

**Cathay Securities Corporation**  
**Financial Statements**  
**Nine-Month Periods Ended**  
**September 30, 2007 and 2008**  
**With Independent Auditor's Review Report**

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", "Criteria Governing the Preparation of Financial Reports by Securities Firms", and the "Criteria 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 Review Report Originally Issued in Chinese  
Review report of independent accountants

To: Board of Directors  
Cathay Securities Corporation

We have reviewed the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of September 30, 2007 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the nine months ended September 30, 2007 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our reviews in accordance with generally accepted auditing standards No.36 "Review of Financial Statements" in the Republic of China ("ROC"). A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with requirements of the "Business Entity Accounting Act" and "Regulation on Business Entity Accounting Handling" with respect to financial accounting standards, "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC.

Ernst & Young  
Taipei, Taiwan  
Republic of China  
October 9, 2008

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 review 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 Corporation  
Unaudited balance sheets  
As of September 30, 2007 and 2008  
(Expressed in thousands of dollars)

ASSETS	NOTES	September 30,2007		September 30,2008	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4(1),5	\$598,354	\$18,315	\$327,313	\$10,156
Financial assets at fair value through profit or loss - current	2,4(2),5,6,10	1,430,947	43,800	2,052,855	63,694
Receivable amount for margin loans	2,4(3)	1,207,761	36,969	644,625	20,001
Accounts receivable		3,582	110	15,506	481
Accounts receivable - related parties	5	1,076	33	2,356	73
Prepayments		287	9	1,131	35
Other receivables		19,388	593	15,260	473
Restricted assets - current	6	-	-	50,000	1,551
Deferred income tax assets - current	2,4(15)	-	-	99,976	3,102
Other current assets		396	12	569	18
<b>Total current assets</b>		<b>3,261,791</b>	<b>99,841</b>	<b>3,209,591</b>	<b>99,584</b>
<b>Funds and investments</b>					
Long-term investments under equity method	2,4(4)	718,652	21,997	734,906	22,802
Available-for-sale financial assets - noncurrent	2,4(5)	18	1	18	1
<b>Total funds and investments</b>		<b>718,670</b>	<b>21,998</b>	<b>734,924</b>	<b>22,803</b>
<b>Property and equipment</b>	2,4(6)				
Equipment		91,684	2,806	96,670	2,999
Prepayment for equipment		372	12	638	20
Leasehold improvement		53,024	1,623	53,302	1,654
Less: Accumulated depreciation		(67,090)	(2,054)	(96,581)	(2,997)
<b>Net property and equipment</b>		<b>77,990</b>	<b>2,387</b>	<b>54,029</b>	<b>1,676</b>
<b>Intangible assets</b>					
Other intangible assets	2,4(7),5	7,491	229	4,990	155
<b>Other assets</b>					
Operating deposits	4(8)	230,097	7,043	230,098	7,139
Settlement and clearance funds	4(9)	50,550	1,547	51,519	1,599
Guarantee deposits paid	5	49,185	1,506	62,251	1,931
Deferred income tax assets - noncurrent	2,4(15)	6,722	206	9,357	290
<b>Total other assets</b>		<b>336,554</b>	<b>10,302</b>	<b>353,225</b>	<b>10,959</b>
Securities brokerage debit accounts - net	4(10)	22,546	690	1,921	60
<b>Total assets</b>		<b>\$4,425,042</b>	<b>\$135,447</b>	<b>\$4,358,680</b>	<b>\$135,237</b>

(The exchange rate of September 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.67 and NT\$32.23 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 Corporation  
 Unaudited balance sheets  
 As of September 30, 2007 and 2008  
 (Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	September 30,2007		September 30,2008	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,4(11),10	\$36,765	\$1,125	\$67,792	\$2,104
Securities financing guarantee deposits-in	2	18,467	565	14,345	445
Deposit payable for securities financing	2	21,158	648	15,856	492
Accounts payable		11,448	350	4,513	140
Accounts payable - related parties	5	90	3	93	3
Receipts under custody		11,008	337	3,898	121
Other payables		19,309	591	22,918	711
Other payables - related parties	5	13,160	403	92,309	2,864
Deferred income tax liabilities - current	2,4(15)	879	27	-	-
Other financial liabilities - current	2,10	213,306	6,529	102,911	3,193
Other current liabilities		38	1	8	-
Total current liabilities		345,628	10,579	324,643	10,073
Long-term liabilities					
Other long-term liabilities		749	23	1,014	31
Other liabilities					
Reserve for default losses	2	23,506	719	32,868	1,020
Reserve for trading losses	2	1,395	43	442	14
Guarantee deposits-in		141	4	141	4
Accrued pension liability - noncurrent	2	3,382	104	4,561	142
Total other liabilities		28,424	870	38,012	1,180
Total liabilities		374,801	11,472	363,669	11,284
Stockholders' equity					
Capital stock					
Common stock	4(12)	3,700,000	113,254	3,700,000	114,800
Capital surplus	4(13)	258,434	7,910	258,434	8,018
Retained earnings	4(14)				
Legal reserve		8,310	254	10,231	317
Special reserve		16,619	509	20,461	635
Unappropriated retained earnings		66,878	2,048	5,885	183
Total stockholders' equity		4,050,241	123,975	3,995,011	123,953
Total liabilities and stockholders' equity		\$4,425,042	\$135,447	\$4,358,680	\$135,237

(The exchange rate of September 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.67 and NT\$32.23 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 Corporation

Unaudited statements of income

For the nine months ended September 30, 2007 and 2008

(Expressed in thousands of dollars, except for earnings per share)

ITEMS	NOTES	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
		NT\$	US\$	NT\$	US\$
Revenue	2,5				
Brokerage commissions		\$220,375	\$6,746	\$178,340	\$5,533
Revenue from underwriting commissions		23,308	713	2,440	76
Profit from trading securities		5,062	155	-	-
Interest revenue		48,359	1,480	65,795	2,041
Dividend revenue		9,548	292	4,932	153
Profit from issuing call (put) warrants	10	8,580	263	68,099	2,113
Brokerage commissions for introducing futures contracts		6,104	187	18,851	585
Gain from derivative financial instruments - futures	10	19,189	587	13,200	410
Gain from derivative financial instruments - GreTai (over-the-counter)	10	-	-	1,016	32
Other operating revenue		2,915	89	6,655	206
Non-operating revenue and profits		24,569	752	31,088	965
Total revenue		<u>368,009</u>	<u>11,264</u>	<u>390,416</u>	<u>12,114</u>
Expenses	2,5				
Brokerage securities transaction charges		(19,575)	(599)	(14,326)	(444)
Dealing securities transaction charges		(1,631)	(50)	(1,848)	(57)
Refinancing transaction fees		(5)	-	(34)	(1)
Underwriting transaction fees		-	-	(28)	(1)
Loss from trading securities		-	-	(51,650)	(1,603)
Interest expense		(87)	(3)	(192)	(6)
Loss on valuation of operating securities		(15,463)	(473)	(32,178)	(998)
Expenses from issuing call (put) warrants		(192)	(6)	(5,995)	(186)
Clearing and settlement fees		(520)	(16)	(351)	(11)
Loss from derivative financial instruments - futures	10	(7,675)	(235)	(13,437)	(417)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(6,929)	(212)	-	-
Operating expenses		(268,839)	(8,229)	(308,148)	(9,561)
Other operating expenses		-	-	(28)	(1)
Non-operating expense and losses		(5,350)	(163)	(2,247)	(70)
Total expenses		<u>(326,266)</u>	<u>(9,986)</u>	<u>(430,462)</u>	<u>(13,356)</u>
Income (Loss) from continuing operations before income taxes		41,743	1,278	(40,046)	(1,242)
Income tax (expense) benefit	2,4(15)	(14,694)	(450)	6,102	189
Net income (loss)		<u>\$27,049</u>	<u>\$828</u>	<u>\$(33,944)</u>	<u>\$(1,053)</u>
Earnings per share (in dollars)	4(17)				
Net income (loss)		<u>\$0.07</u>	<u>\$0.0021</u>	<u>\$(0.09)</u>	<u>\$(0.0028)</u>

(The exchange rate of September 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.67 and NT\$32.23 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 Corporation

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2007 and 2008

(Expressed in thousands of dollars)

SUMMARY	Retained earnings											
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance on January 1, 2007	\$3,700,000	\$113,254	\$258,434	\$7,910	\$5,690	\$174	\$11,380	\$349	\$66,026	\$2,021	\$4,041,530	\$123,708
Appropriations and distributions of 2006:												
Legal reserve					2,620	80			(2,620)	(80)	-	-
Special reserve							5,239	160	(5,239)	(160)	-	-
Cash dividends									(17,756)	(543)	(17,756)	(543)
Bonus paid to employees									(582)	(18)	(582)	(18)
Net income for the nine months ended September 30, 2007									27,049	828	27,049	828
Balance on September 30, 2007	<u>\$3,700,000</u>	<u>\$113,254</u>	<u>\$258,434</u>	<u>\$7,910</u>	<u>\$8,310</u>	<u>\$254</u>	<u>\$16,619</u>	<u>\$509</u>	<u>\$66,878</u>	<u>\$2,048</u>	<u>\$4,050,241</u>	<u>\$123,975</u>
Balance on January 1, 2008	\$3,700,000	\$114,800	\$258,434	\$8,018	\$8,310	\$258	\$16,619	\$516	\$59,041	\$1,832	\$4,042,404	\$125,424
Appropriations and distributions of 2007:												
Legal reserve					1,921	59			(1,921)	(59)	-	-
Special reserve							3,842	119	(3,842)	(119)	-	-
Cash dividends									(12,916)	(401)	(12,916)	(401)
Bonus paid to employees									(533)	(17)	(533)	(17)
Net loss for the nine months ended September 30, 2008									(33,944)	(1,053)	(33,944)	(1,053)
Balance on September 30, 2008	<u>\$3,700,000</u>	<u>\$114,800</u>	<u>\$258,434</u>	<u>\$8,018</u>	<u>\$10,231</u>	<u>\$317</u>	<u>\$20,461</u>	<u>\$635</u>	<u>\$5,885</u>	<u>\$183</u>	<u>\$3,995,011</u>	<u>\$123,953</u>

(The exchange rate of September 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.67 and NT\$32.23 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 Corporation  
Unaudited statements of cash flows  
For the nine months ended September 30, 2007 and 2008  
(Expressed in thousands of dollars)

ITEMS	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss)	\$27,049	\$828	\$(33,944)	\$(1,053)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	21,866	669	22,603	701
Amortization	8,117	249	4,810	149
Loss on valuation of operating securities	15,463	473	32,178	998
Loss on valuation of open-end funds and currency market instruments	4,835	148	1,985	62
Recoveries on reserve for trading losses	(2,046)	(63)	(1,920)	(60)
Reserve for trading losses	1,868	57	2,130	66
Reserve for default losses	9,456	289	6,909	214
Investment income recognized by equity method in excess of cash dividends received	1,017	31	(15,406)	(478)
Loss on disposal of property and equipment	515	16	78	2
Changes in assets and liabilities				
Financial assets at fair value through profit or loss - current				
Increase in operating securities - dealing	(120,588)	(3,691)	(152,311)	(4,726)
Increase in operating securities - underwriting	(552,200)	(16,902)	(47,840)	(1,484)
Increase in operating securities - hedging	(11,267)	(345)	(1,901)	(59)
Increase in call options - futures	-	-	(1,378)	(43)
Decrease in margin for futures trading - own funds	87,555	2,680	2,458	76
Decrease in derivative financial instrument assets - GreTai (over-the-counter)	-	-	640	20
(Increase) decrease in receivable amount for margin loans	(455,332)	(13,937)	409,055	12,692
Decrease in securities refinancing margin deposits	443	14	-	-
Increase in accounts receivable	(3,581)	(110)	(14,561)	(452)
Decrease (increase) in accounts receivable - related parties	40	1	(1,237)	(38)
Decrease (increase) in prepayments	627	19	(774)	(24)
(Increase) decrease in other receivables	(9,306)	(285)	1,122	35
Increase in other current assets	(386)	(12)	(42)	(1)
Decrease in cash and cash equivalents - funds for subscription of shares collected	-	-	192	6
Financial liabilities at fair value through profit or loss - current				
Increase in liabilities for issuance of call (put) warrants	32,472	994	57,298	1,778
Increase in put options - futures	795	24	1,081	34
Decrease in derivative financial instrument liabilities - GreTai (over-the-counter)	(2,733)	(84)	(1,763)	(55)
Increase (decrease) in securities financing guarantee deposits-in	6,760	207	(21,483)	(667)
Increase (decrease) in deposit payable for securities financing	8,283	254	(23,690)	(735)
Decrease in accounts payable	(5,575)	(171)	(7,170)	(222)
Increase in accounts payable - related parties	19	1	56	2
Increase (decrease) in receipts under custody	4,583	140	(2,383)	(74)
Increase in other payables	7,112	218	11,822	367
Increase in other payables - related parties	6,170	189	81,003	2,513
Increase (decrease) in other financial liabilities - current	37,603	1,151	(55,910)	(1,735)
Increase (decrease) in other current liabilities	26	1	(207)	(6)
Net change in deferred income tax assets/liabilities	(1,045)	(32)	(102,537)	(3,181)
Increase in other long-term liabilities	281	9	146	4
Increase in accrued pension liability	1,092	34	1,025	32
Net change in securities brokerage debit/credit accounts - net	(15,249)	(467)	12,827	398
Net cash (used in) provided by operating activities	(895,261)	(27,403)	162,961	5,056

(The exchange rate of September 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.67 and NT\$32.23 to US\$1.00, respectively)

(Forward)

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



English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statements of cash flows

For the nine months ended September 30, 2007 and 2008

(Expressed in thousands of dollars)

ITEMS	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from investing activities				
Financial assets at fair value through profit or loss - current				
Decrease (increase) in open-end funds and currency market instruments	447,799	13,707	(33,235)	(1,031)
Decrease (increase) in restricted assets - current	650,000	19,896	(50,000)	(1,551)
Acquisition of property and equipment	(4,284)	(131)	(5,201)	(162)
Disposal of property and equipment	338	10	212	7
Increase in other intangible assets	(2,532)	(78)	(3,461)	(107)
Increase in settlement and clearance funds	(3,815)	(117)	(969)	(30)
Increase in operating deposits	(15,000)	(459)	-	-
(Increase) decrease in guarantee deposits paid	(10,946)	(335)	40,000	1,241
Net cash provided by (used in) investing activities	1,061,560	32,493	(52,654)	(1,633)
Cash flows from financing activities				
Cash dividends	(17,756)	(543)	(12,916)	(401)
Bonus paid to employees	(582)	(18)	(533)	(17)
Net cash used in financing activities	(18,338)	(561)	(13,449)	(418)
Increase in cash and cash equivalents	147,961	4,529	96,858	3,005
Cash and cash equivalents at the beginning of period	450,393	13,786	230,455	7,151
Cash and cash equivalents at the end of period	\$598,354	\$18,315	\$327,313	\$10,156
Supplemental disclosure of cash flows information				
Interest paid during the period	\$99	\$3	\$208	\$6
Interest paid (excluding capitalized interest)	\$99	\$3	\$208	\$6
Income tax paid	\$9,372	\$287	\$12,445	\$386

(The exchange rate of September 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.67 and NT\$32.23 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 Corporation**

**Notes to unaudited financial statements**

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

**As of September 30, 2007 and 2008**

**1. Organization and business scope**

Cathay Securities Corporation (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 September 30, 2008, the Company had 4 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of September 30, 2007 and 2008, the Company had 216 and 258 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 "Regulation on Business Entity Accounting Handling" with respect to financial accounting standards, "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria 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.

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Securities Corporation**  
**Notes to unaudited financial statements (continued)**  
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)  
**As of September 30, 2007 and 2008**

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

(3) 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 "Criteria 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 for 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".

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 financial assets at fair value through profit or loss. Gains and losses from changes in fair values of such assets are reflected in the income statement.

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.

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**Notes to unaudited financial statements (continued)**  
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)  
**As of September 30, 2007 and 2008**

b. Operating securities

Securities purchased for resale by the dealing department are accounted for as “operating securities – dealing”, and consist of bonds, stock warrants, listed stocks, and over-the-counter (OTC) stocks.

Operating securities are valued at market value. Cost is determined using the weighted-average method. Market value is the closing market price as of the balance sheet date, however, emerging stocks are valued at cost.

c. Call options and put options

Call options and put options are recorded based on option premium. Changes in market values are reflected in “call options – futures”, “put 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 unexercised options at the balance sheet date is recognized as current period earnings.

d. Margin for futures trading – own funds

The margin and premium resulting from trading futures and options are recorded as “margin for futures trading – own 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 – own 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 divided into realized and unrealized.

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**Cathay Securities Corporation**  
**Notes to unaudited financial statements (continued)**  
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)  
**As of September 30, 2007 and 2008**

e. Derivative financial instrument assets/liabilities - GreTai (over-the-counter) and other financial liabilities - current

***Structured notes transactions***

Structured notes transactions can be divided into equity-linked notes and principal guaranteed notes based on the terms of the contracts.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as "principal of structured notes". Any options purchased are recognized as "structured notes transactions", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) from structured notes".

Principal guaranteed notes transactions involve receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as "principal of structured notes". Any options purchased are recognized as "structured notes transactions", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) from structured notes".

The options of the Company are valued using "Monte Carlo Simulations".

**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 "Criteria 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 depositary 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.

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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 financial liabilities at fair value through profit or loss. Gains and losses from changes in fair values of such liabilities are reflected in the income statement.

*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”.

(4) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized when control over the asset (or a portion) is surrendered. The transfer of a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the asset.

If a transfer of financial assets does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under a liability agreement is discharged, cancelled or matures.

When an existing financial liability is replaced by another one from the same lender on substantially different terms, 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 in the current period income statement.

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(5) Margin trading of securities

- A. Margin loans extended to stock investors are recorded as “receivable amount for margin loans” 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 “securities financing guarantee deposits-in”. The proceeds from short sales (less the securities transaction tax and processing fees) are held by the Company as guarantee deposits and recorded as “deposit payable for securities financing”. 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 lenders when the Company has insufficient funds to conduct margin trading are recorded as “margin loans from other securities lenders”. When the Company has insufficient stocks to conduct securities lending, the Company borrows stocks from other securities lenders and the guarantee deposits paid are recorded as “deposits paid to other securities lenders”. The proceeds from short sales are then paid to the securities lenders as additional guarantee deposits and are recorded as “securities refinancing margin deposits”.

(6) 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 share of net assets 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 are not amortized.



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With respect to investments over which the Company has significant influence, the Company must prepare semi-annual and annual consolidated financial statements.

(7) 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. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements.

(8) Intangible assets

As of January 1, 2007, the Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No.37 "Accounting for Intangible Assets". Intangible assets are initially recognized at cost except intangible assets granted by the government are recognized at fair value. After initial recognition, intangible assets are carried at cost plus incremental gains following statutory revaluation less accumulated amortization and accumulated impairment losses.

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

The amortization of intangible assets with finite useful lives is allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment. The Company evaluates the residual values, amortization periods and amortization methods of its intangible assets with finite useful lives at the end of each annual accounting period and changes are treated as changes in accounting estimates.

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

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(9) Accounting for asset impairment

Pursuant to ROC SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of ROC SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company compares the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and writes down the carrying amount to the recoverable amount when applicable. The recoverable amount is defined as the higher of fair value less cost to sell and the value in use.

For previously recognized losses, the Company assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company recalculates the recoverable amount of the asset. If the recoverable amount increases as a result of an increase in the estimated service potential of the asset, the Company reverses the impairment loss but only to the extent that the carrying amount after the reversal does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

In addition, goodwill allocated to a CGU or group of CGUs is tested for impairment at the same time each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized by reducing the carrying amount of any goodwill allocated to a CGU or group of CGUs. If the allocated goodwill has been written off, then the impairment loss is recognized by reducing the other assets of the CGU or group of CGUs on a pro rata basis according to their carrying amount.

The write-down of goodwill cannot be reversed under any circumstances in subsequent periods.

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

(10) 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.

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*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. 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.

(11) Reserve for default losses

According to the Regulations Governing Securities Firms, a securities firm trading securities for customer accounts must allocate 0.0028% of the transaction price of the traded securities on a monthly basis as a reserve for default losses.

The reserve for default losses referred to in the preceding paragraph can only be used to offset actual losses resulting from customer defaults on securities transactions or other losses approved by the Financial Supervisory Commission, Securities and Futures Bureau ("SFB").

When the accumulated reserve for default losses reaches NT\$200,000 (US\$6,205) reserving is suspended.

(12) Reserve for trading losses

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\$6,205). 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.

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(13) 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.

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.

According to ROC SFAS No.23 "Interim Financial Reporting and Disclosures", certain pension information is not required to be disclosed in the Company's interim financial statements.

(14) 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.

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In accordance with Article 49 of the Financial Holding Company Act, beginning in 2005, the Company and its parent company file joint corporate income tax returns and 10% surcharge on unappropriated retained earnings returns under the Integrated Income Tax System. If there are any tax effects due to the adoption of the Integrated Income Tax 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.

A 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 asset or liability cannot be related to an asset or liability in the financial statements, then it will be classified as current or noncurrent 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.

(15)Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses and not distribution of earnings.

(16)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 operating securities, and relevant brokerage securities transaction charges are recognized at the transaction date.
- B. Interest revenue or expense from margin loans are recognized on an accrued basis.
- C. The Company brokers futures transactions and collects commissions from futures agencies. Commissions are recognized as "brokerage commissions for introducing futures contracts" on an accrued basis.

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(17) 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\$32.67 and NT\$32.23 to US\$1.00 effective on September 30, 2007 and 2008, 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**

The company adopted the accounting principles prescribed in Article No.52 "Accounting for employee bonus and remuneration of directors " by the Accounting Research and Development Foundation on January 1, 2008.

The above change in accounting principles had no effect on the net loss and earnings per share of the Company as of September 30, 2008.

**4. Breakdown of significant accounts**

(1) Cash and cash equivalents

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$140	\$4	\$140	\$5
Savings accounts	43,214	1,323	45,673	1,417
Time deposits	555,000	16,988	281,500	8,734
Total	<u>\$598,354</u>	<u>\$18,315</u>	<u>\$327,313</u>	<u>\$10,156</u>
Annual interest rate of time deposits	1.39%~2.245%		1.77%-2.68%	

As of September 30, 2007 and 2008, none of the cash and cash equivalents were pledged to other parties.

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

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Open-end funds and currency market instruments	\$170,145	\$5,208	\$572,041	\$17,749
Operating securities – dealing	440,916	13,496	590,643	18,326
Operating securities – underwriting	550,346	16,846	576,011	17,872
Operating securities – hedging	48,526	1,485	93,401	2,898
Call options - futures	-	-	1,378	42
Margin for futures trading – own funds	221,014	6,765	219,381	6,807
<b>Total</b>	<b>\$1,430,947</b>	<b>\$43,800</b>	<b>\$2,052,855</b>	<b>\$63,694</b>

See note 6 for detail of financial assets at fair value through profit or loss – current pledged to other parties as of September 30, 2007 and 2008.

A. Open-end funds and currency market instruments

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$170,011	\$5,204	\$573,374	\$17,790
Add (Less) : Valuation adjustment	134	4	(1,333)	(41)
<b>Net</b>	<b>\$170,145</b>	<b>\$5,208</b>	<b>\$572,041</b>	<b>\$17,749</b>

B. Operating securities – dealing

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$139	\$4	\$101	\$3
Real Estate Investment Trusts (REITs)	176,488	5,402	-	-
OTC stocks	-	-	155	5
OTC corporate bonds	50,000	1,531	386,532	11,993
Real Estate Asset Trust (REAT)	150,000	4,591	143,327	4,447
Emerging stocks	72,344	2,215	74,358	2,307
<b>Subtotal</b>	<b>448,971</b>	<b>13,743</b>	<b>604,473</b>	<b>18,755</b>
Less : Valuation adjustment	(8,055)	(247)	(13,830)	(429)
<b>Net</b>	<b>\$440,916</b>	<b>\$13,496</b>	<b>\$590,643</b>	<b>\$18,326</b>

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C. Operating securities - underwriting

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$22,200	\$680	\$-	\$-
Real Estate Asset Trust (REAT)	530,000	16,223	506,423	15,713
OTC corporate bonds	-	-	76,150	2,363
Subtotal	552,200	16,903	582,573	18,076
Less : Valuation adjustment	(1,854)	(57)	(6,562)	(204)
Net	<u>\$550,346</u>	<u>\$16,846</u>	<u>\$576,011</u>	<u>\$17,872</u>

D. Operating securities - hedging

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$47,799	\$1,463	\$76,712	\$2,380
OTC stocks	-	-	19,865	616
Call (put) warrants	-	-	12,847	399
Subtotal	47,799	1,463	109,424	3,395
Add (Less): Valuation adjustment	727	22	(16,023)	(497)
Net	<u>\$48,526</u>	<u>\$1,485</u>	<u>\$93,401</u>	<u>\$2,898</u>

E. Margin for futures trading - own funds

Futures trading company	September 30, 2007					
	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$220,401</u>	<u>\$6,746</u>	<u>\$613</u>	<u>\$19</u>	<u>\$221,014</u>	<u>\$6,765</u>
Futures trading company	September 30, 2008					
	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$219,445</u>	<u>\$6,809</u>	<u>\$(64)</u>	<u>\$(2)</u>	<u>\$219,381</u>	<u>\$6,807</u>

See note 10 for details of the Company's transactions on futures and options.



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F. Call options - futures

See note 10.

(3) Receivable amount for margin loans

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Receivable amount for margin loans	\$1,207,761	\$36,969	\$644,625	\$20,001
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$1,207,761</u>	<u>\$36,969</u>	<u>\$644,625</u>	<u>\$20,001</u>

For the nine months ended September 30, 2007 and 2008, receivable amount for margin loans had an annual interest rate of 3.25% ~6.90%.

(4) Long-term investments under equity method

A.

Name of investee	September 30, 2007			September 30, 2008		
	NT\$	US\$	Percentage of ownership	NT\$	US\$	Percentage of ownership
Cathay Futures Co., Ltd.	<u>\$718,652</u>	<u>\$21,997</u>	99.99%	<u>\$734,906</u>	<u>\$22,802</u>	99.99%

B. Changes in investments under the equity method as of September 30, 2007 and 2008 are listed below:

Item	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$719,669	\$22,028	\$719,500	\$22,324
Investment income recognized under the equity method	163	5	16,114	500
Cash dividends	(1,180)	(36)	(708)	(22)
Balance on September 30	<u>\$718,652</u>	<u>\$21,997</u>	<u>\$734,906</u>	<u>\$22,802</u>

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C. The investment income recognized by the equity method as of September 30, 2007 and 2008 is listed below:

Name of investee	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$163	\$5	\$16,114	\$500

D. The investment income of the subsidiary was determined based on the reviewed financial statements of the investee for the same period as the Company.

E. As of September 30, 2007 and 2008, none of the long-term investments under equity method were pledged to other parties.

(5) Available-for-sale financial assets - noncurrent

Name of investee	September 30, 2007			September 30, 2008		
	NT\$	US\$	Percentage of ownership	NT\$	US\$	Percentage of ownership
Stock:						
Taiwan Futures Exchange Corporation	\$18	\$1	-	\$18	\$1	-

As of September 30, 2007 and 2008, none of the available-for-sale financial assets - noncurrent were pledged to other parties.

(6) Property and equipment

Item	September 30, 2007					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$91,684	\$2,806	\$50,023	\$1,531	\$41,661	\$1,275
Prepayment for equipment	372	12	-	-	372	12
Leasehold improvement	53,024	1,623	17,067	523	35,957	1,100
Total	\$145,080	\$4,441	\$67,090	\$2,054	\$77,990	\$2,387

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Item	September 30, 2008					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$96,670	\$2,999	\$70,701	\$2,194	\$25,969	\$805
Prepayment for equipment	638	20	-	-	638	20
Leasehold improvement	53,302	1,654	25,880	803	27,422	851
<b>Total</b>	<b>\$150,610</b>	<b>\$4,673</b>	<b>\$96,581</b>	<b>\$2,997</b>	<b>\$54,029</b>	<b>\$1,676</b>

As of September 30, 2007 and 2008, none of the property and equipment were pledged to other parties.

(7) Other intangible assets

Item	January 1, 2007		Increase		Decrease		September 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$29,313	\$897	\$2,532	\$78	\$(2,556)	\$(78)	\$29,289	\$897
Amortization and impairment:								
Amortization	(16,237)	(497)	(8,117)	(249)	2,556	78	(21,798)	(668)
Book value	\$13,076	\$400					\$7,491	\$229

  

Item	January 1, 2008		Increase		Decrease		September 30, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$25,494	\$791	\$3,461	\$107	\$(235)	(7)	\$28,720	\$891
Amortization and impairment:								
Amortization	(19,155)	(594)	(4,810)	(149)	235	7	(23,730)	(736)
Book value	\$6,339	\$197					\$4,990	\$155

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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(8) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms and the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$230,097 (US\$7,043) and NT\$230,098 (US\$7,139) as of September 30, 2007 and 2008, respectively.

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT\$50,550 (US\$1,547) and NT\$51,519 (US\$1,599) in settlement and clearance funds as of September 30, 2007 and 2008, respectively.

(10) Securities brokerage debit (credit) accounts - net

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Debit balance:				
Cash and cash equivalents - settlement amount	\$1,948	\$59	\$364	\$11
Clearance	1,607,555	49,206	57,171	1,774
Accounts receivable - brokering	655,320	20,059	470,054	14,585
Subtotal	<u>2,264,823</u>	<u>69,324</u>	<u>527,589</u>	<u>16,370</u>
Credit balance:				
Accounts payable - brokering	2,242,277	68,634	525,668	16,310
Net	<u>\$22,546</u>	<u>\$690</u>	<u>\$1,921</u>	<u>\$60</u>

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**Cathay Securities Corporation**

**Notes to unaudited financial statements (continued)**

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

**As of September 30, 2007 and 2008**

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

Item	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Liabilities for issuance of call (put)				
warrants	\$62,140	\$1,902	\$509,305	\$15,802
Repurchase of issued call (put) warrants	(28,382)	(869)	(441,243)	(13,690)
Put options - futures	794	24	1,081	34
Derivative financial instrument liabilities				
- GreTai (over-the-counter)	2,213	68	(1,351)	(42)
Total	\$36,765	\$1,125	\$67,792	\$2,104

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

Details of the liabilities for issuance of call (put) warrants and repurchase of issued call (put) warrants are as follows:

September 30, 2007 (NT\$)

Liabilities for issuance of call (put)											
warrants											
Repurchase of issued call (put) warrants											
Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Issuance amount	Market Value	Gains from changes in value		Units repurchased		Losses from changes in value	
						of call (put) warrants	warrants	(thousands)	Repurchase cost	Market value	of call (put) warrants
Cathay 03	CCI	20,000	\$0.010	\$13,300	\$200	\$13,100		5,221	\$3,494	\$52	\$(3,442)
Cathay 04	N.P.C	20,000	0.390	36,400	7,800	28,600		15,650	26,600	6,103	(20,497)
Cathay 05	GEMTEK	20,000	0.480	19,680	9,600	10,080		18,468	17,906	8,865	(9,041)
Cathay 06	MSI	20,000	1.541	30,820	30,820	-		6,000	9,246	9,246	-
Cathay 07	SPIL	20,000	0.686	13,720	13,720	-		6,000	4,116	4,116	-
				\$113,920	\$62,140	\$51,780			\$61,362	\$28,382	\$(32,980)

September 30, 2007 (US\$)

Liabilities for issuance of call (put)											
warrants											
Repurchase of issued call (put) warrants											
Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Issuance amount	Market Value	Gains from changes in value		Units repurchased		Losses from changes in value	
						of call (put) warrants	warrants	(thousands)	Repurchase cost	Market value	of call (put) warrants
Cathay 03	CCI	20,000	\$0.0003	\$407	\$6	\$401		5,221	\$107	\$2	\$(105)
Cathay 04	N.P.C	20,000	0.0119	1,114	239	875		15,650	814	187	(627)
Cathay 05	GEMTEK	20,000	0.0147	602	294	308		18,468	548	271	(277)
Cathay 06	MSI	20,000	0.0472	943	943	-		6,000	283	283	-
Cathay 07	SPIL	20,000	0.0210	420	420	-		6,000	126	126	-
				\$3,486	\$1,902	\$1,584			\$1,878	\$869	\$(1,009)

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September 30, 2008 (NT\$)

Liabilities for issuance of call (put)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Issuance amount	warrants		Repurchase of issued call (put) warrants			
					Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Gains (Losses) from changes in value of call (put) warrants
Cathay27	MTC	5,000	\$0.010	\$11,540	\$50	\$11,490	4,334	\$8,161	\$43	\$(8,118)
Cathay28	ZINWELL	10,000	0.010	19,800	100	19,700	9,526	16,101	95	(16,006)
Cathay29	RICHTEK	5,000	0.020	2,485	100	2,385	4,285	1,500	86	(1,414)
Cathay30	FH	5,000	0.010	4,825	50	4,775	4,463	7,151	45	(7,106)
Cathay31	FARGLORY	5,000	0.010	10,700	50	10,650	4,559	8,702	46	(8,656)
Cathay32	GINTECH	15,000	0.020	7,455	300	7,155	11,827	4,531	237	(4,294)
Cathay33	CEC	5,000	0.010	4,130	50	4,080	3,794	1,725	38	(1,687)
Cathay34	SEEC	5,000	0.020	6,815	100	6,715	4,618	2,620	92	(2,528)
Cathay35	FRG	5,000	0.010	4,130	50	4,080	2,819	1,271	28	(1,243)
Cathay36	EVAAIR	20,000	0.020	37,020	400	36,620	17,819	8,177	356	(7,821)
Cathay37	RT	5,000	0.010	9,255	50	9,205	4,543	4,516	45	(4,471)
Cathay38	CHONG HONG	5,000	0.010	10,850	50	10,800	4,780	4,854	48	(4,806)
Cathay39	SSFC	5,000	0.010	4,080	50	4,030	4,748	2,366	47	(2,319)
Cathay40	CPT	5,000	0.250	4,080	1,250	2,830	4,348	1,760	1,087	(673)
Cathay41	GINTECH	30,000	0.010	22,380	300	22,080	26,847	15,480	268	(15,212)
Cathay42	TRANSCEND	20,000	0.010	41,200	200	41,000	19,516	17,177	195	(16,982)
Cathay43	ROEC	10,000	0.010	12,740	100	12,640	9,202	7,193	92	(7,101)
Cathay44	GIGABYTE	20,000	0.010	23,080	200	22,880	18,913	11,858	189	(11,669)
Cathay45	GEMTEK	20,000	0.020	21,500	400	21,100	18,460	10,357	369	(9,988)
Cathay46	CHP	10,000	0.010	10,750	100	10,650	9,910	6,332	99	(6,233)
Cathay47	COMPEQ MFG	10,000	0.640	12,940	6,400	6,540	9,973	9,304	6,383	(2,921)
Cathay48	GCE	10,000	1.100	25,580	11,000	14,580	10,000	18,610	11,000	(7,610)
Cathay49	AMBH	10,000	0.060	19,210	600	18,610	9,576	7,400	575	(6,825)
Cathay50	TBB	20,000	0.010	37,820	200	37,620	18,606	12,405	186	(12,219)
Cathay51	INOTERA	10,000	0.020	17,220	200	17,020	9,824	7,644	196	(7,448)
Cathay52	LHIC	20,000	0.010	37,420	200	37,220	19,005	12,067	190	(11,877)
Cathay53	PI	20,000	0.300	21,500	6,000	15,500	19,432	16,733	5,830	(10,903)
Cathay54	HTC	20,000	0.240	21,300	4,800	16,500	10,047	4,813	2,411	(2,402)
Cathay55	AUO	20,000	0.030	16,320	600	15,720	16,044	6,077	481	(5,596)
Cathay56	INVENTEC	20,000	0.570	23,880	11,400	12,480	18,682	18,266	10,649	(7,617)

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September 30, 2008 (NT\$)

Liabilities for issuance of call (put)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	warrants			Repurchase of issued call (put) warrants			
				Issuance amount	Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Gains (Losses) from changes in value of call (put) warrants
Cathay57	FOXLINK	20,000	0.810	21,500	16,200	5,300	19,067	24,170	15,444	(8,726)
Cathay58	EPISTAR	20,000	0.180	25,680	3,600	22,080	18,419	16,394	3,315	(13,079)
Cathay59	TRIPOD	20,000	0.220	34,440	4,400	30,040	19,285	22,835	4,243	(18,592)
Cathay60	ESMT	20,000	0.270	36,420	5,400	31,020	19,156	19,768	5,172	(14,596)
Cathay61	KINPO	20,000	0.410	25,680	8,200	17,480	16,421	9,760	6,733	(3,027)
Cathay62	FEIB	20,000	0.040	16,920	800	16,120	18,964	7,198	759	(6,439)
Cathay63	TXC	20,000	0.500	25,680	10,000	15,680	19,117	16,225	9,559	(6,666)
Cathay64	GET	20,000	1.600	77,640	32,000	45,640	19,677	68,469	31,483	(36,986)
Cathay65	GIANT	20,000	0.770	29,860	15,400	14,460	18,171	20,373	13,992	(6,381)
Cathay66	GINTECH	20,000	1.000	90,180	20,000	70,180	19,391	85,970	19,391	(66,579)
Cathay67	SUNPLUS	20,000	0.040	25,680	800	24,880	18,523	7,533	741	(6,792)
Cathay68	ZINWELL	20,000	0.160	38,620	3,200	35,420	18,115	15,484	2,898	(12,586)
Cathay69	NOVATEK	20,000	0.160	34,240	3,200	31,040	16,366	11,530	2,619	(8,911)
Cathay70	CDIBH	20,000	0.680	29,660	13,600	16,060	18,063	15,520	12,283	(3,237)
Cathay71	CMO	20,000	0.140	23,880	2,800	21,080	19,646	12,218	2,750	(9,468)
Cathay72	MVI	20,000	0.040	21,500	800	20,700	18,192	8,873	728	(8,145)
Cathay73	AUO	20,000	0.310	16,520	6,200	10,320	18,029	9,607	5,589	(4,018)
Cathay74	SKFH	20,000	0.180	34,240	3,600	30,640	17,823	17,031	3,208	(13,823)
Cathay75	UNIMICRON	20,000	0.420	29,860	8,400	21,460	19,436	17,721	8,163	(9,558)
Cathay76	DELTA	20,000	1.240	29,060	24,800	4,260	19,549	25,872	24,241	(1,631)
Cathay77	CPT	20,000	0.100	15,320	2,000	13,320	16,951	7,185	1,695	(5,490)
Cathay78	GREATWALL	20,000	0.260	21,500	5,200	16,300	18,464	7,919	4,800	(3,119)
Cathay79	TATUNG Co.	20,000	0.080	21,500	1,600	19,900	18,866	9,944	1,509	(8,435)
Cathay80	GDC	20,000	0.200	30,060	4,000	26,060	19,255	11,948	3,851	(8,097)
Cathay81	WALSIN	20,000	0.280	21,100	5,600	15,500	19,705	14,011	5,517	(8,494)
Cathay82	OUCG	20,000	0.240	21,500	4,800	16,700	19,275	12,580	4,626	(7,954)
Cathay83	INNOLUX	20,000	0.460	21,300	9,200	12,100	19,265	14,100	8,862	(5,238)
Cathay84	INOTERA	20,000	0.100	21,500	2,000	19,500	16,301	7,154	1,630	(5,524)
Cathay85	PTI	20,000	0.160	29,860	3,200	26,660	19,377	11,836	3,100	(8,736)
Cathay86	SILITECH	20,000	0.550	30,060	11,000	19,060	19,358	21,470	10,647	(10,823)

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Liabilities for issuance of call (put)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Issuance amount	Market Value	warrants	Repurchase of issued call (put) warrants			
						Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Gains (Losses) from changes in value of call (put) warrants
Cathay87	D-LINK	20,000	0.280	30,060	5,600	24,460	19,477	14,202	5,454	(8,748)
Cathay88	FH	20,000	0.570	17,120	11,400	5,720	19,934	14,739	11,362	(3,377)
Cathay89	HTC	20,000	1.850	116,460	37,000	79,460	19,329	79,274	35,759	(43,515)
Cathay90	TC	20,000	0.150	16,520	3,000	13,520	19,946	13,596	2,992	(10,604)
Cathay91	ACER	20,000	0.740	21,300	14,800	6,500	19,542	19,280	14,461	(4,819)
Cathay92	SYNNEX	20,000	0.540	21,300	10,800	10,500	19,580	18,791	10,573	(8,218)
Cathay93	INOTERA	20,000	0.470	17,120	9,400	7,720	19,042	13,677	8,950	(4,727)
Cathay94	MVI	20,000	0.400	17,120	8,000	9,120	19,560	13,942	7,824	(6,118)
Cathay95	CPT	20,000	0.440	12,340	8,800	3,540	19,745	11,275	8,688	(2,587)
Cathay96	HTC	20,000	0.836	16,720	16,720	-	6,000	5,016	5,016	-
Cathay97	FARADAY	20,000	0.995	19,900	19,900	-	6,000	5,970	5,970	-
Cathay98	EPISTAR	20,000	1.035	20,700	20,700	-	6,000	6,210	6,210	-
CathayP2	ALCOR MICRO	3,000	0.050	11,196	150	11,046	2,831	10,118	142	(9,976)
CathayP3	SOLAR	7,000	0.020	26,684	140	26,544	5,860	3,395	117	(3,278)
CathayP4	WELLYPOWER	5,000	0.080	13,635	400	13,235	4,759	4,984	381	(4,603)
CathayP5	GMT	2,000	0.230	9,774	460	9,314	1,854	3,063	426	(2,637)
CathayP6	E-TON SOLAR	5,000	1.000	42,055	5,000	37,055	4,810	21,984	4,810	(17,174)
CathayP7	ALCOR MICRO	7,000	0.150	17,836	1,050	16,786	6,401	3,728	960	(2,768)
CathayP8	IGS	5,000	0.010	28,865	50	28,815	4,303	3,303	43	(3,260)
CathayP9	SOLAR	7,000	0.080	23,268	560	22,708	6,686	16,488	535	(15,953)
CathayQ1	FIRICH	6,000	0.200	31,350	1,200	30,150	4,400	4,909	880	(4,029)
CathayQ2	YTEC	10,000	0.330	20,300	3,300	17,000	9,066	5,209	2,992	(2,217)
CathayQ3	PHISON	1,360	0.250	5,848	340	5,508	36	30	9	(21)
CathayQ4	SAS	10,000	0.450	32,250	4,500	27,750	9,180	8,752	4,131	(4,621)
CathayQ5	MOTECH	5,000	1.250	17,270	6,250	11,020	3,502	5,157	4,378	(779)
CathayQ6	PXI	5,000	0.550	19,410	2,750	16,660	4,748	4,297	2,611	(1,686)
CathayQ7	FIRICH	5,000	2.630	16,025	13,150	2,875	3,855	7,925	10,139	2,214
CathayQ8	DYNAPACK	10,000	0.670	19,310	6,700	12,610	9,395	10,475	6,295	(4,180)
CathayQ9	SMP	10,000	0.950	19,410	9,500	9,910	9,624	14,699	9,143	(5,556)
CathayS1	PHISON	6,500	1.590	15,971	10,335	5,636	5,684	15,142	9,038	(6,104)
				<u>\$2,100,082</u>	<u>\$509,305</u>	<u>\$1,590,777</u>		<u>\$1,165,479</u>	<u>\$441,243</u>	<u>\$(724,236)</u>



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Liabilities for issuance of call (put)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Issuance amount	warrants		Repurchase of issued call (put) warrants			
					Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Gains (Losses) from changes in value of call (put) warrants
Cathay27	MTC	5,000	\$0.0003	\$358	\$2	\$356	4,334	\$253	\$1	\$(252)
Cathay28	ZINWELL	10,000	0.0003	614	3	611	9,526	500	3	(497)
Cathay29	RICHTEK	5,000	0.0006	77	3	74	4,285	47	3	(44)
Cathay30	FH	5,000	0.0003	150	2	148	4,463	222	1	(221)
Cathay31	FARGLORY	5,000	0.0003	332	2	330	4,559	270	1	(269)
Cathay32	GINTECH	15,000	0.0006	231	9	222	11,827	141	7	(134)
Cathay33	CEC	5,000	0.0003	128	2	126	3,794	53	1	(52)
Cathay34	SEEC	5,000	0.0006	211	3	208	4,618	81	3	(78)
Cathay35	FRG	5,000	0.0003	128	2	126	2,819	39	1	(38)
Cathay36	EVAAIR	20,000	0.0006	1,149	12	1,137	17,819	254	11	(243)
Cathay37	RT	5,000	0.0003	287	2	285	4,543	140	1	(139)
Cathay38	CHONG HONG	5,000	0.0003	337	2	335	4,780	151	1	(150)
Cathay39	SSFC	5,000	0.0003	127	2	125	4,748	73	1	(72)
Cathay40	CPT	5,000	0.0078	127	39	88	4,348	55	34	(21)
Cathay41	GINTECH	30,000	0.0003	694	9	685	26,847	480	8	(472)
Cathay42	TRANSCEND	20,000	0.0003	1,278	6	1,272	19,516	533	6	(527)
Cathay43	ROEC	10,000	0.0003	395	3	392	9,202	223	3	(220)
Cathay44	GIGABYTE	20,000	0.0003	716	6	710	18,913	368	6	(362)
Cathay45	GEMTEK	20,000	0.0006	667	12	655	18,460	321	11	(310)
Cathay46	CHP	10,000	0.0003	334	3	331	9,910	196	3	(193)
Cathay47	COMPEQ MFG	10,000	0.0199	401	199	202	9,973	289	198	(91)
Cathay48	GCE	10,000	0.0341	794	341	453	10,000	577	341	(236)
Cathay49	AMBH	10,000	0.0019	596	19	577	9,576	230	18	(212)
Cathay50	TBB	20,000	0.0003	1,173	6	1,167	18,606	385	6	(379)
Cathay51	INOTERA	10,000	0.0006	534	6	528	9,824	237	6	(231)
Cathay52	LHIC	20,000	0.0003	1,161	6	1,155	19,005	374	6	(368)
Cathay53	PI	20,000	0.0093	667	186	481	19,432	519	181	(338)
Cathay54	HTC	20,000	0.0074	661	148	513	10,047	149	74	(75)
Cathay55	AUO	20,000	0.0009	506	18	488	16,044	189	15	(174)
Cathay56	INVENTEC	20,000	0.0177	741	354	387	18,682	567	331	(236)

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Liabilities for issuance of call (put)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	warrants			Repurchase of issued call (put) warrants			
				Issuance amount	Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Gains (Losses) from changes in value of call (put) warrants
Cathay57	FOXLINK	20,000	0.0251	667	502	165	19,067	750	479	(271)
Cathay58	EPISTAR	20,000	0.0056	797	112	685	18,419	509	103	(406)
Cathay59	TRIPOD	20,000	0.0068	1,069	136	933	19,285	708	131	(577)
Cathay60	ESMT	20,000	0.0084	1,130	168	962	19,156	613	161	(452)
Cathay61	KINPO	20,000	0.0127	797	254	543	16,421	303	209	(94)
Cathay62	FEIB	20,000	0.0012	525	24	501	18,964	223	23	(200)
Cathay63	TXC	20,000	0.0155	797	310	487	19,117	503	296	(207)
Cathay64	GET	20,000	0.0496	2,409	992	1,417	19,677	2,124	976	(1,148)
Cathay65	GIANT	20,000	0.0239	926	478	448	18,171	632	434	(198)
Cathay66	GINTECH	20,000	0.0310	2,798	620	2,178	19,391	2,667	601	(2,066)
Cathay67	SUNPLUS	20,000	0.0012	797	24	773	18,523	234	22	(212)
Cathay68	ZINWELL	20,000	0.0050	1,198	100	1,098	18,115	480	91	(389)
Cathay69	NOVATEK	20,000	0.0050	1,062	100	962	16,366	358	82	(276)
Cathay70	CDIBH	20,000	0.0211	920	422	498	18,063	482	381	(101)
Cathay71	CMO	20,000	0.0043	741	86	655	19,646	379	85	(294)
Cathay72	MVI	20,000	0.0012	667	24	643	18,192	275	22	(253)
Cathay73	AUO	20,000	0.0096	513	192	321	18,029	298	173	(125)
Cathay74	SKFH	20,000	0.0056	1,062	112	950	17,823	528	100	(428)
Cathay75	UNIMICRON	20,000	0.0130	927	260	667	19,436	550	253	(297)
Cathay76	DELTA	20,000	0.0385	902	770	132	19,549	803	753	(50)
Cathay77	CPT	20,000	0.0031	475	62	413	16,951	223	53	(170)
Cathay78	GREATWALL	20,000	0.0081	667	162	505	18,464	246	150	(96)
Cathay79	TATUNG Co.	20,000	0.0025	667	50	617	18,866	309	47	(262)
Cathay80	GDC	20,000	0.0062	933	124	809	19,255	371	119	(252)
Cathay81	WALSIN	20,000	0.0087	655	174	481	19,705	435	171	(264)
Cathay82	OUCG	20,000	0.0074	667	148	519	19,275	390	143	(247)
Cathay83	INNOLUX	20,000	0.0143	661	286	375	19,265	437	275	(162)
Cathay84	INOTERA	20,000	0.0031	667	62	605	16,301	222	51	(171)
Cathay85	PTI	20,000	0.0050	927	100	827	19,377	367	97	(270)

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Liabilities for issuance of call (put)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	warrants			Repurchase of issued call (put) warrants			
				Issuance amount	Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Gains (Losses) from changes in value of call (put) warrants
Cathay86	SILITECH	20,000	0.0171	933	342	591	19,358	666	331	(335)
Cathay87	D-LINK	20,000	0.0087	933	174	759	19,477	441	169	(272)
Cathay88	FH	20,000	0.0177	531	354	177	19,934	457	353	(104)
Cathay89	HTC	20,000	0.0574	3,613	1,148	2,465	19,329	2,460	1,109	(1,351)
Cathay90	TC	20,000	0.0046	513	92	421	19,946	422	92	(330)
Cathay91	ACER	20,000	0.0230	661	460	201	19,542	598	449	(149)
Cathay92	SYNNEX	20,000	0.0168	661	336	325	19,580	583	329	(254)
Cathay93	INOTERA	20,000	0.0146	531	292	239	19,042	424	278	(146)
Cathay94	MVI	20,000	0.0124	531	248	283	19,560	433	243	(190)
Cathay95	CPT	20,000	0.0136	383	272	111	19,745	350	269	(81)
Cathay96	HTC	20,000	0.0259	519	519	-	6,000	156	156	-
Cathay97	FARADAY	20,000	0.0309	617	617	-	6,000	185	185	-
Cathay98	EPISTAR	20,000	0.0321	642	642	-	6,000	193	193	-
CathayP2	ALCOR MICRO	3,000	0.0016	347	5	342	2,831	314	5	(309)
CathayP3	SOLAR	7,000	0.0006	828	4	824	5,860	105	4	(101)
CathayP4	WELLYPOWER	5,000	0.0025	423	13	410	4,759	155	12	(143)
CathayP5	GMT	2,000	0.0071	303	14	289	1,854	95	13	(82)
CathayP6	E-TON SOLAR	5,000	0.0310	1,305	155	1,150	4,810	682	149	(533)
CathayP7	ALCOR MICRO	7,000	0.0047	553	33	520	6,401	116	30	(86)
CathayP8	IGS	5,000	0.0003	896	2	894	4,303	102	1	(101)
CathayP9	SOLAR	7,000	0.0025	722	18	704	6,686	512	17	(495)
CathayQ1	FIRICH	6,000	0.0062	973	37	936	4,400	152	27	(125)
CathayQ2	YTEC	10,000	0.0102	630	102	528	9,066	162	93	(69)
CathayQ3	PHISON	1,360	0.0078	181	11	170	36	1	-	(1)
CathayQ4	SAS	10,000	0.0140	1,001	140	861	9,180	272	129	(143)
CathayQ5	MOTECH	5,000	0.0388	536	194	342	3,502	160	136	(24)
CathayQ6	PXI	5,000	0.0171	602	86	516	4,748	133	81	(52)
CathayQ7	FIRICH	5,000	0.0816	497	408	89	3,855	246	315	69
CathayQ8	DYNAPACK	10,000	0.0208	599	208	391	9,395	325	195	(130)
CathayQ9	SMP	10,000	0.0295	602	295	307	9,624	456	284	(172)
CathayS1	PHISON	6,500	0.0493	496	320	176	5,684	470	280	(190)
				\$65,159	\$15,802	\$49,357		\$36,161	\$13,690	\$(22,471)

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- ① The call (put) warrants issued by the Company typically have contract periods of six months commencing from the date the warrants are listed (except for Cathay 36、73~81、84 and Cathay 59 which have contract periods of seven and eight months, respectively).
- 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, see note 10.

B. Derivative financial instrument liabilities - GreTai (over-the-counter).

See note 10.

(12) Capital Stock

As of September 30, 2007 and 2008, 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.

(13) Capital surplus

According to the Company Act in the ROC, capital surplus 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 losses. The Company shall not use capital surplus to make up losses unless the legal reserve is insufficient to offset such losses.

(14) Retained earnings

- A. According to the Company's articles of incorporation, the Company's annual earnings, after paying taxes, should first be used to make up accumulated losses from prior periods and contributed to required reserves. In addition, 1% should be reserved as an employee bonus, and the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.
- B. Pursuant to the Company Act, the legal reserve can be used only to cover accumulated losses and not for distributing cash dividends. However, if the total accumulated legal reserve reaches 50% of paid-in capital, the stockholders' may resolve that not more than 50% may be used for capitalization.

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C. As stipulated in the Regulations Governing Securities Firms, the Company shall set aside a 20% special reserve from the annual after-tax profit. 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 covering the losses of the company or, when the special reserve reaches 50% of the amount of paid-in capital, half of it may be used for capitalization.

D. According to an explanatory letter of the SFB, commencing on January 1, 2007, in addition to the legal reserve, the Company will be required to provision for a special reserve in an amount equal to “unrealized loss from financial instruments”.

E. The Company must pay an extra 10% income tax on all unappropriated retained earnings generated during the year.

(15) Income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income (loss) before income tax in the statements of income for the nine months ended September 30, 2007 and 2008, are as follows:

Item	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Income (loss) before income taxes	\$41,743	\$1,278	\$(40,046)	\$(1,242)
Adjustments:				
Interest income taxed on a separate basis	(15,963)	(488)	(531)	(16)
Adjusted revenue and expense from dealing departments	7,287	223	20,420	634
Loss on valuation of open-end funds and currency market instruments	4,835	148	1,985	62
Unrealized loss on valuation of operating securities	15,463	473	32,177	998

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Item	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Unrealized gain from derivative financial instruments - GreTai (over-the-counter)	(2,997)	(92)	(186)	(6)
Investment income recognized on equity method investments	(163)	(5)	(16,114)	(500)
Option premium for issuance of call (put) warrants	4,541	139	-	-
(Gain) Loss from issuing call (put) warrants	(13,990)	(428)	358,973	11,138
Reserve for default losses	9,456	289	6,909	214
Others	608	19	9,973	309
Taxable income	50,820	1,556	373,560	11,591
Times: tax rates	25%	25%	25%	25%
Subtotal	12,705	389	93,390	2,898
Add: Tax effects under integrated income tax system	802	25	-	-
Subtotal	13,507	414	93,390	2,898
Add (Less): Tax on a separate basis	2,228	68	859	27
Deferred tax benefit	(1,045)	(32)	(102,537)	(3,181)
Prior year's income tax adjustment	4	-	(150)	(5)
Tax-loss carryforward	-	-	2,336	72
Total income tax expense (benefit)	<u>\$14,694</u>	<u>\$450</u>	<u>\$(6,102)</u>	<u>\$(189)</u>

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

	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	<u>\$18,970</u>	<u>\$581</u>	<u>\$507,524</u>	<u>\$15,747</u>
b. Total deferred income tax liabilities	<u>\$13,127</u>	<u>\$402</u>	<u>\$398,191</u>	<u>\$12,355</u>

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c. Temporary differences:

	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Reserve for default losses	\$23,506	\$719	\$32,868	\$1,020
Provision for pensions	3,382	103	4,561	142
Unrealized loss (gain) from derivative financial instruments	512	16	(1,988)	(62)
Unrealized (gain) loss on valuation of operating securities - hedging	(727)	(22)	16,023	497
Loss from trading securities - hedging	2,984	91	36,331	1,127
Gains from changes in value of call (put) warrants	(51,780)	(1,585)	(1,590,776)	(49,357)
Losses from changes in value of call (put) warrants	45,495	1,393	1,940,315	60,202
<b>Total</b>	<b>\$23,372</b>	<b>\$715</b>	<b>\$437,334</b>	<b>\$13,569</b>

	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
d. Deferred income tax assets - current	\$12,248	\$375	\$498,167	\$15,457
Deferred income tax liabilities - current	(13,127)	(402)	(398,191)	(12,355)
Net deferred income tax (liabilities) assets - current	\$(879)	\$(27)	\$99,976	\$3,102
Deferred income tax assets - noncurrent	\$6,722	\$206	\$9,357	\$290
Net deferred income tax assets - noncurrent	\$6,722	\$206	\$9,357	\$290

C. Information related to tax imputation:

	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$6,312	\$193	\$6,050	\$188
Imputation credit account ratio	14.76%		2007 (Actual)	15.18%

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D. Information related to undistributed earnings:

	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
After 1998	\$39,829	\$1,220	\$39,829	\$1,236

Undistributed earnings after 1998 do not include the net income (loss) for the nine months ended September 30, 2007 and 2008.

E. The Company's income tax returns have been filed and assessed by the National Tax Administration through 2004.

(16) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the nine months ended September 30, 2007 and 2008 are summarized as follows:

Item	For the nine months ended September 30, 2007 (NT\$)			For the nine months ended September 30, 2007 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$118,440	\$118,440	\$-	\$3,625	\$3,625
Labor & health insurance expenses	-	6,870	6,870	-	210	210
Pension expenses	-	6,034	6,034	-	185	185
Other expenses	-	5,230	5,230	-	160	160
Depreciation	-	21,866	21,866	-	669	669
Depletion	-	-	-	-	-	-
Amortization	-	8,117	8,117	-	249	249



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Item	For the nine months ended September 30, 2008 (NT\$)			For the nine months ended September 30, 2008 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$132,013	\$132,013	\$-	\$4,096	\$4,096
Labor & health insurance expenses	-	8,843	8,843	-	274	274
Pension expenses	-	7,246	7,246	-	225	225
Other expenses	-	6,973	6,973	-	216	216
Depreciation	-	22,603	22,603	-	701	701
Depletion	-	-	-	-	-	-
Amortization	-	4,810	4,810	-	149	149

(17) Earnings per share

For the nine months ended September 30, 2007

	Amount				Outstanding shares (thousands)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
	Net income	\$41,743	\$1,278	\$27,049	\$828	370,000	\$0.11	\$0.003	\$0.07

For the nine months ended September 30, 2008

	Amount				Outstanding shares (thousands)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
	Net loss	\$(40,046)	\$(1,242)	\$(33,944)	\$(1,053)	370,000	\$(0.11)	\$(0.0034)	\$(0.09)

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(18) Earnings distribution and dividend policy

According to the Company's articles of incorporation, the Company's annual earnings, after paying taxes, should first be used to make up accumulated losses from prior periods and contributed to required reserves. In addition, 1% should be reserved as an employee bonus, and the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

The accrual of employee bonus and remuneration of directors for the nine months ended September 30, 2008 was based on 1% of net income before employee bonus and remuneration of directors less estimated reserves. However, because the Company had a loss for the period no employee bonus and remuneration of directors was accrued.

In 2007, the Company's distribution of bonus paid to employees and cash dividend were NT\$533 (US\$17) and NT\$12,916 (US\$401), respectively.

(19) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2007 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 30, 2008.

**5. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd

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Name	Relationship
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Life Insurance Co., Ltd. (Shanghai)	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.
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 Bank Life Insurance Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Bank Property Agency of Association	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 Pacific Partners Co., Ltd.	Subsidiary of Cathay Capital Management Inc.
Cathay Insurance Company Limited	Subsidiary of Cathay Life Insurance Co., Ltd. and Cathay Century Insurance Co., Ltd.
Cathay Bond Fund, etc.	Investment Trust Funds managed by Cathay Life's equity method investee, Cathay Securities Investment Trust Co., Ltd.

(2) Transactions with related parties

Transactions with related parties less than NT\$3,000 (US\$93) will no longer be listed since 2008.

A. Cash in bank

Name	Item	<u>For the nine months ended September 30, 2007</u>		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United	Savings accounts	\$42,538	0.10%~2.35%	\$74
Bank Co., Ltd.	Negotiable certificates of deposit	\$505,000	1.50%~1.70%	\$9,014
	Time deposit	\$30,000	1.56%~1.66%	\$441

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Name	Item	For the nine months ended September 30, 2007		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United	Savings accounts	\$1,302	0.10%~2.35%	\$2
Bank Co., Ltd.	Negotiable certificates of deposit	\$15,458	1.50%~1.70%	\$276
	Time deposit	\$918	1.56%~1.66%	\$13

Name	Item	For the nine months ended September 30, 2008		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United				
Bank Co., Ltd.	Cash in bank	\$166,633	0.90%~2.68%	\$3,087

Name	Item	For the nine months ended September 30, 2008		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United				
Bank Co., Ltd.	Cash in bank	\$5,170	0.90%~2.68%	\$96

As of September 30, 2008, NT\$55,000 (US\$1,706) in time deposits reflected premiums received for structured notes and issuance of warrants and were recognized under guarantee deposits paid.

B. Open-end funds and currency market instruments

Name	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Bond Fund and etc.				
- Cathay Soaring Eagle Bond Fund	\$10,000	\$306	\$-	\$-
- Cathay Global Entertainment Fund	-	-	20,000	621
<b>Total</b>	<b>\$10,000</b>	<b>\$306</b>	<b>\$20,000</b>	<b>\$621</b>

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C. Accounts receivable

Name	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$540	\$17	\$-	\$-
Cathay Life Insurance Co., Ltd.	336	10	-	-
Other	200	6	-	-
<b>Total</b>	<b>\$1,076</b>	<b>\$33</b>	<b>\$-</b>	<b>\$-</b>

D. Other intangible assets

Name	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$986	\$30	\$-	\$-

E. Other payables

Name	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd. (Note)	\$12,953	\$397	\$92,309	\$2,864
Symphox Information Co., Ltd.	207	6	-	-
<b>Total</b>	<b>\$13,160</b>	<b>\$403</b>	<b>\$92,309</b>	<b>\$2,864</b>

Note: Payable due to the adoption of the Integrated Income Tax System.

F. Revenue from underwriting commissions

Name	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$21,115	\$646	\$-	\$-
Cathay United Bank Co., Ltd.	1,824	56	-	-
<b>Total</b>	<b>\$22,939</b>	<b>\$702</b>	<b>\$-</b>	<b>\$-</b>

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

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G. Brokerage commissions for introducing futures contracts

Name	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
	Cathay Futures Co., Ltd.	\$6,104	\$187	\$18,851

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

H. Clearing and settlement fees, dealing handling fee expense and margin for futures trading - own funds

Name	For the nine months ended September 30, 2007							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading - own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$520	\$16	\$733	\$22	\$90	\$3	\$221,014	\$6,765

  

Name	For the nine months ended September 30, 2008							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading - own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$-	\$-	\$-	\$-	\$-	\$-	\$219,381	\$6,807

I. Rental expenses and guarantee deposits paid

Name	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay Life Insurance Co., Ltd.	\$12,835	\$4,644	\$15,491	\$4,710
Cathay United Bank Co., Ltd.	3,945	1,325	4,127	-
Seaward Leasing Co., Ltd.	356	-	-	-
Total	\$17,136	\$5,969	\$19,618	\$4,710

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Name	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
Cathay Life Insurance Co., Ltd.	\$393	\$142	\$481	\$146
Cathay United Bank Co., Ltd.	121	41	128	-
Seaward Leasing Co., Ltd.	11	-	-	-
<b>Total</b>	<b>\$525</b>	<b>\$183</b>	<b>\$609</b>	<b>\$146</b>

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

J. Operating expenses

Name	Description	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurance	\$1,383	\$42	\$-	\$-
	Other fees	1,570	48	-	-
	Subtotal	2,953	90	-	-
Cathay United Bank Co., Ltd.	Other fees	3,554	109	-	-
Cathay Century Insurance Co., Ltd.	Insurance	428	13	-	-
Symphox Information Co., Ltd.	Cable service etc.	1,765	54	3,790	118
Cathay Securities Investment Consulting Co., Ltd.	Other fees	87	3	-	-
Seaward Card Co., Ltd.	Service	170	5	-	-
<b>Total</b>		<b>\$8,957</b>	<b>\$274</b>	<b>\$3,790</b>	<b>\$118</b>

K. Non-operating revenue and profits

Name	Description	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
		NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	Rental revenue	\$1,800	\$55	\$-	\$-

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**6. Pledged assets**

Item	Pledged Organization	September 30, 2007		September 30, 2008	
		NT\$	US\$	NT\$	US\$
Restricted assets-time deposits	Cathay United Bank Co., Ltd.	\$-	\$-	\$50,000	\$1,551
Operating securities-dealing	"	148,408	4,542	143,324	4,447
Operating securities-underwriting	"	529,996	16,223	506,411	15,713
Total		<u>\$678,404</u>	<u>\$20,765</u>	<u>\$699,735</u>	<u>\$21,711</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 September 30, 2008, the Company requested banks to issue letters of guarantee for warrants issuance of NT\$350,000(US\$10,859).

**8. Serious damages**

None.

**9. Subsequent events**

None.



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**10. Other important events**

(1) Information related to financial instruments

	September 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$598,354	\$598,354	\$18,315	\$18,315
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	170,145	170,145	5,208	5,208
Operating securities - net	1,039,788	1,039,788	31,827	31,827
Receivable amount for margin loans	1,207,761	1,207,761	36,969	36,969
Receivables	24,046	24,046	736	736
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	230,097	230,097	7,043	7,043
Settlement and clearance funds	50,550	50,550	1,547	1,547
Guarantee deposits paid	49,185	49,185	1,506	1,506
Liabilities:				
Securities financing guarantee deposits-in	18,467	18,467	565	565
Deposit payable for securities financing	21,158	21,158	648	648
Payables	44,007	44,007	1,347	1,347
Guarantee deposits-in	141	141	4	4

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	September 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Derivative</b>				
Assets:				
Financial assets at fair value through profit or loss - current				
Margin for futures trading - own funds	221,014	221,014	6,765	6,765
Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	62,140	62,140	1,902	1,902
Repurchase of issued call (put) warrants	(28,382)	(28,382)	(869)	(869)
Put options-futures	794	794	24	24
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	2,213	2,213	68	68
Other financial liabilities - current	213,306	213,306	6,529	6,529

	September 30, 2008			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$327,313	\$327,313	\$10,156	\$10,156
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	572,041	572,041	17,749	17,749
Operating securities - net	1,260,055	1,260,055	39,096	39,096
Receivable amount for margin loans	644,625	644,625	20,001	20,001
Receivables - net	33,122	33,122	1,027	1,027
Restricted assets - current	50,000	50,000	1,551	1,551
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,139	7,139
Settlement and clearance funds	51,519	51,519	1,599	1,599
Guarantee deposits paid	62,251	62,251	1,931	1,931

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	September 30, 2008			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Liabilities:</b>				
Securities financing guarantee deposits-in	14,345	14,345	445	445
Deposit payable for securities financing	15,856	15,856	492	492
Payables	119,833	119,833	3,718	3,718
Guarantee deposits-in	141	141	4	4

**Derivative**

**Assets:**

Financial assets at fair value through profit or loss - current

Call options - futures	1,378	1,378	42	42
Margin for futures trading - own funds	219,381	219,381	6,807	6,807

**Liabilities:**

Financial liabilities at fair value through profit or loss - current

Liabilities for issuance of call (put) warrants	509,305	509,305	15,802	15,802
Repurchase of issued call (put) warrants	(441,243)	(441,243)	(13,690)	(13,690)
Put options-futures	1,081	1,081	34	34
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	(1,351)	(1,351)	(42)	(42)
Other financial liabilities - current	102,911	102,911	3,193	3,193

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, receivable amount for margin loans, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities financing guarantee deposits-in, deposit payable for securities financing, payables and guarantee deposits-in.

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- B. Available-for-sale financial assets – noncurrent is estimated based on market prices, if available. If available-for-sale financial assets – 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 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 September 30, 2007 and 2008:

	September 30, 2007			
	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	\$170,145	\$-	\$5,208	\$-
Operating securities – net	1,039,788	-	31,827	-
Margin for futures trading – own funds	221,014	-	6,765	-



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	September 30, 2008			
	Based on	Based on	Based on	Based on
	quoted	valuation	quoted	valuation
	market price	method	market price	method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	\$509,305	\$-	\$15,802	\$-
Repurchase of issued call (put) warrants	(441,243)	-	(13,690)	-
Put options-futures	1,081	-	34	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	(1,351)	-	(42)
Other financial liabilities - current	-	102,911	-	3,193

The above derivative financial instrument liabilities-GreTai (over-the-counter) and other financial liabilities - current are valued using "Monte Carlo Simulations" and "Interest Method".

(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.

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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.

The Company also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 5 years, and as a result, the risk is relatively lower. In addition, the Company will take appropriate actions with respect to these certificates based on interest rate fluctuations.

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(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2007		September 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call warrants	NT\$113,920 (US\$3,487)	NT\$- -	NT\$2,100,082 (US\$65,159)	NT\$- -

The Company collects premium from investors when issuing call warrants. Therefore, the Company believes it does not have any credit risk with respect to investors.

b. Market risk

Market risk for call 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 warrants, the Company utilizes existing holdings of underlying securities and premiums received in advance to establish hedging positions. Further, because underlying securities must meet specific regulatory requirements with respect to market price and shareholders diversification, the Company believes they can be easily sold at reasonable prices and that liquidity risk is low. Risk may arise from the need for capital when adjusting hedging position in response to price changes of underlying securities. However, assuming strong market liquidity, the Company believes cash flow risk is low.

The call warrants issued by the Company typically have contract periods of six ~ eight 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 warrants.



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The Company's hedging positions are evaluated and adjusted periodically.

e. Financial statement presentation of derivative financial instruments

As of September 30, 2007 and 2008, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

**Balance sheet**

	September 30, 2007		September 30, 2008	
	Financial liabilities at fair value through profit and loss-current		Financial liabilities at fair value through profit and loss-current	
	NT\$	US\$	NT\$	US\$
Liabilities for insurance of call (put) warrants	\$62,140	\$1,902	\$509,305	\$15,802
Repurchase of issued call (put) warrants	(28,382)	(869)	(441,243)	(13,690)
Total	\$33,758	\$1,033	\$68,062	\$2,112

**Statement of income**

	For the nine months ended		Account	Comments
	September 30, 2007			
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$44,860	\$1,373	Profit from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(17,925)	(549)	Loss from issuing call (put) warrants	
- Loss from valuation	(29,475)	(902)	Loss from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	11,120	341	Profit from issuing call (put) warrants	
Trading securities - hedging				
- Loss on disposal	(4,062)	(124)	Loss from trading securities	
- Gain from valuation	321	9	Gain on valuation of operating securities	Fair value method
Total	\$4,839	\$148		

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	For the nine months ended		Account	Comments
	September 30, 2008			
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$1,343,956	\$41,699	Profit from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(1,646,967)	(51,101)	Loss from issuing call (put) warrants	
- Loss from valuation	(566,291)	(17,570)	Loss from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	937,401	29,085	Profit from issuing call (put) warrants	
Trading securities - hedging				
- Loss on disposal	(44,823)	(1,391)	Loss from trading securities	
- Loss from valuation	(17,941)	(557)	Loss on valuation of operating securities	Fair value method
<b>Total</b>	<b>\$5,335</b>	<b>\$165</b>		

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	September 30, 2007		September 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Principal guaranteed notes	\$214,400	\$-	\$105,600	\$-
	(US\$6,563)	-	(US\$3,276)	-

The Company's credit risk arises from a breach of contract by a counterparty. The Company believes it is not exposed to credit risk because contract amounts are collected in advance of structured notes being issued.

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b. Market risk

In structured notes transactions, the Company receives proceeds from investors on the contract date and makes its investments pursuant to the contract. The Company invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, the Company believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

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

In structured notes transactions, the Company receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. In order to provide investors with the ability for early redemption, the Company considers liquidity risk when investing in fixed income securities. As a result, the Company does not expect any significant cash requirements at expiration of the contract.

d. Types, purposes, and strategies for financial derivatives

The structured notes transactions of the Company can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. Proceeds received by investors consist of returns from the fixed income products and value of the options at expiration.

e. Financial statement presentation of derivative financial instruments

As of September 30, 2007 and 2008, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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**Balance sheet**

	September 30, 2007		September 30, 2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instrument liabilities - GreTai (over-the-counter) (note )				
Structured notes transactions	\$2,213	\$68	\$(1,351)	\$(42)
Other financial liabilities - current				
Principal of structured notes	213,306	6,529	102,911	3,193

Note : Recorded as "Financial liabilities at fair value through profit or loss - current" in the balance sheet.

**Statement of income**

	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008		Account	Comments
	NT\$	US\$	NT\$	US\$		
(Loss) Gain from structured notes	\$(6,929)	\$(212)	\$1,016	\$32	(Loss) Gain from derivative financial instruments - Gre Tai (over-the-counter)	Fair value method
Trading securities - hedging						
- Gain(Loss) on disposal	6,213	190	(4,051)	(126)	Gain (Loss) from trading securities	
- Loss from valuation	(183)	(6)	(188)	(6)	Loss on valuation of operating securities	Fair value method
<b>Total</b>	<b>\$(899)</b>	<b>\$(28)</b>	<b>\$(3,223)</b>	<b>\$(100)</b>		

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C. Futures and options transactions

As of September 30, 2007 and 2008, the Company's unexercised futures and options were as follows:

September 30, 2007

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment receipt of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	TAIEX futures	Buy	88	\$166,446	\$5,095	\$167,059	\$5,114
Options	TXO-Put	Sell	410	\$(991)	\$(30)	\$794	\$24

September 30, 2008

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment receipt of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	Mini-TAIEX	Buy	1	\$1,173	\$36	\$1,109	\$34
Options	TXO-Call	Buy	173	\$694	\$22	\$123	\$3
Options	TXO-Put	Buy	120	\$815	\$25	\$1,255	\$39
Options	TXO-Call	Sell	149	\$(273)	\$(8)	\$176	\$6
Options	TXO-Put	Sell	96	\$(265)	\$(8)	\$905	\$28

a. Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2007	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TAIEX futures	\$166,446 (US\$5,095)	\$-
TXO	\$991(US\$30)	\$-

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Financial instruments	September 30, 2008	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
Mini- TAIEX futures	\$1,173(US\$36)	\$-
TXO	\$2,047(US\$63)	\$-

The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange 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 sale of futures and options and the volatility of indexes. 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 unexercised 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 Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. 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.

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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 - own funds") on the balance sheet. For the nine months ended September 30, 2007 and 2008, the related gain (loss) of futures and options on the statements of income were as follows:

	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
	Gain from derivative financial instruments - futures			
Gain on futures contracts - realized	\$14,959	\$458	\$6,290	\$195
Gain on futures contracts - unrealized	773	23	315	10
Gain from options transactions - realized	2,248	69	5,571	173
Gain from options transactions - unrealized	1,209	37	1,024	32
Total	<u>\$19,189</u>	<u>\$587</u>	<u>\$13,200</u>	<u>\$410</u>
	For the nine months ended September 30, 2007		For the nine months ended September 30, 2008	
	NT\$	US\$	NT\$	US\$
	Loss from derivative financial instruments - futures			
Loss on futures contracts - realized	\$5,087	\$156	\$7,573	\$235
Loss on futures contracts - unrealized	160	5	379	12
Loss from options transactions - realized	1,416	43	3,787	117
Loss from options transactions - unrealized	1,012	31	1,698	53
Total	<u>\$7,675</u>	<u>\$235</u>	<u>\$13,437</u>	<u>\$417</u>