$5,296</u>		

B. Futures and options transactions

As of December 31, 2011, the open interest of the Company's futures and options transactions were as follows:

Item	Nature of Transaction	Open Interest		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	STW	Sell	41	\$(31,660)	\$(1,046)	\$31,503	\$1,041
Futures	FIMTX	Sell	111	\$(39,254)	\$(1297)	\$39,066	\$1,291
Futures	FITE	Buy	520	\$540,745	\$17,864	\$539,858	\$17,835
Futures	FITF	Sell	1	\$(749)	\$(25)	\$778	\$26
Futures	FITF	Buy	145	\$112,514	\$3,717	\$113,441	\$3,748
Futures	FITX	Sell	579	\$(818,178)	\$(27,029)	\$815,083	\$26,927
Futures	FIXI	Buy	43	\$42,157	\$1,393	\$42,402	\$1,401
Futures	FIXI	Sell	15	\$(14,907)	\$(492)	\$14,883	\$492
Options	TXO-Call	Buy	132	\$966	\$32	\$603	\$20
Options	TXO-Put	Sell	153	\$(647)	\$(21)	\$302	\$10

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The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with futures agencies, and the risk of default is low.

**b. Market risk**

The Company's market risk from futures and options transactions arises from the purchase and sell of futures and options and the volatility of assets. Since the fair values of futures and options are available and stop-loss points are established, the Company believes it can limit its losses to within an expected range. However, market risk still exists.

**c. Risk from liquidity, cash flow and future cash requirements**

The Company's open interest options could all be liquidated at reasonable prices in the market. As a result, the Company believes liquidity risk is low.

The Company's trading in futures requires an initial margin and additional margin depending on the daily valuation of open interest. In the event additional margin is required, the Company has sufficient working capital to meet its requirements, and hence the Company believes funding risk and cash flow risk are low. With respect to the Company's trading in options, prior to any transaction the Company pays or receives option premium. If the Company sells call options and the counterparty exercises its option, the Company has sufficient working capital to cover the exercise and hence the Company believes funding risk and cash flow risk are low.

**d. Types, purposes, and strategies for financial derivatives**

The Company's purpose in trading futures and options is to increase the scope of its investment activities and improve its capital efficiency.

**e. Financial statement presentation of derivative financial instruments**

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current ("margin for futures trading – proprietary funds") on the balance sheet. For the years ended December 31, 2011 and 2010, the related gain (loss) of futures and options on the statements of income were as follows:



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As of December 31, 2011 and 2010

	For the year ended		For the year ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	NT\$	US\$	NT\$	US\$
Gain from derivative financial instruments – futures				
Non - hedging				
Gain on futures contracts - realized	\$166,174	\$5,490	\$42,490	\$1,459
Gain on futures contracts - unrealized	35,340	1,167	9,110	313
Gain from options transactions - realized	32,649	1,079	25,657	880
Gain from options transactions - unrealized	25,185	832	32,066	1,100
Subtotal	259,348	8,568	109,323	3,752
Hedging				
Gain on futures contracts - realized	1,901	63	8,962	307
Gain on futures contracts - unrealized	2,663	88	2,675	92
Subtotal	4,564	151	11,637	399
Total	\$263,912	\$8,719	\$120,960	\$4,151
Loss from derivative financial instruments – futures				
Non - hedging				
Loss on futures contracts - realized	\$37,894	\$1,252	\$47,939	\$1,645
Loss on futures contracts - unrealized	26,646	880	43,090	1,478
Loss from options transactions - realized	8,063	266	17,825	612
Loss from options transactions - unrealized	16,897	558	16,383	562
Subtotal	89,500	2,956	125,237	4,297
Hedging				
Loss on futures contracts - realized	2,130	70	6,210	213
Loss on futures contracts - unrealized	2,467	82	2,871	99
Subtotal	4,597	152	9,081	312
Total	\$94,097	\$3,108	\$134,318	\$4,609