

Cathay Securities Corporation
Financial Statements
Together with
Independent Auditors' Report
As of December 31, 2007 and 2008

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 Report Originally Issued in Chinese
Independent Auditors' Report

To: Board of Directors
Cathay Securities Corporation

We have audited the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of December 31, 2007 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2007 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Corporation as of December 31, 2007 and 2008, and the results of its operations and their cash flows for the years ended December 31, 2007 and 2008 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.

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2007 and 2008, and expressed an unqualified report.

Ernst & Young
Taipei, Taiwan
Republic of China
February 6, 2009

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Balance sheets
As of December 31, 2007 and 2008
(Expressed in thousands of dollars)

| ASSETS | NOTES | December 31,2007 | | December 31,2008 | |
|--|---------------|------------------|-----------|------------------|-----------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | | | | | |
| Cash and cash equivalents | 2,4(1),5,6 | \$230,455 | \$7,106 | \$202,801 | \$6,190 |
| Financial assets at fair value through profit or loss - current | 2,4(2),5,6,10 | 1,853,451 | 57,152 | 2,207,589 | 67,387 |
| Receivable amount for margin loans | 2,4(3) | 1,053,680 | 32,491 | 392,867 | 11,992 |
| Securities refinancing margin deposits | 2 | - | - | 1,305 | 40 |
| Accounts receivable | | 944 | 29 | 35,379 | 1,080 |
| Accounts receivable - related parties | 5 | 1,119 | 35 | 2,641 | 81 |
| Prepayments | | 357 | 11 | 2,102 | 64 |
| Other receivables | | 16,383 | 505 | 6,695 | 204 |
| Other receivables- related parties | 5 | - | - | 14,268 | 436 |
| Restricted assets - current | 6 | - | - | 83,000 | 2,534 |
| Available-for-sale financial assets - current | 2,4(4) | - | - | 201,770 | 6,159 |
| Other current assets | | 527 | 16 | 1,367 | 42 |
| Total current assets | | 3,156,916 | 97,345 | 3,151,784 | 96,209 |
| Funds and investments | | | | | |
| Long-term investments under equity method | 2,4(5) | 719,500 | 22,186 | 737,708 | 22,519 |
| Available-for-sale financial assets - noncurrent | 2,4(6) | 18 | 1 | 18 | - |
| Total funds and investments | | 719,518 | 22,187 | 737,726 | 22,519 |
| Property and equipment | 2,4(7) | | | | |
| Equipment | | 92,834 | 2,863 | 98,493 | 3,007 |
| Prepayment for equipment | | 372 | 12 | 892 | 27 |
| Leasehold improvement | | 53,024 | 1,635 | 54,457 | 1,662 |
| Less: Accumulated depreciation | | (74,509) | (2,298) | (104,062) | (3,176) |
| Net property and equipment | | 71,721 | 2,212 | 49,780 | 1,520 |
| Intangible assets | | | | | |
| Deferred pension cost | 2 | 2,410 | 74 | 2,620 | 80 |
| Other intangible assets | 2,4(8),5 | 6,339 | 196 | 4,374 | 133 |
| Total intangible assets | | 8,749 | 270 | 6,994 | 213 |
| Other assets | | | | | |
| Operating deposits | 4(9) | 230,097 | 7,095 | 230,098 | 7,024 |
| Settlement and clearance funds | 4(10) | 50,550 | 1,559 | 51,519 | 1,572 |
| Guarantee deposits paid | 5 | 102,251 | 3,153 | 29,251 | 893 |
| Deferred income tax assets - noncurrent | 2,4(17) | 7,374 | 227 | 15,671 | 478 |
| Cash and cash equivalents - funds for subscription of shares collected | | 192 | 6 | - | - |
| Total other assets | 4(11) | 390,464 | 12,040 | 326,539 | 9,967 |
| Securities brokerage debit accounts - net | | 14,747 | 455 | 11,158 | 341 |
| Total assets | | \$4,362,115 | \$134,509 | \$4,283,981 | \$130,769 |

(The exchange rate of December 31, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.43 and NT\$32.76 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

Balance sheets

As of December 31, 2007 and 2008

(Expressed in thousands of dollars)

| LIABILITIES AND STOCKHOLDERS' EQUITY | NOTES | December 31,2007 | | December 31,2008 | |
|--|------------|--------------------|------------------|--------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current liabilities | | | | | |
| Financial liabilities at fair value through profit or loss - current | 2,4(12),10 | \$11,177 | \$345 | \$28,876 | \$881 |
| Securities financing guarantee deposits-in | 2 | 35,828 | 1,105 | 40,694 | 1,242 |
| Deposit payable for securities financing | 2 | 39,545 | 1,219 | 44,767 | 1,367 |
| Accounts payable | | 11,683 | 360 | 32,857 | 1,003 |
| Accounts payable - related parties | 5 | 36 | 1 | 157 | 5 |
| Receipts under custody | | 6,280 | 194 | 4,246 | 130 |
| Other payables | | 11,096 | 342 | 13,969 | 426 |
| Other payables - related parties | 5 | 11,306 | 349 | 2,582 | 79 |
| Deferred income tax liabilities - current | 2,4(17) | 577 | 18 | 987 | 30 |
| Other financial liabilities - current | 2,10 | 158,821 | 4,897 | 101,788 | 3,107 |
| Other current liabilities | | 215 | 7 | - | - |
| Total current liabilities | | <u>286,564</u> | <u>8,837</u> | <u>270,923</u> | <u>8,270</u> |
| Long-term liabilities | | | | | |
| Other long-term liabilities | | 868 | 27 | 1,010 | 31 |
| Other liabilities | | | | | |
| Reserve for default losses | 2 | 25,959 | 801 | 33,983 | 1,037 |
| Reserve for trading losses | 2 | 232 | 7 | 947 | 29 |
| Guarantee deposits-in | | 141 | 4 | - | - |
| Accrued pension liability - noncurrent | 2,4(13) | 5,947 | 183 | 7,317 | 223 |
| Total other liabilities | | <u>32,279</u> | <u>995</u> | <u>42,247</u> | <u>1,289</u> |
| Total liabilities | | <u>319,711</u> | <u>9,859</u> | <u>314,180</u> | <u>9,590</u> |
| Stockholders' equity | | | | | |
| Capital stock | | | | | |
| Common stock | 4(14) | 3,700,000 | 114,092 | 3,700,000 | 112,943 |
| Capital surplus | 4(15) | 258,434 | 7,969 | 258,434 | 7,889 |
| Retained earnings | 4(16) | | | | |
| Legal reserve | | 8,310 | 256 | 10,231 | 312 |
| Special reserve | | 16,619 | 512 | 20,462 | 625 |
| Unappropriated retained earnings | | 59,041 | 1,821 | (15,555) | (475) |
| Equity adjustments | | | | | |
| Unrealized losse on financial instruments | | - | - | (3,771) | (115) |
| Total stockholders' equity | | <u>4,042,404</u> | <u>124,650</u> | <u>3,969,801</u> | <u>121,179</u> |
| Total liabilities and stockholders' equity | | <u>\$4,362,115</u> | <u>\$134,509</u> | <u>\$4,283,981</u> | <u>\$130,769</u> |

(The exchange rate of December 31, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.43 and NT\$32.76 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
Statements of income
For the years ended December 31, 2007 and 2008
(Expressed in thousands of dollars, except for earnings per share)

| ITEMS | NOTES | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|--|---------|--------------------------------------|-----------------|--------------------------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Revenue | 2,5 | | | | |
| Brokerage commissions | | \$284,769 | \$8,781 | \$211,556 | \$6,458 |
| Revenue from underwriting commissions | | 23,728 | 732 | 8,140 | 248 |
| Interest revenue | | 73,474 | 2,266 | 77,921 | 2,379 |
| Dividend revenue | | 9,548 | 294 | 4,979 | 152 |
| Profit from issuing call (put) warrants | 10 | 16,368 | 505 | 108,850 | 3,323 |
| Brokerage commissions for introducing futures contracts | | 9,056 | 279 | 25,809 | 788 |
| Gain from derivative financial instruments - futures | 10 | 23,185 | 715 | 21,470 | 655 |
| Gain from derivative financial instruments - GreTai (over-the-counter) | 10 | - | - | 1,242 | 38 |
| Other operating revenue | | 4,689 | 144 | 6,826 | 208 |
| Non-operating revenue and profits | | 27,945 | 862 | 37,513 | 1,145 |
| Total revenue | | <u>472,762</u> | <u>14,578</u> | <u>504,306</u> | <u>15,394</u> |
| Expenses | 2,5 | | | | |
| Brokerage securities transaction charges | | (24,682) | (761) | (16,642) | (508) |
| Dealing securities transaction charges | | (2,027) | (63) | (3,123) | (95) |
| Refinancing transaction fees | | (4) | - | (41) | (1) |
| Underwriting transaction fees | | (2) | - | (40) | (1) |
| Loss from trading securities | | (16,421) | (506) | (106,697) | (3,257) |
| Interest expense | | (145) | (5) | (233) | (7) |
| Loss on valuation of operating securities | | (10,518) | (324) | (10,280) | (314) |
| Loss on valuation of liability for purchase of government bonds | | - | - | (2) | - |
| Expenses from issuing call (put) warrants | | (1,024) | (32) | (9,259) | (283) |
| Clearing and settlement fees | | (642) | (20) | (741) | (23) |
| Loss from derivative financial instruments - futures | 10 | (10,163) | (313) | (16,442) | (502) |
| Loss from derivative financial instruments - GreTai (over-the-counter) | 10 | (4,902) | (151) | - | - |
| Operating expenses | | (365,447) | (11,269) | (411,275) | (12,554) |
| Other operating expenses | | - | - | (28) | (1) |
| Non-operating expense and losses | | (4,831) | (149) | (2,144) | (66) |
| Total expenses | | <u>(440,808)</u> | <u>(13,593)</u> | <u>(576,947)</u> | <u>(17,612)</u> |
| Income (Loss) from continuing operations before income taxes | | 31,954 | 985 | (72,641) | (2,218) |
| Income tax (expense) benefit | 2,4(17) | (12,742) | (393) | 17,257 | 527 |
| Net income (loss) | | <u>\$19,212</u> | <u>\$592</u> | <u>\$(55,384)</u> | <u>\$(1,691)</u> |
| Earnings per share (in dollars) | 4(19) | | | | |
| Net income (loss) | | <u>\$0.05</u> | <u>\$0.002</u> | <u>\$(0.15)</u> | <u>\$(0.005)</u> |

(The exchange rate of December 31, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.43 and NT\$32.76 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
 Statements of changes in stockholders' equity
 For the years ended December 31, 2007 and 2008
 (Expressed in thousands of dollars)

| SUMMARY | Common stock | | Capital surplus | | Retained earnings | | | | Unappropriated retained earnings | | Equity adjustments | | Total | |
|---|--------------------|------------------|------------------|----------------|-------------------|--------------|-----------------|--------------|----------------------------------|----------------|--------------------|----------------|--------------------|------------------|
| | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) |
| Balance on January 1, 2007 | \$3,700,000 | \$114,092 | \$258,434 | \$7,969 | \$5,690 | \$175 | \$11,380 | \$351 | \$66,026 | \$2,036 | \$- | \$- | \$4,041,530 | \$124,623 |
| Appropriations and distributions of 2006: | | | | | | | | | | | | | | |
| Legal reserve | | | | | 2,620 | 81 | | | (2,620) | (81) | | | - | - |
| Special reserve | | | | | | | 5,239 | 161 | (5,239) | (161) | | | - | - |
| Cash dividends | | | | | | | | | (17,756) | (547) | | | (17,756) | (547) |
| Bonus paid to employees | | | | | | | | | (582) | (18) | | | (582) | (18) |
| Net income for the year ended December 31, 2007 | | | | | | | | | 19,212 | 592 | | | 19,212 | 592 |
| Balance on December 31, 2007 | <u>\$3,700,000</u> | <u>\$114,092</u> | <u>\$258,434</u> | <u>\$7,969</u> | <u>\$8,310</u> | <u>\$256</u> | <u>\$16,619</u> | <u>\$512</u> | <u>\$59,041</u> | <u>\$1,821</u> | <u>\$-</u> | <u>\$-</u> | <u>\$4,042,404</u> | <u>\$124,650</u> |
| Balance on January 1, 2008 | \$3,700,000 | \$112,943 | \$258,434 | \$7,889 | \$8,310 | \$253 | \$16,619 | \$508 | \$59,041 | \$1,802 | \$- | \$- | \$4,042,404 | \$123,395 |
| Appropriations and distributions of 2007: | | | | | | | | | | | | | | |
| Legal reserve | | | | | 1,921 | 59 | | | (1,921) | (59) | | | - | - |
| Special reserve | | | | | | | 3,843 | 117 | (3,843) | (117) | | | - | - |
| Cash dividends | | | | | | | | | (12,916) | (394) | | | (12,916) | (394) |
| Bonus paid to employees | | | | | | | | | (532) | (16) | | | (532) | (16) |
| Unrealized losse on financial instruments | | | | | | | | | | | (3,771) | (115) | (3,771) | (115) |
| Net loss for the year ended December 31, 2008 | | | | | | | | | (55,384) | (1,691) | | | (55,384) | (1,691) |
| Balance on December 31, 2008 | <u>\$3,700,000</u> | <u>\$112,943</u> | <u>\$258,434</u> | <u>\$7,889</u> | <u>\$10,231</u> | <u>\$312</u> | <u>\$20,462</u> | <u>\$625</u> | <u>\$(15,555)</u> | <u>\$(475)</u> | <u>\$(3,771)</u> | <u>\$(115)</u> | <u>\$3,969,801</u> | <u>\$121,179</u> |

(The exchange rate of December 31, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.43 and NT\$32.76 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
Statements of cash flows
For the years ended December 31, 2007 and 2008
(Expressed in thousands of dollars)

| ITEMS | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|--|--------------------------------------|----------|--------------------------------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from operating activities | | | | |
| Net income (loss) | \$19,212 | \$592 | \$(55,384) | \$(1,691) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 29,285 | 903 | 30,085 | 918 |
| Amortization | 10,608 | 327 | 8,087 | 247 |
| Loss on valuation of operating securities | 10,518 | 324 | 10,280 | 314 |
| Loss on valuation of open-end funds and currency market instruments | 4,316 | 133 | 345 | 11 |
| Recoveries on reserve for trading losses | (3,441) | (106) | (1,920) | (59) |
| Reserve for trading losses | 2,100 | 65 | 2,635 | 81 |
| Reserve for default losses | 11,909 | 367 | 8,024 | 245 |
| Investment income recognized by equity method in excess of cash dividends received | 169 | 5 | (18,208) | (556) |
| 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 | (123,778) | (3,817) | (122,688) | (3,745) |
| Increase in operating securities - underwriting | (534,733) | (16,489) | (43,280) | (1,321) |
| (Increase) decrease in operating securities - hedging | (70,990) | (2,189) | 10,096 | 308 |
| Increase in call options - futures | - | - | (99) | (3) |
| Decrease (increase) in margin for futures trading - own funds | 86,729 | 2,675 | (19,480) | (595) |
| (Increase) decrease in derivative financial instrument assets - GreTai (over-the-counter) | (640) | (20) | 640 | 20 |
| (Increase) decrease in receivable amount for margin loans | (301,251) | (9,289) | 660,813 | 20,171 |
| Decrease (increase) in securities refinancing margin deposits | 443 | 14 | (1,305) | (40) |
| Increase in accounts receivable | (944) | (29) | (34,434) | (1,051) |
| Increase in accounts receivable - related parties | (3) | - | (1,522) | (46) |
| Decrease (increase) in prepayments | 557 | 17 | (1,745) | (53) |
| (Increase) decrease in other receivables | (6,300) | (194) | 9,687 | 296 |
| Increase in other receivables - related parties | - | - | (14,268) | (436) |
| Increase in other current assets | (517) | (16) | (840) | (26) |
| (Increase) decrease in cash and cash equivalents - funds for subscription of shares collected | (192) | (6) | 192 | 6 |
| Financial liabilities at fair value through profit or loss - current | | | | |
| Increase in liabilities for issuance of call (put) warrants | 9,478 | 292 | 19,437 | 593 |
| Increase in put options - futures | - | - | 65 | 2 |
| Decrease in derivative financial instrument liabilities - GreTai (over-the-counter) | (4,533) | (140) | (1,804) | (55) |
| Increase in securities financing guarantee deposits-in | 24,121 | 744 | 4,866 | 149 |
| Increase in deposit payable for securities financing | 26,670 | 823 | 5,222 | 159 |
| (Decrease) increase in accounts payable | (5,341) | (165) | 21,174 | 646 |
| (Decrease) increase in accounts payable - related parties | (35) | (1) | 121 | 4 |
| Decrease in receipts under custody | (144) | (4) | (2,035) | (62) |
| (Decrease) increase in other payables | (1,101) | (34) | 874 | 27 |
| Increase (decrease) in other payables - related parties | 4,315 | 133 | (8,724) | (266) |
| Decrease in other financial liabilities - current | (16,882) | (520) | (57,033) | (1,741) |
| Increase (decrease) in other current liabilities | 204 | 6 | (215) | (7) |
| Net change in deferred income tax assets/liabilities | (1,998) | (62) | (7,887) | (241) |
| Increase in other long-term liabilities | 399 | 12 | 141 | 4 |
| Net change in pension assets/liabilities-net | 1,247 | 39 | 1,160 | 35 |
| Net change in securities brokerage debit/credit accounts - net | (7,450) | (230) | 3,590 | 110 |
| Net cash (used in) provided by operating activities | (837,478) | (25,824) | 404,741 | 12,354 |

(The exchange rate of December 31, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.43 and NT\$32.76 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

Statements of cash flows

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars)

| ITEMS | For the year ended December 31, 2007 | | For the year ended December 31, 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 | 77,671 | 2,395 | (189,952) | (5,798) |
| Decrease (increase) in restricted assets - current | 650,000 | 20,043 | (83,000) | (2,533) |
| Increase in available-for-sale financial assets - current | - | - | (205,540) | (6,274) |
| Acquisition of property and equipment | (5,434) | (168) | (8,434) | (257) |
| Disposal of property and equipment | 338 | 11 | 212 | 6 |
| Increase in other intangible assets | (3,871) | (119) | (4,122) | (126) |
| Increase in settlement and clearance funds | (3,814) | (118) | (970) | (30) |
| Increase in operating deposits | (15,000) | (463) | - | - |
| (Increase) decrease in guarantee deposits paid | (64,012) | (1,974) | 73,000 | 2,228 |
| Net cash provided by (used in) investing activities | 635,878 | 19,607 | (418,806) | (12,784) |
| Cash flows from financing activities | | | | |
| Decrease in guarantee deposits-in | - | - | (141) | (5) |
| Cash dividends | (17,756) | (547) | (12,916) | (394) |
| Bonus paid to employees | (582) | (18) | (532) | (16) |
| Net cash used in financing activities | (18,338) | (565) | (13,589) | (415) |
| Decrease in cash and cash equivalents | (219,938) | (6,782) | (27,654) | (845) |
| Cash and cash equivalents at the beginning of period | 450,393 | 13,888 | 230,455 | 7,035 |
| Cash and cash equivalents at the end of period | \$230,455 | \$7,106 | \$202,801 | \$6,190 |
| Supplemental disclosure of cash flows information | | | | |
| Interest paid during the period | \$139 | \$4 | \$227 | \$7 |
| Interest paid (excluding capitalized interest) | \$139 | \$4 | \$227 | \$7 |
| Income tax paid | \$10,493 | \$324 | \$13,524 | \$413 |
| Investing and financing activities not affecting cash flows: | | | | |
| Acquisition of other intangible assets - Deferred debits | \$- | \$- | \$2,000 | \$61 |

(The exchange rate of December 31, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.43 and NT\$32.76 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 financial statements

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

As of December 31, 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 December 31, 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 December 31, 2007 and 2008, the Company had 226 and 268 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 financial statements (continued)

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

As of December 31, 2007 and 2008

(2) Foreign currency transactions

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

Non-monetary assets or liabilities that are measured on the historical rate, but at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary is recognized, any exchange component of that gain or loss shall be recognized. When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity.

(3) 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.

(4) Financial assets and financial liabilities

Pursuant to the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 34 "Accounting for Financial Instruments" and "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.

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Notes to financial statements (continued)

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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.

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

- ① Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- ② Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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

Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.

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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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.

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.

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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.

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.

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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.

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.

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

(5) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) 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.

(6) 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.

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- 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”.

(7) 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.

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

(8) 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.

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(9) 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.

(10) 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.

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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).

(11) Accounting for impairment of financial assets

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

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in earnings, is transferred from stockholders' equity to the income statement. Reversals of impairment losses on assets classified as available-for-sale are not recognized in earnings but, instead, are recognized as a separate component of stockholders' equity. 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.

(12) 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").

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When the accumulated reserve for default losses reaches NT\$200,000 (US\$6,105) reserving is suspended.

(13) 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\$6,105). 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.

(14) Pension

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

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

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.

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(15) Income taxes

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

In accordance with Article 49 of the Financial Holding Company Act, 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.

(16) 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.

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(17) Recognition of revenue and expenses

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

- A. Brokerage commissions, profit or loss from disposal of 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.

(18) 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\$32.43 and NT\$32.76 to US\$1.00 effective on December 31, 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

- (1) 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 December 31, 2008.

- (2) On July, 2008, the company adopted second revision ROC SFAS No.34 "Accounting for financial instrument".

The above change in accounting principles had no effect on the financial statements of the Company as of December 31, 2008.

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4. Breakdown of significant accounts

(1) Cash and cash equivalents

| Item | December 31, 2007 | | December 31, 2008 | |
|---------------------------------------|-------------------|----------------|-------------------|----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash on hand | \$140 | \$4 | \$140 | \$4 |
| Savings accounts | 6,315 | 195 | 26,161 | 798 |
| Time deposits | 224,000 | 6,907 | 176,500 | 5,388 |
| Total | <u>\$230,455</u> | <u>\$7,106</u> | <u>\$202,801</u> | <u>\$6,190</u> |
| Annual interest rate of time deposits | 1.39%~2.49% | | 0.43%~2.68% | |

As of December 31, 2007 and 2008, none of the cash and cash equivalents were pledged to other parties.

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

| Item | December 31, 2007 | | December 31, 2008 | |
|---|--------------------|-----------------|--------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Open-end funds and currency market instruments | \$540,791 | \$16,676 | \$730,398 | \$22,296 |
| Operating securities – dealing | 446,648 | 13,773 | 564,579 | 17,234 |
| Operating securities – underwriting | 533,904 | 16,463 | 577,197 | 17,619 |
| Operating securities – hedging | 109,629 | 3,380 | 93,997 | 2,869 |
| Call options - futures | - | - | 99 | 3 |
| Margin for futures trading – own funds | 221,839 | 6,840 | 241,319 | 7,366 |
| Derivative financial instrument assets – GreTai (over-the-counter) | 640 | 20 | - | - |
| Total | <u>\$1,853,451</u> | <u>\$57,152</u> | <u>\$2,207,589</u> | <u>\$67,387</u> |

See note 6 for detail of financial assets at fair value through profit or loss – current pledged to other parties as of December 31, 2007 and 2008.

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A. Open-end funds and currency market instruments

| Item | December 31, 2007 | | December 31, 2008 | |
|---------------------------|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Open-end funds | \$540,139 | \$16,656 | \$730,091 | \$22,286 |
| Add: Valuation adjustment | 652 | 20 | 307 | 10 |
| Net | \$540,791 | \$16,676 | \$730,398 | \$22,296 |

B. Operating securities - dealing

| Item | December 31, 2007 | | December 31, 2008 | |
|---------------------------------------|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$- | \$- | \$3,018 | \$92 |
| Real Estate Investment Trusts (REITs) | 173,320 | 5,344 | - | - |
| OTC stocks | 573 | 18 | 155 | 5 |
| OTC corporate bonds | 72,725 | 2,243 | 360,485 | 11,004 |
| Real Estate Asset Trust (REAT) | 146,967 | 4,532 | 139,688 | 4,264 |
| Emerging stocks | 58,577 | 1,806 | 70,543 | 2,153 |
| Exchange Traded Fund (ETFs) | - | - | 960 | 29 |
| Subtotal | 452,162 | 13,943 | 574,849 | 17,547 |
| Less: Valuation adjustment | (5,514) | (170) | (10,270) | (313) |
| Net | \$446,648 | \$13,773 | \$564,579 | \$17,234 |

C. Operating securities - underwriting

| Item | December 31, 2007 | | December 31, 2008 | |
|--------------------------------|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Real Estate Asset Trust (REAT) | \$519,283 | \$16,013 | \$493,563 | \$15,066 |
| OTC corporate bonds | 15,450 | 476 | 84,450 | 2,578 |
| Subtotal | 534,733 | 16,489 | 578,013 | 17,644 |
| Less: Valuation adjustment | (829) | (26) | (816) | (25) |
| Net | \$533,904 | \$16,463 | \$577,197 | \$17,619 |

D. Operating securities - hedging

| Item | December 31, 2007 | | December 31, 2008 | |
|----------------------------------|-------------------|---------|-------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$107,524 | \$3,315 | \$47,594 | \$1,453 |
| OTC stocks | - | - | 25,936 | 792 |
| Exchange Traded Fund (ETFs) | - | - | 13,722 | 419 |
| Call (Put) Warrants | - | - | 10,175 | 310 |
| Subtotal | 107,524 | 3,315 | 97,427 | 2,974 |
| Add (Less): Valuation adjustment | 2,105 | 65 | (3,430) | (105) |
| Net | \$109,629 | \$3,380 | \$93,997 | \$2,869 |

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E. Margin for futures trading – own funds

| Futures trading company | December 31, 2007 | | | | | |
|--------------------------|-------------------|---------|--|------|-------------------|---------|
| | Account balance | | Gain (loss) on outstanding futures contracts | | Net account value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$221,839 | \$6,840 | \$- | \$- | \$221,839 | \$6,840 |

| Futures trading company | December 31, 2008 | | | | | |
|--------------------------|-------------------|---------|--|-------|-------------------|---------|
| | Account balance | | Gain (loss) on outstanding futures contracts | | Net account value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$221,903 | \$6,773 | \$- | \$- | \$221,903 | \$6,773 |
| Newedge futures Co., Ltd | 19,450 | 594 | (34) | (1) | 19,416 | 593 |
| | \$241,353 | \$7,367 | \$(34) | \$(1) | \$241,319 | \$7,366 |

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

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

See note 10.

(3) Receivable amount for margin loans

| Item | December 31, 2007 | | December 31, 2008 | |
|------------------------------------|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Receivable amount for margin loans | \$1,053,680 | \$32,491 | \$392,867 | \$11,992 |
| Less: Allowance for bad debts | - | - | - | - |
| Net | \$1,053,680 | \$32,491 | \$392,867 | \$11,992 |

As of December 31, 2007 and 2008, receivable amount for margin loans had an annual interest rate of 3.25% ~6.90%.

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

| Item | December 31, 2007 | | December 31, 2008 | |
|-----------------------------|-------------------|------|-------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$- | \$- | \$5,545 | \$169 |
| OTC corporate bonds | - | - | 199,996 | 6,105 |
| Subtotal | - | - | 205,541 | 6,274 |
| Less : Valuation adjustment | - | - | (3,771) | (115) |
| Net | \$- | \$- | \$201,770 | \$6,159 |

As of December 31, 2008, none of the available-for-sale financial assets-current were pledged to other parties.

(5) Long-term investments under equity method

A.

| Name of investee | December 31, 2007 | | | December 31, 2008 | | |
|--------------------------|-------------------|----------|-------------------------|-------------------|----------|-------------------------|
| | NT\$ | US\$ | Percentage of ownership | NT\$ | US\$ | Percentage of ownership |
| | | | | | | |
| Cathay Futures Co., Ltd. | \$719,500 | \$22,186 | 99.99% | \$737,708 | \$22,519 | 99.99% |

B. Changes in investments under the equity method as of December 31, 2007 and 2008 are listed below:

| Item | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---|---|----------|---|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance on January 1 | \$719,669 | \$22,191 | \$719,500 | \$21,963 |
| Investment income recognized under the equity method | 1,011 | 31 | 18,916 | 578 |
| Cash dividends | (1,180) | (36) | (708) | (22) |
| Balance on December 31 | \$719,500 | \$22,186 | \$737,708 | \$22,519 |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

C. The investment income recognized by the equity method as of December 31, 2007 and 2008 is listed below:

| Name of investee | For the year ended | | For the year ended | |
|--------------------------|--------------------|------|--------------------|-------|
| | December 31, 2007 | | December 31, 2008 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$1,011 | \$31 | \$18,916 | \$578 |

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

E. As of December 31, 2007 and 2008, none of the long-term investments under equity method were pledged to other parties.

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

| Name of investee | December 31, 2007 | | | December 31, 2008 | | |
|-------------------------------------|-------------------|------|--------------|-------------------|------|--------------|
| | NT\$ | US\$ | Percentage | NT\$ | US\$ | Percentage |
| | | | of ownership | | | of ownership |
| Stock: | | | | | | |
| Taiwan Futures Exchange Corporation | \$18 | \$1 | - | \$18 | \$- | - |

As of December 31, 2007 and 2008, none of the available-for-sale financial assets - noncurrent were pledged to other parties.

(7) Property and equipment

| Item | December 31, 2007 | | | | | |
|--------------------------|-------------------|---------|--------------------------|---------|-----------------|---------|
| | Cost | | Accumulated depreciation | | Carrying amount | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Equipment | \$92,834 | \$2,863 | \$55,238 | \$1,704 | \$37,596 | \$1,159 |
| Prepayment for equipment | 372 | 12 | - | - | 372 | 12 |
| Leasehold improvement | 53,024 | 1,635 | 19,271 | 594 | 33,753 | 1,041 |
| Total | \$146,230 | \$4,510 | \$74,509 | \$2,298 | \$71,721 | \$2,212 |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

| Item | December 31, 2008 | | | | | |
|--------------------------|-------------------|----------------|--------------------------|----------------|-----------------|----------------|
| | Cost | | Accumulated depreciation | | Carrying amount | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Equipment | \$98,493 | \$3,007 | \$75,953 | \$2,318 | \$22,540 | \$689 |
| Prepayment for equipment | 892 | 27 | - | - | 892 | 27 |
| Leasehold improvement | 54,457 | 1,662 | 28,109 | 858 | 26,348 | 804 |
| Total | \$153,842 | \$4,696 | \$104,062 | \$3,176 | \$49,780 | \$1,520 |

As of December 31, 2007 and 2008, none of the property and equipment were pledged to other parties.

(8) Other intangible assets

| Item | January 1, 2007 | | Increase | | Decrease | | December 31, 2007 | |
|------------------------------|-----------------|--------------|----------|-------|-----------|---------|-------------------|--------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Acquired cost: | | | | | | | | |
| Computer software | \$29,313 | \$904 | \$3,871 | \$120 | \$(7,690) | \$(237) | \$25,494 | \$787 |
| Amortization and impairment: | | | | | | | | |
| Amortization | (16,237) | (501) | (10,608) | (327) | 7,690 | 237 | (19,155) | (591) |
| Book value | <u>\$13,076</u> | <u>\$403</u> | | | | | <u>\$6,339</u> | <u>\$196</u> |

| Item | January 1, 2008 | | Increase | | Decrease | | December 31, 2008 | |
|------------------------------|-----------------|--------------|----------|-------|------------|---------|-------------------|--------------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Acquired cost: | | | | | | | | |
| Computer software | \$25,494 | \$778 | \$6,122 | \$186 | \$(18,749) | \$(572) | \$12,867 | \$392 |
| Amortization and impairment: | | | | | | | | |
| Amortization | (19,155) | (584) | (8,087) | (247) | 18,749 | 572 | (8,493) | (259) |
| Book value | <u>\$6,339</u> | <u>\$194</u> | | | | | <u>\$4,374</u> | <u>\$133</u> |

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.

(9) 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\$7,095) and NT\$230,098 (US\$7,024) as of December 31, 2007 and 2008, respectively.

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

(10) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT\$50,550 (US\$1,559) and NT\$51,519 (US\$1,572) in settlement and clearance funds as of December 31, 2007 and 2008, respectively.

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

| Item | December 31, 2007 | | December 31, 2008 | |
|---|-------------------|--------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Debit balance: | | | | |
| Cash and cash equivalents - settlement amount | \$43 | \$1 | \$190 | \$6 |
| Clearance | 402,116 | 12,400 | 50,244 | 1,534 |
| Accounts receivable - brokering | 509,521 | 15,711 | 274,558 | 8,381 |
| Credit transaction | - | - | 516 | 16 |
| Subtotal | 911,680 | 28,112 | 325,508 | 9,937 |
| Credit balance: | | | | |
| Accounts payable - brokering | 896,933 | 27,657 | 314,350 | 9,596 |
| Net | \$14,747 | \$455 | \$11,158 | \$341 |

(12) Financial liabilities at fair value through profit or loss - current

| Item | December 31, 2007 | | December 31, 2008 | |
|---|-------------------|---------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Liabilities for issuance of call (put) | | | | |
| warrants | \$130,200 | \$4,015 | \$714,272 | \$21,803 |
| Repurchase of issued call (put) warrants | (119,436) | (3,683) | (684,071) | (20,881) |
| Put options - futures | - | - | 66 | 1 |
| Derivative financial instrument liabilities | | | | |
| - GreTai (over-the-counter) | 413 | 13 | (1,391) | (42) |
| Total | \$11,177 | \$345 | \$28,876 | \$881 |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

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:

| December 31, 2007 (NT\$) | | | | | | | | | | |
|--|---------------------------|--------------------------|------------------------------------|-----------------|--------------|----------------|-------------------------------|-----------------|--------------|----------------|
| Liabilities for issuance of call | | | | | | | | | | |
| (put) warrants | | | | | | | | | | |
| Repurchase of issued call (put) warrants | | | | | | | | | | |
| Gains | | | | | | | | | | |
| (Losses) | | | | | | | | | | |
| from | | | | | | | | | | |
| changes in | | | | | | | | | | |
| value of call | | | | | | | | | | |
| Units | | | | | | | | | | |
| repurchased | | | | | | | | | | |
| Repurchase | | | | | | | | | | |
| Market | | | | | | | | | | |
| value | | | | | | | | | | |
| (put) | | | | | | | | | | |
| warrants | | | | | | | | | | |
| Market | | | | | | | | | | |
| price per | | | | | | | | | | |
| unit (in | | | | | | | | | | |
| dollars) | | | | | | | | | | |
| Issuance | | | | | | | | | | |
| amount | | | | | | | | | | |
| Market | | | | | | | | | | |
| Value | | | | | | | | | | |
| (put) | | | | | | | | | | |
| warrants | | | | | | | | | | |
| Units | | | | | | | | | | |
| repurchased | | | | | | | | | | |
| Repurchase | | | | | | | | | | |
| cost | | | | | | | | | | |
| Market | | | | | | | | | | |
| value | | | | | | | | | | |
| (put) | | | | | | | | | | |
| warrants | | | | | | | | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | Units repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| Cathay 04 | N.P.C. | 20,000 | \$0.120 | \$36,400 | \$2,400 | \$34,000 | 14,990 | \$21,521 | \$1,799 | \$(19,722) |
| Cathay 05 | GEMTEK | 20,000 | 0.010 | 19,680 | 200 | 19,480 | 2,556 | 2,441 | 26 | (2,415) |
| Cathay 06 | MSI | 20,000 | 0.050 | 30,820 | 1,000 | 29,820 | 17,906 | 23,484 | 895 | (22,589) |
| Cathay 07 | SPII | 20,000 | 0.010 | 13,720 | 200 | 13,520 | 15,168 | 8,999 | 152 | (8,847) |
| Cathay 08 | EMC | 20,000 | 0.170 | 26,560 | 3,400 | 23,160 | 13,194 | 10,340 | 2,243 | (8,097) |
| Cathay 09 | TMI | 20,000 | 0.100 | 22,640 | 2,000 | 20,640 | 19,299 | 15,629 | 1,930 | (13,699) |
| Cathay 10 | YFY | 20,000 | 0.100 | 24,800 | 2,000 | 22,800 | 19,862 | 23,210 | 1,986 | (21,224) |
| Cathay 11 | ITE | 20,000 | 0.430 | 42,860 | 8,600 | 34,260 | 19,541 | 27,532 | 8,403 | (19,129) |
| Cathay 12 | ACER | 20,000 | 0.270 | 19,840 | 5,400 | 14,440 | 19,621 | 16,628 | 5,298 | (11,330) |
| Cathay 13 | FETL | 20,000 | 0.130 | 8,340 | 2,600 | 5,740 | 18,923 | 7,844 | 2,460 | (5,384) |
| Cathay 14 | CAL | 20,000 | 0.710 | 12,940 | 14,200 | (1,260) | 10,605 | 6,985 | 7,529 | 544 |
| Cathay 15 | WINTEK CORP. | 20,000 | 0.410 | 17,320 | 8,200 | 9,120 | 18,835 | 15,790 | 7,722 | (8,068) |
| Cathay 16 | INNOLUX | 20,000 | 0.600 | 30,260 | 12,000 | 18,260 | 18,990 | 27,905 | 11,394 | (16,511) |
| Cathay 17 | Yuanta Financial Holdings | 20,000 | 0.570 | 18,120 | 11,400 | 6,720 | 19,969 | 17,330 | 11,382 | (5,948) |
| Cathay 18 | MTI | 20,000 | 0.190 | 8,760 | 3,800 | 4,960 | 19,814 | 7,802 | 3,765 | (4,037) |
| Cathay 19 | WPG | 20,000 | 0.920 | 16,100 | 18,400 | (2,300) | 19,656 | 15,828 | 18,083 | 2,255 |
| Cathay 20 | FSC | 20,000 | 1.240 | 16,520 | 24,800 | (8,280) | 19,980 | 16,744 | 24,775 | 8,031 |
| Cathay 21 | FPC | 20,000 | 0.480 | 11,340 | 9,600 | 1,740 | 19,987 | 11,369 | 9,594 | (1,775) |
| Total | | | | \$377,020 | \$130,200 | \$246,820 | | \$277,381 | \$119,436 | \$(157,945) |

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

As of December 31, 2007 and 2008

| December 31, 2007 (US\$) | | | | | | | | | | |
|--|---------------------------|--------------------------|------------------------------------|-----------------|--------------|----------------|-------------------------------|-----------------|--------------|----------------|
| Liabilities for issuance of call | | | | | | | | | | |
| (put) warrants | | | | | | | | | | |
| Repurchase of issued call (put) warrants | | | | | | | | | | |
| Gains (Losses) from changes in value of call | | | | | | | | | | |
| Units repurchased | | | | | | | | | | |
| Market value | | | | | | | | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | Units repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| Cathay 04 | N.P.C. | 20,000 | \$0.0037 | \$1,122 | \$74 | \$1,048 | \$14,990 | \$664 | \$56 | \$(608) |
| Cathay 05 | GEMTEK | 20,000 | 0.0003 | 607 | 6 | 601 | 2,556 | 75 | - | (75) |
| Cathay 06 | MSI | 20,000 | 0.0015 | 951 | 31 | 920 | 17,906 | 724 | 27 | (697) |
| Cathay 07 | SPII | 20,000 | 0.0003 | 423 | 6 | 417 | 15,168 | 277 | 4 | (273) |
| Cathay 08 | EMC | 20,000 | 0.0052 | 819 | 105 | 714 | 13,194 | 319 | 69 | (250) |
| Cathay 09 | TMI | 20,000 | 0.0031 | 698 | 62 | 636 | 19,299 | 482 | 60 | (422) |
| Cathay 10 | YFY | 20,000 | 0.0031 | 765 | 62 | 703 | 19,862 | 716 | 62 | (654) |
| Cathay 11 | ITE | 20,000 | 0.0133 | 1,321 | 265 | 1,056 | 19,541 | 849 | 259 | (590) |
| Cathay 12 | ACER | 20,000 | 0.0083 | 612 | 167 | 445 | 19,621 | 513 | 164 | (349) |
| Cathay 13 | FETL | 20,000 | 0.0400 | 257 | 80 | 177 | 18,923 | 242 | 76 | (166) |
| Cathay 14 | CAL | 20,000 | 0.0219 | 399 | 438 | (39) | 10,605 | 215 | 232 | 17 |
| Cathay 15 | WINTEK CORP. | 20,000 | 0.0126 | 534 | 253 | 281 | 18,835 | 487 | 238 | (249) |
| Cathay 16 | INNOLUX | 20,000 | 0.0185 | 933 | 370 | 563 | 18,990 | 860 | 351 | (509) |
| Cathay 17 | Yuanta Financial Holdings | 20,000 | 0.0176 | 559 | 352 | 207 | 19,969 | 534 | 351 | (183) |
| Cathay 18 | MTI | 20,000 | 0.0059 | 270 | 117 | 153 | 19,814 | 241 | 116 | (125) |
| Cathay 19 | WPG | 20,000 | 0.0284 | 496 | 567 | (71) | 19,655 | 488 | 558 | 70 |
| Cathay 20 | FSC | 20,000 | 0.0382 | 509 | 764 | (255) | 19,980 | 516 | 764 | 248 |
| Cathay 21 | FPC | 20,000 | 0.0148 | 350 | 296 | 54 | 19,987 | 351 | 296 | (55) |
| Total | | | | \$11,625 | \$4,015 | \$7,610 | \$8,553 | \$3,683 | \$(4,870) | |

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Notes to financial statements (continued)

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| December 31, 2008 (NT\$) | | | | | | | | | | |
|----------------------------------|-----------------------|--------------------------|------------------------------------|-----------------|--------------|--|-------------------------------|--|--------------|----------------|
| Liabilities for issuance of call | | | | | | | | | | |
| (put) warrants | | | | | | Repurchase of issued call (put) warrants | | | | |
| | | | | | | Gains (Losses) from changes in value of call | | Gains (Losses) from changes in value of call | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | Units repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| Cathay 57 | FOXLINK | 20,000 | \$0.010 | \$21,500 | \$200 | \$21,300 | 18,237 | \$20,992 | \$182 | \$(20,810) |
| Cathay 58 | EPISTAR | 20,000 | 0.010 | 25,680 | 200 | 25,480 | 18,434 | 15,198 | 184 | (15,014) |
| Cathay 59 | TRIPOD | 20,000 | 0.090 | 34,440 | 1,800 | 32,640 | 19,499 | 20,141 | 1,755 | (18,386) |
| Cathay 60 | ESMT | 20,000 | 0.010 | 36,420 | 200 | 36,220 | 19,185 | 18,842 | 192 | (18,650) |
| Cathay 61 | KINPO | 20,000 | 0.010 | 25,680 | 200 | 25,480 | 15,397 | 6,624 | 154 | (6,470) |
| Cathay 62 | FEIB | 20,000 | 0.040 | 16,920 | 800 | 16,120 | 18,971 | 7,195 | 759 | (6,436) |
| Cathay 63 | TXC | 20,000 | 0.010 | 25,680 | 200 | 25,480 | 18,485 | 11,654 | 185 | (11,469) |
| Cathay 64 | GET | 20,000 | 0.120 | 77,640 | 2,400 | 75,240 | 19,671 | 66,831 | 2,361 | (64,470) |
| Cathay 65 | GIANT | 20,000 | 0.010 | 29,860 | 200 | 29,660 | 18,979 | 12,604 | 190 | (12,414) |
| Cathay 66 | GINTECH | 20,000 | 0.010 | 90,180 | 200 | 89,980 | 19,400 | 84,307 | 194 | (84,113) |
| Cathay 67 | SUNPLUS | 20,000 | 0.010 | 25,680 | 200 | 25,480 | 18,654 | 7,298 | 187 | (7,111) |
| Cathay 68 | ZINWELL | 20,000 | 0.010 | 38,620 | 200 | 38,420 | 18,370 | 13,780 | 184 | (13,596) |
| Cathay 69 | NOVATEK | 20,000 | 0.010 | 34,240 | 200 | 34,040 | 16,361 | 10,925 | 164 | (10,761) |
| Cathay 70 | CDIBH | 20,000 | 0.010 | 29,660 | 200 | 29,460 | 17,149 | 11,924 | 171 | (11,753) |
| Cathay 71 | CMO | 20,000 | 0.010 | 23,880 | 200 | 23,680 | 19,646 | 11,969 | 196 | (11,773) |
| Cathay 72 | MVI | 20,000 | 0.010 | 21,500 | 200 | 21,300 | 18,234 | 8,560 | 182 | (8,378) |
| Cathay 73 | AUO | 20,000 | 0.010 | 16,520 | 200 | 16,320 | 17,339 | 6,488 | 173 | (6,315) |
| Cathay 74 | SKFH | 20,000 | 0.010 | 34,240 | 200 | 34,040 | 17,776 | 13,968 | 178 | (13,790) |
| Cathay 75 | UNIMICRON | 20,000 | 0.010 | 29,860 | 200 | 29,660 | 19,008 | 12,781 | 190 | (12,591) |
| Cathay 76 | DELTA | 20,000 | 0.040 | 29,060 | 800 | 28,260 | 19,136 | 15,922 | 765 | (15,157) |
| Cathay 77 | CPT | 20,000 | 0.010 | 15,320 | 200 | 15,120 | 16,934 | 6,506 | 169 | (6,337) |
| Cathay 78 | GREATWALL | 20,000 | 0.010 | 21,500 | 200 | 21,300 | 18,662 | 6,119 | 187 | (5,932) |
| Cathay 79 | TATUNG CO. | 20,000 | 0.010 | 21,500 | 200 | 21,300 | 18,841 | 9,109 | 188 | (8,921) |
| Cathay 80 | GDC | 20,000 | 0.040 | 30,060 | 800 | 29,260 | 19,095 | 8,534 | 764 | (7,770) |
| Cathay 81 | WALSIN | 20,000 | 0.010 | 21,100 | 200 | 20,900 | 19,389 | 10,069 | 194 | (9,875) |
| Cathay 82 | OUCC | 20,000 | 0.010 | 21,500 | 200 | 21,300 | 19,303 | 12,435 | 193 | (12,242) |
| Cathay 83 | INNOLUX | 20,000 | 0.010 | 21,300 | 200 | 21,100 | 18,750 | 10,566 | 188 | (10,378) |
| Cathay 84 | INOTERA | 20,000 | 0.030 | 21,500 | 600 | 20,900 | 16,299 | 6,368 | 489 | (5,879) |
| Cathay 85 | PTI | 20,000 | 0.010 | 29,860 | 200 | 29,660 | 19,352 | 11,346 | 194 | (11,152) |
| Cathay 86 | SILITECH | 20,000 | 0.160 | 30,060 | 3,200 | 26,860 | 18,855 | 12,537 | 3,017 | (9,520) |
| Cathay 87 | D-LINK | 20,000 | 0.020 | 30,060 | 400 | 29,660 | 19,389 | 11,601 | 388 | (11,213) |

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| | | December 31, 2008 (NT\$) | | | | | | | | |
|-----------|-----------------------|--|------------------------------------|-----------------|--------------|----------------|--|-----------------|--------------|----------------|
| | | Liabilities for issuance of call | | | | | Repurchase of issued call (put) warrants | | | |
| | | (put) warrants | | | | | Repurchase of issued call (put) warrants | | | |
| | | Gains (Losses) from changes in value of call | | | | | Gains (Losses) from changes in value of call | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | Units repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| Cathay 88 | FH | 20,000 | 0.010 | 17,120 | 200 | 16,920 | 19,931 | 14,673 | 199 | (14,474) |
| Cathay 89 | HTC | 20,000 | 0.300 | 116,460 | 6,000 | 110,460 | 18,936 | 55,112 | 5,681 | (49,431) |
| Cathay 90 | TC | 20,000 | 0.010 | 16,520 | 200 | 16,320 | 19,946 | 12,784 | 199 | (12,585) |
| Cathay 91 | ACER | 20,000 | 0.020 | 21,300 | 400 | 20,900 | 19,194 | 12,344 | 384 | (11,960) |
| Cathay 92 | SYNNEX | 20,000 | 0.010 | 21,300 | 200 | 21,100 | 18,275 | 6,131 | 183 | (5,948) |
| Cathay 93 | INOTERA | 20,000 | 0.160 | 17,120 | 3,200 | 13,920 | 16,707 | 10,025 | 2,673 | (7,352) |
| Cathay 94 | MVI | 20,000 | 0.010 | 17,120 | 200 | 16,920 | 19,238 | 10,016 | 192 | (9,824) |
| Cathay 95 | CPT | 20,000 | 0.010 | 12,340 | 200 | 12,140 | 19,317 | 9,151 | 193 | (8,958) |
| Cathay 96 | HTC | 20,000 | 0.090 | 16,720 | 1,800 | 14,920 | 8,492 | 2,204 | 764 | (1,440) |
| Cathay 97 | FARADAY | 20,000 | 0.110 | 19,900 | 2,200 | 17,700 | 16,589 | 8,383 | 1,825 | (6,558) |
| Cathay 98 | EPISTAR | 20,000 | 0.030 | 20,700 | 600 | 20,100 | 19,750 | 14,870 | 593 | (14,277) |
| Cathay 99 | USI | 20,000 | 0.100 | 21,500 | 2,000 | 19,500 | 17,559 | 12,158 | 1,756 | (10,402) |
| Cathay A1 | CAL | 20,000 | 2.450 | 25,480 | 49,000 | (23,520) | 19,471 | 52,093 | 47,704 | (4,389) |
| Cathay A2 | TCC | 19,995 | 1.570 | 16,515 | 31,392 | (14,877) | 19,668 | 20,628 | 30,879 | 10,251 |
| Cathay A3 | HTC | 20,000 | 0.990 | 94,780 | 19,800 | 74,980 | 19,679 | 62,160 | 19,482 | (42,678) |
| Cathay A4 | PTI | 20,000 | 0.250 | 17,120 | 5,000 | 12,120 | 19,439 | 8,470 | 4,860 | (3,610) |
| Cathay A5 | WINTEK CORP. | 20,000 | 0.020 | 25,880 | 400 | 25,480 | 18,362 | 9,415 | 367 | (9,048) |
| Cathay A6 | TFC | 20,000 | 1.050 | 18,320 | 21,000 | (2,680) | 19,799 | 18,970 | 20,789 | 1,819 |
| Cathay A7 | ASUSTEK | 20,000 | 0.040 | 18,120 | 800 | 17,320 | 19,030 | 7,871 | 761 | (7,110) |
| Cathay A8 | ZINKELL | 20,000 | 1.000 | 27,480 | 20,000 | 7,480 | 19,335 | 20,078 | 19,335 | (743) |
| Cathay A9 | PTT50TF | 20,000 | 0.700 | 21,500 | 14,000 | 7,500 | 15,813 | 11,587 | 11,069 | (518) |
| Cathay B1 | NOVATEK | 20,000 | 0.370 | 15,720 | 7,400 | 8,320 | 19,782 | 12,638 | 7,319 | (5,319) |
| Cathay B2 | TXC | 20,000 | 0.110 | 13,740 | 2,200 | 11,540 | 19,665 | 7,450 | 2,163 | (5,287) |
| Cathay B3 | INNOLUX | 20,000 | 0.500 | 27,480 | 10,000 | 17,480 | 19,119 | 11,884 | 9,560 | (2,324) |
| Cathay B4 | GIANT | 20,000 | 0.630 | 22,900 | 12,600 | 10,300 | 19,377 | 16,899 | 12,208 | (4,691) |
| Cathay B5 | MTK | 20,000 | 0.250 | 12,940 | 5,000 | 7,940 | 19,180 | 5,274 | 4,795 | (479) |
| Cathay B6 | HTC | 20,000 | 0.290 | 17,200 | 5,800 | 11,400 | 15,092 | 4,949 | 4,377 | (572) |
| Cathay B7 | NK | 20,000 | 0.220 | 18,320 | 4,400 | 13,920 | 18,358 | 6,143 | 4,039 | (2,104) |
| Cathay B8 | AUO | 20,000 | 0.760 | 17,120 | 15,200 | 1,920 | 19,969 | 12,931 | 15,176 | 2,245 |
| Cathay B9 | TATUNG CO. | 20,000 | 0.790 | 22,900 | 15,800 | 7,100 | 18,654 | 15,978 | 14,737 | (1,241) |
| Cathay C1 | LTC | 20,000 | 0.570 | 18,320 | 11,400 | 6,920 | 19,974 | 15,235 | 11,385 | (3,850) |
| Cathay C2 | ZyXEL | 20,000 | 0.550 | 18,320 | 11,000 | 7,320 | 19,280 | 11,102 | 10,604 | (498) |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

| December 31, 2008 (NT\$) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------------------|--------------------------|------------------------------------|-----------------|----------------------------------|----------------|-------------------------|--|--------------|----------------|--|--|--|--|--|----------------------------------|--|--|--|--|--|--|--|--|--|--|----------------|--|--|--|--|--|--|--|--|--|--|-------|--|--|-------|--|--|--|--|--|--|--|----------|--|--|----------|--|--|--|--|--|--|--|------|--|--|------|--|--|--|--|--|--|--|------------|--|--|------------|--|--|--|--|--|--|--|---------------|--|--|---------------|--|--|------|-----------------------|--------------------------|------------------------------------|-----------------|--------------|----------------|-------------------------|-----------------|--------------|----------------|
| Liabilities for issuance of call | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="0" style="width:100%; border-collapse: collapse;"> <tr> <td colspan="5"></td> <td align="center" colspan="3">Liabilities for issuance of call</td> <td colspan="3"></td> </tr> <tr> <td colspan="5"></td> <td align="center" colspan="3">(put) warrants</td> <td align="center" colspan="3">Repurchase of issued call (put) warrants</td> </tr> <tr> <td colspan="5"></td> <td align="center" colspan="3">Gains</td> <td align="center" colspan="3">Gains</td> </tr> <tr> <td colspan="5"></td> <td align="center" colspan="3">(Losses)</td> <td align="center" colspan="3">(Losses)</td> </tr> <tr> <td colspan="5"></td> <td align="center" colspan="3">from</td> <td align="center" colspan="3">from</td> </tr> <tr> <td colspan="5"></td> <td align="center" colspan="3">changes in</td> <td align="center" colspan="3">changes in</td> </tr> <tr> <td colspan="5"></td> <td align="center" colspan="3">value of call</td> <td align="center" colspan="3">value of call</td> </tr> <tr> <th>Name</th> <th>Underlying securities</th> <th>Units issued (thousands)</th> <th>Market price per unit (in dollars)</th> <th>Issuance amount</th> <th>Market Value</th> <th>(put) warrants</th> <th>repurchased (thousands)</th> <th>Repurchase cost</th> <th>Market value</th> <th>(put) warrants</th> </tr> </table> | | | | | | | | | | | | | | | | Liabilities for issuance of call | | | | | | | | | | | (put) warrants | | | Repurchase of issued call (put) warrants | | | | | | | | Gains | | | Gains | | | | | | | | (Losses) | | | (Losses) | | | | | | | | from | | | from | | | | | | | | changes in | | | changes in | | | | | | | | value of call | | | value of call | | | Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| | | | | | Liabilities for issuance of call | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | (put) warrants | | | Repurchase of issued call (put) warrants | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | Gains | | | Gains | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | (Losses) | | | (Losses) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | from | | | from | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | changes in | | | changes in | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | value of call | | | value of call | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | repurchased (thousands) | Repurchase cost | Market value | (put) warrants | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C3 | YMTC | 20,000 | 0.500 | 22,900 | 10,000 | 12,900 | 19,505 | 14,646 | 9,753 | (4,893) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C4 | GFRT | 20,000 | 0.940 | 13,740 | 18,800 | (5,060) | 19,246 | 14,683 | 18,091 | 3,408 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C5 | ASIA | 20,000 | 0.710 | 18,320 | 14,200 | 4,120 | 19,196 | 15,431 | 13,629 | (1,802) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C6 | RT | 20,000 | 0.530 | 18,320 | 10,600 | 7,720 | 19,431 | 14,173 | 10,298 | (3,875) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C7 | RUENIEX DEVELOP | 20,000 | 0.690 | 13,740 | 13,800 | (60) | 19,309 | 13,091 | 13,323 | 232 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C8 | RICHTEK | 20,000 | 2.340 | 45,800 | 46,800 | (1,000) | 19,680 | 47,891 | 46,051 | (1,840) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay C9 | PTT50TF | 20,000 | 0.520 | 13,740 | 10,400 | 3,340 | 19,287 | 12,021 | 10,029 | (1,992) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D1 | HTC | 20,000 | 0.450 | 13,740 | 9,000 | 4,740 | 19,317 | 11,816 | 8,693 | (3,123) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D2 | MIC | 20,000 | 1.070 | 22,900 | 21,400 | 1,500 | 20,000 | 21,050 | 21,400 | 350 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D3 | HANNSTAR | 20,000 | 0.890 | 18,320 | 17,800 | 520 | 19,743 | 17,653 | 17,571 | (82) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D4 | KYEC | 20,000 | 0.700 | 13,740 | 14,000 | (260) | 19,785 | 14,390 | 13,850 | (540) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D5 | CCI | 20,000 | 0.690 | 15,520 | 13,800 | 1,720 | 19,922 | 14,673 | 13,746 | (927) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D6 | SILITECH | 20,000 | 0.610 | 18,320 | 12,200 | 6,120 | 19,980 | 17,214 | 12,188 | (5,026) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D7 | WINTEK CORP. | 20,000 | 1.260 | 27,480 | 25,200 | 2,280 | 19,408 | 25,120 | 24,454 | (666) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D8 | YAGEO | 20,000 | 0.670 | 13,740 | 13,400 | 340 | 19,849 | 13,284 | 13,299 | 15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay D9 | GTK | 20,000 | 0.600 | 13,740 | 12,000 | 1,740 | 19,971 | 12,993 | 11,982 | (1,011) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay E1 | CHINA LIFE | 20,000 | 1.070 | 22,900 | 21,400 | 1,500 | 19,955 | 21,953 | 21,352 | (601) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay E2 | CHUNG HUNG | 20,000 | 1.070 | 22,300 | 21,400 | 900 | 19,990 | 22,371 | 21,389 | (982) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay Q4 | SASPI | 10,000 | 0.010 | 32,250 | 100 | 32,150 | 8,917 | 3,075 | 89 | (2,986) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay Q5 | MII | 5,000 | 0.010 | 17,270 | 50 | 17,220 | 3,437 | 3,141 | 34 | (3,107) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay Q6 | PII | 5,000 | 0.040 | 19,410 | 200 | 19,210 | 4,162 | 781 | 166 | (615) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay Q7 | FECL | 5,000 | 0.500 | 16,025 | 2,500 | 13,525 | 3,019 | 4,146 | 1,510 | (2,636) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay Q8 | DITC | 10,000 | 0.010 | 19,310 | 100 | 19,210 | 8,571 | 3,292 | 86 | (3,206) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay Q9 | STC | 10,000 | 0.200 | 19,410 | 2,000 | 17,410 | 9,337 | 3,881 | 1,867 | (2,014) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S1 | PEC | 6,500 | 0.060 | 15,971 | 390 | 15,581 | 4,681 | 1,738 | 281 | (1,457) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S2 | PII | 5,000 | 1.690 | 16,075 | 8,450 | 7,625 | 4,694 | 7,007 | 7,933 | 926 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S3 | GMT | 10,000 | 0.280 | 19,310 | 2,800 | 16,510 | 8,554 | 3,828 | 2,395 | (1,433) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S4 | DITC | 10,000 | 0.260 | 13,740 | 2,600 | 11,140 | 8,112 | 4,394 | 2,109 | (2,285) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S5 | PEC | 7,000 | 1.440 | 8,708 | 10,080 | (1,372) | 4,933 | 6,476 | 7,104 | 628 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S6 | MII | 5,000 | 0.330 | 10,550 | 1,650 | 8,900 | 4,711 | 2,627 | 1,555 | (1,072) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S7 | MII | 10,000 | 1.800 | 11,150 | 18,000 | (6,850) | 8,577 | 12,355 | 15,439 | 3,084 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cathay S8 | SAMTC | 8,000 | 1.600 | 14,496 | 12,800 | 1,696 | 7,719 | 13,061 | 12,350 | (711) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

| December 31, 2008 (NT\$) | | | | | | | | | | |
|--|-----------------------|--------------------------|------------------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|
| Liabilities for issuance of call | | | | | | | | | | |
| (put) warrants | | | | | | | | | | |
| Repurchase of issued call (put) warrants | | | | | | | | | | |
| Gains | | | | | | | | | | |
| (Losses) | | | | | | | | | | |
| from | | | | | | | | | | |
| changes in | | | | | | | | | | |
| value of call | | | | | | | | | | |
| Units | | | | | | | | | | |
| repurchased | | | | | | | | | | |
| Repurchase | | | | | | | | | | |
| Market | | | | | | | | | | |
| value | | | | | | | | | | |
| (put) | | | | | | | | | | |
| warrants | | | | | | | | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| Cathay S9 | ETSTC | 7,000 | 1.890 | 12,824 | 13,230 | (406) | 6,052 | 10,717 | 11,438 | 721 |
| Cathay T1 | STC | 8,000 | 1.210 | 14,656 | 9,680 | 4,976 | 7,791 | 10,733 | 9,427 | (1,306) |
| Cathay T2 | DITC | 10,000 | 1.060 | 13,740 | 10,600 | 3,140 | 9,797 | 11,255 | 10,385 | (870) |
| Cathay T3 | CC | 5,000 | 1.530 | 9,160 | 7,650 | 1,510 | 4,997 | 8,235 | 7,645 | (590) |
| Cathay T4 | TSMTC | 5,000 | 2.080 | 12,545 | 10,400 | 2,145 | 4,996 | 10,255 | 10,392 | 137 |
| Total | | | | <u>\$2,365,135</u> | <u>\$714,272</u> | <u>\$1,650,863</u> | | <u>\$1,428,249</u> | <u>\$684,071</u> | <u>\$(744,178)</u> |

| December 31, 2008 (US\$) | | | | | | | | | | |
|--|-----------------------|--------------------------|------------------------------------|-----------------|--------------|----------------|-------------------------|-----------------|--------------|----------------|
| Liabilities for issuance of call | | | | | | | | | | |
| (put) warrants | | | | | | | | | | |
| Repurchase of issued call (put) warrants | | | | | | | | | | |
| Gains | | | | | | | | | | |
| (Losses) | | | | | | | | | | |
| from | | | | | | | | | | |
| changes in | | | | | | | | | | |
| value of call | | | | | | | | | | |
| Units | | | | | | | | | | |
| repurchased | | | | | | | | | | |
| Repurchase | | | | | | | | | | |
| Market | | | | | | | | | | |
| value | | | | | | | | | | |
| (put) | | | | | | | | | | |
| warrants | | | | | | | | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | (put) warrants | repurchased (thousands) | Repurchase cost | Market value | (put) warrants |
| Cathay 57 | FOXLINK | 20,000 | \$0.0003 | \$656 | \$6 | \$650 | 18,237 | \$641 | \$5 | \$(636) |
| Cathay 58 | EPISTAR | 20,000 | 0.0003 | 784 | 6 | 778 | 18,434 | 464 | 5 | (459) |
| Cathay 59 | TRIPOD | 20,000 | 0.0027 | 1,051 | 54 | 997 | 19,499 | 615 | 53 | (562) |
| Cathay 60 | ESMT | 20,000 | 0.0003 | 1,112 | 6 | 1,106 | 19,185 | 575 | 6 | (569) |
| Cathay 61 | KINPO | 20,000 | 0.0003 | 784 | 6 | 778 | 15,397 | 202 | 5 | (197) |
| Cathay 62 | FEIB | 20,000 | 0.0012 | 517 | 24 | 493 | 18,971 | 220 | 23 | (197) |
| Cathay 63 | TXC | 20,000 | 0.0003 | 784 | 6 | 778 | 18,485 | 356 | 6 | (350) |
| Cathay 64 | GET | 20,000 | 0.0037 | 2,370 | 74 | 2,296 | 19,671 | 2,040 | 73 | (1,967) |
| Cathay 65 | GIANT | 20,000 | 0.0003 | 912 | 6 | 906 | 18,979 | 385 | 6 | (379) |
| Cathay 66 | GINTECH | 20,000 | 0.0003 | 2,753 | 6 | 2,747 | 19,400 | 2,573 | 6 | (2,567) |
| Cathay 67 | SUNPLUS | 20,000 | 0.0003 | 784 | 6 | 778 | 18,654 | 223 | 6 | (217) |
| Cathay 68 | ZINWELL | 20,000 | 0.0003 | 1,179 | 6 | 1,173 | 18,370 | 421 | 5 | (416) |
| Cathay 69 | NOVATEK | 20,000 | 0.0003 | 1,045 | 6 | 1,039 | 16,361 | 333 | 5 | (328) |
| Cathay 70 | CDIBH | 20,000 | 0.0003 | 905 | 6 | 899 | 17,149 | 364 | 5 | (359) |

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Notes to financial statements (continued)

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As of December 31, 2007 and 2008

| December 31, 2008 (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 (Losses) 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 |
| | | | | | | | | | | |
| Cathay 71 | CMO | 20,000 | 0.0003 | 729 | 6 | 723 | 19,646 | 365 | 6 | (359) |
| Cathay 72 | MVI | 20,000 | 0.0003 | 656 | 6 | 650 | 18,234 | 261 | 5 | (256) |
| Cathay 73 | AUO | 20,000 | 0.0003 | 504 | 6 | 498 | 17,339 | 198 | 5 | (193) |
| Cathay 74 | SKFH | 20,000 | 0.0003 | 1,045 | 6 | 1,039 | 17,776 | 426 | 5 | (421) |
| Cathay 75 | UNIMICRON | 20,000 | 0.0003 | 912 | 6 | 906 | 19,008 | 390 | 6 | (384) |
| Cathay 76 | DELTA | 20,000 | 0.0012 | 887 | 24 | 863 | 19,136 | 486 | 23 | (463) |
| Cathay 77 | CPT | 20,000 | 0.0003 | 468 | 6 | 462 | 16,934 | 199 | 5 | (194) |
| Cathay 78 | GREATWALL | 20,000 | 0.0003 | 656 | 6 | 650 | 18,662 | 187 | 6 | (181) |
| Cathay 79 | TATUNG CO. | 20,000 | 0.0003 | 656 | 6 | 650 | 18,841 | 278 | 6 | (272) |
| Cathay 80 | GDC | 20,000 | 0.0012 | 918 | 24 | 894 | 19,095 | 260 | 23 | (237) |
| Cathay 81 | WALSIN | 20,000 | 0.0003 | 644 | 6 | 638 | 19,389 | 307 | 6 | (301) |
| Cathay 82 | OUCG | 20,000 | 0.0003 | 656 | 6 | 650 | 19,303 | 380 | 6 | (374) |
| Cathay 83 | INNOLUX | 20,000 | 0.0003 | 650 | 6 | 644 | 18,750 | 322 | 6 | (316) |
| Cathay 84 | INOTERA | 20,000 | 0.0009 | 656 | 18 | 638 | 16,299 | 194 | 15 | (179) |
| Cathay 85 | PTI | 20,000 | 0.0003 | 912 | 6 | 906 | 19,352 | 346 | 6 | (340) |
| Cathay 86 | SILITECH | 20,000 | 0.0049 | 918 | 98 | 820 | 18,855 | 383 | 92 | (291) |
| Cathay 87 | D-LINK | 20,000 | 0.0006 | 918 | 12 | 906 | 19,389 | 354 | 12 | (342) |
| Cathay 88 | FH | 20,000 | 0.0003 | 523 | 6 | 517 | 19,931 | 448 | 6 | (442) |
| Cathay 89 | HTC | 20,000 | 0.0092 | 3,555 | 184 | 3,371 | 18,936 | 1,682 | 174 | (1,508) |
| Cathay 90 | TC | 20,000 | 0.0003 | 504 | 6 | 498 | 19,946 | 390 | 6 | (384) |
| Cathay 91 | ACER | 20,000 | 0.0006 | 650 | 12 | 638 | 19,194 | 377 | 11 | (366) |
| Cathay 92 | SYNNEX | 20,000 | 0.0003 | 650 | 6 | 644 | 18,275 | 187 | 5 | (182) |
| Cathay 93 | INOTERA | 20,000 | 0.0049 | 523 | 98 | 425 | 16,707 | 306 | 82 | (224) |
| Cathay 94 | MVI | 20,000 | 0.0003 | 523 | 6 | 517 | 19,238 | 306 | 6 | (300) |
| Cathay 95 | CPT | 20,000 | 0.0003 | 377 | 6 | 371 | 19,317 | 279 | 6 | (273) |
| Cathay 96 | HTC | 20,000 | 0.0027 | 510 | 54 | 456 | 8,492 | 67 | 23 | (44) |
| Cathay 97 | FARADAY | 20,000 | 0.0034 | 608 | 68 | 540 | 16,589 | 256 | 56 | (200) |
| Cathay 98 | EPISTAR | 20,000 | 0.0009 | 632 | 18 | 614 | 19,750 | 454 | 18 | (436) |
| Cathay 99 | USI | 20,000 | 0.0031 | 656 | 61 | 595 | 17,559 | 371 | 54 | (317) |
| Cathay A1 | CAL | 20,000 | 0.0748 | 778 | 1,496 | (718) | 19,471 | 1,590 | 1456 | (134) |

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| | | December 31, 2008 (US\$) | | | | | | | | |
|-----------|-----------------------|----------------------------------|------------------------------------|-----------------|----------------|--------------|-------------------------|--|--------------|--------------|
| | | Liabilities for issuance of call | | | | | | Repurchase of issued call (put) warrants | | |
| | | | | | (put) warrants | | | | | |
| | | Market | | | Gains | | | Gains | | |
| | | price per | | | (Losses) | | | (Losses) | | |
| | | from | | | from | | | from | | |
| | | changes in | | | changes in | | | changes in | | |
| | | value of call | | | value of call | | | value of call | | |
| | | (put) | | | (put) | | | (put) | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | Market Value | repurchased (thousands) | Repurchase cost | Market value | Market value |
| Cathay A2 | TCC | 19,995 | 0.0479 | 504 | 958 | (454) | 19,668 | 630 | 942 | 312 |
| Cathay A3 | HTC | 20,000 | 0.0302 | 2,893 | 604 | 2,289 | 19,679 | 1,897 | 594 | (1,303) |
| Cathay A4 | PTI | 20,000 | 0.0076 | 523 | 152 | 371 | 19,439 | 259 | 148 | (111) |
| Cathay A5 | WINTEK CORP. | 20,000 | 0.0006 | 790 | 12 | 778 | 18,362 | 287 | 11 | (276) |
| Cathay A6 | TFC | 20,000 | 0.0321 | 559 | 642 | (83) | 19,799 | 579 | 636 | 57 |
| Cathay A7 | ASUSTEK | 20,000 | 0.0012 | 553 | 24 | 529 | 19,030 | 240 | 23 | (217) |
| Cathay A8 | ZINKELL | 20,000 | 0.0305 | 839 | 610 | 229 | 19,335 | 613 | 590 | (23) |
| Cathay A9 | PTT50TF | 20,000 | 0.0214 | 656 | 428 | 228 | 15,813 | 354 | 338 | (16) |
| Cathay B1 | NOVATEK | 20,000 | 0.0113 | 480 | 226 | 254 | 19,782 | 386 | 223 | (163) |
| Cathay B2 | TXC | 20,000 | 0.0034 | 419 | 68 | 351 | 19,665 | 227 | 67 | (160) |
| Cathay B3 | INNOLUX | 20,000 | 0.0153 | 839 | 306 | 533 | 19,119 | 363 | 292 | (71) |
| Cathay B4 | GIANT | 20,000 | 0.0192 | 699 | 384 | 315 | 19,377 | 516 | 372 | (144) |
| Cathay B5 | MTK | 20,000 | 0.0076 | 395 | 152 | 243 | 19,180 | 161 | 146 | (15) |
| Cathay B6 | HTC | 20,000 | 0.0089 | 525 | 178 | 347 | 15,092 | 151 | 134 | (17) |
| Cathay B7 | NK | 20,000 | 0.0067 | 559 | 134 | 425 | 18,358 | 187 | 123 | (64) |
| Cathay B8 | AUO | 20,000 | 0.0232 | 523 | 464 | 59 | 19,969 | 395 | 463 | 68 |
| Cathay B9 | TATUNG CO. | 20,000 | 0.0241 | 699 | 482 | 217 | 18,654 | 488 | 450 | (38) |
| Cathay C1 | LTC | 20,000 | 0.0174 | 559 | 348 | 211 | 19,974 | 465 | 348 | (117) |
| Cathay C2 | ZyXEL | 20,000 | 0.0168 | 559 | 336 | 223 | 19,280 | 339 | 324 | (15) |
| Cathay C3 | YMTC | 20,000 | 0.0153 | 699 | 305 | 394 | 19,505 | 447 | 298 | (149) |
| Cathay C4 | GFRT | 20,000 | 0.0287 | 419 | 574 | (155) | 19,246 | 448 | 552 | 104 |
| Cathay C5 | ASIA | 20,000 | 0.0217 | 559 | 433 | 126 | 19,196 | 471 | 417 | (54) |
| Cathay C6 | RT | 20,000 | 0.0162 | 559 | 324 | 235 | 19,431 | 433 | 315 | (118) |
| Cathay C7 | RUENTEX | 20,000 | 0.0211 | 419 | 421 | (2) | 19,309 | 400 | 407 | 7 |
| | DEVELOP | | | | | | | | | |
| Cathay C8 | RICHTEK | 20,000 | 0.0714 | 1,398 | 1,428 | (30) | 19,680 | 1,462 | 1405 | (57) |
| Cathay C9 | PTT50TF | 20,000 | 0.0159 | 419 | 318 | 101 | 19,287 | 367 | 307 | (60) |
| Cathay D1 | HTC | 20,000 | 0.0137 | 419 | 274 | 145 | 19,317 | 361 | 265 | (96) |
| Cathay D2 | MIC | 20,000 | 0.0327 | 699 | 654 | 45 | 20,000 | 643 | 654 | 11 |
| Cathay D3 | HANNSTAR | 20,000 | 0.0272 | 559 | 544 | 15 | 19,743 | 539 | 537 | (2) |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

| December 31, 2008 (US\$) | | | | | | | | | | |
|---|-----------------------|--------------------------|------------------------------------|-----------------|--------------|--------------|-------------------------------|-----------------|--------------|--------------|
| Liabilities for issuance of call | | | | | | | | | | |
| <div style="display: flex; justify-content: space-between;"> (put) warrants Repurchase of issued call (put) warrants </div> | | | | | | | | | | |
| <div style="display: flex; justify-content: space-between;"> Gains (Losses) from changes in value of call (put) warrants Gains (Losses) from changes in value of call (put) warrants </div> | | | | | | | | | | |
| Name | Underlying securities | Units issued (thousands) | Market price per unit (in dollars) | Issuance amount | Market Value | Market Value | Units repurchased (thousands) | Repurchase cost | Market value | Market value |
| Cathay D4 | KYEC | 20,000 | 0.0214 | 419 | 428 | (9) | 19,785 | 439 | 423 | (16) |
| Cathay D5 | CCI | 20,000 | 0.0211 | 474 | 422 | 52 | 19,922 | 448 | 420 | (28) |
| Cathay D6 | SILITECH | 20,000 | 0.0186 | 559 | 372 | 187 | 19,980 | 525 | 372 | (153) |
| Cathay D7 | WINTEK CORP. | 20,000 | 0.0385 | 839 | 770 | 69 | 19,408 | 767 | 747 | (20) |
| Cathay D8 | YAGEO | 20,000 | 0.0205 | 419 | 410 | 9 | 19,849 | 405 | 407 | 2 |
| Cathay D9 | GTK | 20,000 | 0.0183 | 419 | 366 | 53 | 19,971 | 397 | 365 | (32) |
| Cathay E1 | CHINA LIFE | 20,000 | 0.0327 | 699 | 654 | 45 | 19,955 | 670 | 652 | (18) |
| Cathay E2 | CHUNG HUNG | 20,000 | 0.0327 | 681 | 654 | 27 | 19,990 | 683 | 654 | (29) |
| Cathay Q4 | SASPI | 10,000 | 0.0003 | 985 | 3 | 982 | 8,917 | 94 | 3 | (91) |
| Cathay Q5 | MII | 5,000 | 0.0003 | 527 | 2 | 525 | 3,437 | 96 | 1 | (95) |
| Cathay Q6 | PII | 5,000 | 0.0012 | 593 | 6 | 587 | 4,162 | 24 | 5 | (19) |
| Cathay Q7 | FECL | 5,000 | 0.0153 | 489 | 76 | 413 | 3,019 | 127 | 46 | (81) |
| Cathay Q8 | DITC | 10,000 | 0.0003 | 589 | 3 | 586 | 8,571 | 100 | 3 | (97) |
| Cathay Q9 | STC | 10,000 | 0.0061 | 593 | 61 | 532 | 9,337 | 118 | 57 | (61) |
| Cathay S1 | PEC | 6,500 | 0.0018 | 488 | 12 | 476 | 4,681 | 53 | 8 | (45) |
| Cathay S2 | PII | 5,000 | 0.0516 | 491 | 258 | 233 | 4,694 | 214 | 242 | 28 |
| Cathay S3 | GMT | 10,000 | 0.0085 | 589 | 85 | 504 | 8,554 | 117 | 73 | (44) |
| Cathay S4 | DITC | 10,000 | 0.0079 | 419 | 79 | 340 | 8,112 | 134 | 64 | (70) |
| Cathay S5 | PEC | 7,000 | 0.0440 | 266 | 308 | (42) | 4,933 | 198 | 216 | 18 |
| Cathay S6 | MII | 5,000 | 0.0101 | 322 | 50 | 272 | 4,711 | 80 | 47 | (33) |
| Cathay S7 | MII | 10,000 | 0.0549 | 340 | 549 | (209) | 8,577 | 377 | 471 | 94 |
| Cathay S8 | SAMTC | 8,000 | 0.0488 | 443 | 390 | 53 | 7,719 | 399 | 376 | (23) |
| Cathay S9 | ETSTC | 7,000 | 0.0577 | 392 | 404 | (12) | 6,052 | 327 | 349 | 22 |
| Cathay T1 | STC | 8,000 | 0.0369 | 447 | 295 | 152 | 7,791 | 328 | 287 | (41) |
| Cathay T2 | DITC | 10,000 | 0.0324 | 419 | 324 | 95 | 9,797 | 344 | 317 | (27) |
| Cathay T3 | CC | 5,000 | 0.0467 | 280 | 234 | 46 | 4,997 | 251 | 233 | (18) |
| Cathay T4 | TSMTC | 5,000 | 0.0635 | 383 | 318 | 65 | 4,996 | 313 | 317 | 4 |
| Total | | | | \$72,196 | \$21,803 | \$50,393 | \$43,597 | \$20,881 | \$22,716 | |

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

As of December 31, 2007 and 2008

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

B. Put options - futures and derivative financial instrument liabilities - GreTai (over-the-counter).

See note 10.

(13) Pension/Accrued pension liability

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

A. Net pension cost

| | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|--|--|-------------|--|-------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| 1) Service cost | \$2,389 | \$74 | \$2,272 | \$70 |
| 2) Interest cost | 235 | 7 | 265 | 8 |
| 3) Expected return on pension assets | (117) | (4) | (153) | (5) |
| 4) Amortization of recognized transition net benefit obligation | 138 | 4 | 138 | 4 |
| Net pension cost | <u>\$2,645</u> | <u>\$81</u> | <u>\$2,522</u> | <u>\$77</u> |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

B. Pension funding status

| | December 31, 2007 | | December 31, 2008 | |
|---|----------------------|-------|----------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| 1) Vested benefit obligation (VBO) | \$671 | \$21 | \$780 | \$24 |
| 2) Non-vested benefit obligation | 4,838 | 149 | 6,578 | 201 |
| 3) Accumulated benefit obligation (ABO) | 5,509 | 170 | 7,358 | 225 |
| 4) Additional benefits based on future salaries | 3,552 | 109 | 4,274 | 130 |
| 5) Projected benefit obligation (PBO) | 9,061 | 279 | 11,632 | 355 |
| 6) Fair value of pension fund assets | (3,954) | (122) | (5,256) | (160) |
| 7) Pension funding status | 5,107 | 157 | 6,376 | 195 |
| 8) Unrecognized transitional net benefit obligation | (2,621) | (81) | (2,483) | (76) |
| 9) Unrecognized pension gain (loss) | 3,461 | 107 | 3,424 | 104 |
| 10) Additional accrued pension liability | - | - | - | - |
| 11) Accrued pension liability = 7)+8)+9)+10) | \$5,947 | \$183 | \$7,317 | \$223 |

C. Actuarial assumptions

| | For the year ended December 31, 2007 | For the year ended December 31, 2008 |
|---|--|--|
| | Discount rate | 3% |
| Rate of increase in future salaries | 3% | 3% |
| Expected long-term rate of return on pension assets | 3% | 3% |

(14) Capital Stock

As of December 31, 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.

(15) 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.

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

As of December 31, 2007 and 2008

(16) 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.
- 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.

(17) 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 years ended December 31, 2007 and 2008, are as follows:

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As of December 31, 2007 and 2008

| Item | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---|---|-------|---|-----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Income (loss) before income taxes | \$31,954 | \$985 | \$(72,641) | \$(2,218) |
| Adjustments: | | | | |
| Interest income taxed on a separate basis | (18,986) | (585) | (531) | (16) |
| Adjusted revenue and expense from dealing departments | 22,367 | 690 | 32,545 | 993 |
| Loss on valuation of open-end funds and currency market instruments | 4,316 | 133 | 345 | 11 |
| Unrealized loss on valuation of operating securities | 10,518 | 324 | 10,280 | 314 |
| Unrealized gain from derivative financial instruments - GreTai (over-the-counter) | (5,311) | (164) | (216) | (6) |
| Investment income recognized on equity method investments | (1,011) | (31) | (18,916) | (578) |
| Option premium for issuance of call (put) warrants | 4,541 | 140 | - | - |
| Unrealized gain from issuing call (put) warrants | (17,139) | (528) | (45,852) | (1,400) |
| Reserve for default losses | 11,909 | 367 | 8,024 | 245 |
| Others | 2,730 | 84 | 18,903 | 577 |
| Taxable income | 45,888 | 1,415 | (68,059) | (2,078) |
| Times: tax rates | 25% | 25% | 25% | 25% |
| Subtotal | 11,472 | 354 | (17,015) | (520) |
| Add: Extra 10% income tax on unappropriated retained earnings | 58 | 2 | - | - |
| Add (Less): Tax effects under integrated income tax system | 323 | 10 | (3,254) | (99) |
| Subtotal | 11,853 | 366 | (20,269) | (619) |
| Add (Less): Tax on a separate basis | 2,883 | 89 | 1,123 | 34 |
| Withholding tax for interest | - | - | 1,589 | 49 |
| Deferred tax benefit | (1,998) | (62) | (1,886) | (57) |
| Prior year's income tax adjustment | 4 | - | (150) | (5) |
| Tax-loss carryforward | - | - | 2,336 | 71 |
| Total income tax expense (benefit) | \$12,742 | \$393 | \$(17,257) | \$(527) |

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C. Information related to tax imputation:

| | December 31, 2007 | | December 31, 2008 | |
|--------------------------------------|------------------------|-------|-----------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance of imputation credit account | \$7,427 | \$229 | \$6,529 | \$199 |
| Imputation credit account ratio | 2007(Actual) 15.18% | | 2008 (Estimated) - | |

D. Information related to undistributed earnings:

| | December 31, 2007 | | December 31, 2008 | |
|------------|-------------------|---------|-------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| After 1998 | \$59,041 | \$1,821 | \$(15,555) | \$(475) |

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

(18) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the years ended December 31, 2007 and 2008 are summarized as follows:

| Item | For the year ended December 31, 2007 (NT\$) | | | For the year ended December 31, 2007 (US\$) | | |
|-----------------------------------|---|--------------------|-----------|---|--------------------|---------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$- | \$164,022 | \$164,022 | \$- | \$5,058 | \$5,058 |
| Labor & health insurance expenses | - | 8,792 | 8,792 | - | 271 | 271 |
| Pension expenses | - | 7,682 | 7,682 | - | 237 | 237 |
| Other expenses | - | 7,301 | 7,301 | - | 225 | 225 |
| Depreciation | - | 29,285 | 29,285 | - | 903 | 903 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 10,608 | 10,608 | - | 327 | 327 |

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| Item | For the year ended December 31, 2008 (NT\$) | | | For the year ended December 31, 2008 (US\$) | | |
|-----------------------------------|---|--------------------|-----------|---|--------------------|---------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$- | \$174,800 | \$174,800 | \$- | \$5,336 | \$5,336 |
| Labor & health insurance expenses | - | 12,051 | 12,051 | - | 368 | 368 |
| Pension expenses | - | 9,635 | 9,635 | - | 294 | 294 |
| Other expenses | - | 9,492 | 9,492 | - | 290 | 290 |
| Depreciation | - | 30,085 | 30,085 | - | 918 | 918 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 8,087 | 8,087 | - | 247 | 247 |

(19) Earnings per share

For the year ended December 31, 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 | \$31,954 | \$985 | \$19,212 | \$592 | 370,000 | \$0.09 | \$0.003 | \$0.05 |

For the year ended December 31, 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 | \$(72,641) | \$(2,218) | \$(55,384) | \$(1,691) | 370,000 | \$(0.20) | \$(0.006) | \$(0.15) |

(20) 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.

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The accrual of employee bonus and remuneration of directors for the year ended December 31, 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.

The Company's appropriation of 2008 retained earnings has not yet been resolved by the board of directors as of the issuance date of the Independent Auditors' Report. For related information please refer to the "Market Observation Post System" on the website of the Taiwan Stock Exchange Corporation.

The Company's 2007 distribution of bonus paid to employees and remuneration paid to directors and supervisors is as follows:

| | For the year ended December 31, 2007 | |
|---|---|---------|
| | NT\$ | US\$ |
| A. Distribution | | |
| Bonus paid to employees - cash | \$532 | \$16 |
| Remuneration paid to directors and supervisors | - | - |
| B. Earning per share information | | |
| After-tax earnings per share (expressed in dollars) | \$0.05 | \$0.002 |
| Pro forma earnings per share (expressed in dollars) | \$0.05 | \$0.002 |

$$\text{Pro forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

(21) Presentation of financial statements

Certain accounts in the financial statements for the year ended December 31, 2007 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2008.

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Notes to financial statements (continued)

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As of December 31, 2007 and 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 |
| 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. (97.12.31 liquidation) |
| Cathay Insurance Company Limited (Shanghai) | Subsidiary of 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. |

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(2) Transactions with related parties

Transactions with related parties less than NT\$3,000 (US\$92) will no longer be listed since 2008.

A. Cash in bank

| Name | Item | For the year ended December 31, 2007 | | |
|----------------|------------------------------------|--------------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | NT\$ | | NT\$ |
| Cathay United | Savings accounts | \$4,666 | 0.10%~2.35% | \$100 |
| Bank Co., Ltd. | Negotiable certificates of deposit | \$200,000 | 1.50%~1.77% | \$10,649 |
| | Time deposit | \$4,000 | 1.39%~2.49% | \$870 |

| Name | Item | For the year ended December 31, 2007 | | |
|----------------|------------------------------------|--------------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | US\$ | | US\$ |
| Cathay United | Savings accounts | \$144 | 0.10%~2.35% | \$3 |
| Bank Co., Ltd. | Negotiable certificates of deposit | \$6,167 | 1.50%~1.77% | \$328 |
| | Time deposit | \$123 | 1.39%~2.49% | \$27 |

| Name | Item | For the year ended December 31, 2008 | | |
|----------------|--------------|--------------------------------------|----------------------------|-----------------------|
| | | Ending balance | Interest rate | Interest income |
| | | NT\$ | | NT\$ |
| Cathay United | Cash in bank | align="right">\$157,636 | align="center">0.02%~2.68% | align="right">\$3,933 |
| Bank Co., Ltd. | | | | |

| Name | Item | For the year ended December 30, 2008 | | |
|----------------|--------------|--------------------------------------|----------------------------|---------------------|
| | | Ending balance | Interest rate | Interest income |
| | | NT\$ | | NT\$ |
| Cathay United | Cash in bank | align="right">\$4,812 | align="center">0.02%~2.68% | align="right">\$120 |
| Bank Co., Ltd. | | | | |

As of December 31, 2008, NT\$22,000 (US\$672) in time deposits reflected premiums received for structured notes and issuance of warrants and were recognized under guarantee deposits paid.

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As of December 31, 2008, NT\$33,000 (US\$1,007) in time deposits pledged as collateral for the over-draft of settlement accounts and recognized under restricted assets, the remaining negotiable certificates of deposit have not been pledged as collateral.

B. Open-end funds and currency market instruments

| Name | December 31, 2007 | | December 31, 2008 | |
|---------------------------|-------------------|---------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Bond Fund and etc. | | | | |
| - Cathay Bond Fund | \$65,014 | \$2,005 | \$- | \$- |

C. Accounts receivable

| Name | December 31, 2007 | | December 31, 2008 | |
|------------------------------|-------------------|------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$919 | \$29 | \$- | \$- |
| Cathay United Bank Co., Ltd. | 200 | 6 | - | - |
| Total | \$1,119 | \$35 | \$- | \$- |

D. Other receivables

| Name | December 31, 2007 | | December 31, 2008 | |
|---|-------------------|------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holdings Co., Ltd.(Note) | \$- | \$- | \$14,268 | \$436 |

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

E. Other intangible assets

| Name | December 31, 2007 | | December 31, 2008 | |
|-------------------------------|-------------------|------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Symphox Information Co., Ltd. | \$986 | \$30 | \$- | \$- |

F. Other payables

| Name | December 31, 2007 | | December 31, 2008 | |
|---|-------------------|-------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holdings Co., Ltd. (Note) | \$10,962 | \$338 | \$- | \$- |
| Cathay Life Insurance Co., Ltd. | 288 | 9 | - | - |
| Others | 56 | 2 | - | - |
| Total | \$11,306 | \$349 | \$- | \$- |

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

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G. Revenue from underwriting commissions

| Name | For the year ended | | For the year ended | |
|---------------------------------|--------------------|-------|--------------------|------|
| | December 31, 2007 | | December 31, 2008 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$21,115 | \$651 | \$- | \$- |
| Cathay United Bank Co., Ltd. | 1,824 | 56 | - | - |
| Total | \$22,939 | \$707 | \$- | \$- |

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

H. Brokerage commissions for introducing futures contracts

| Name | For the year ended | | For the year ended | |
|--------------------------|--------------------|-------|--------------------|-------|
| | December 31, 2007 | | December 31, 2008 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$9,056 | \$279 | \$25,809 | \$788 |

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

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

| Name | For the year ended December 31, 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. | \$642 | \$20 | \$863 | \$27 | \$36 | \$1 | \$221,839 | \$6,840 |

| Name | For the year ended December 31, 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. | \$- | \$- | \$- | \$- | \$- | \$- | \$221,903 | \$6,773 |

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

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J. Rental expenses and guarantee deposits paid

| Name | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---------------------------------|---|----------------------------|---|----------------------------|
| | Rental expenses | Guarantee deposits paid | Rental expenses | Guarantee deposits paid |
| | NT\$ | NT\$ | NT\$ | NT\$ |
| Cathay Life Insurance Co., Ltd. | \$17,880 | \$4,710 | \$20,781 | \$4,710 |
| Cathay United Bank Co., Ltd. | 5,289 | 1,325 | 5,542 | - |
| Seaward Leasing Co., Ltd. | 504 | - | - | - |
| Total | \$23,673 | \$6,035 | \$26,323 | \$4,710 |

| Name | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---------------------------------|---|----------------------------|---|----------------------------|
| | Rental expenses | Guarantee deposits paid | Rental expenses | Guarantee deposits paid |
| | US\$ | US\$ | US\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$551 | \$145 | \$634 | \$144 |
| Cathay United Bank Co., Ltd. | 163 | 41 | 169 | - |
| Seaward Leasing Co., Ltd. | 16 | - | - | - |
| Total | \$730 | \$186 | \$803 | \$144 |

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

K. Operating expenses

| Name | Description | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---|---------------|---|--------------|---|--------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | Insurance | \$1,943 | \$60 | \$- | - |
| | Other fees | 2,089 | 64 | - | - |
| | Subtotal | 4,032 | 124 | - | - |
| Cathay United Bank Co., Ltd. | Other fees | 3,812 | 118 | 4,024 | 123 |
| Cathay Century Insurance Co., Ltd. | Insurance | 442 | 14 | - | - |
| Symphox Information Co., Ltd. | Cable service | 1,222 | 37 | - | - |
| | Other fees | 1,295 | 40 | - | - |
| | Subtotal | 2,517 | 77 | - | - |
| Cathay Securities Investment Consulting Co., Ltd. | Other fees | 87 | 3 | - | - |
| Seaward Card Co., Ltd. | Service | 170 | 5 | - | - |
| Total | | \$11,060 | \$341 | \$4,024 | \$123 |

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As of December 31, 2007 and 2008

L. Non-operating revenue and profits

| Name | Description | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|------------------------------|----------------|---|------|---|------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay United Bank Co., Ltd. | Rental revenue | \$2,400 | \$74 | \$- | - |

M. Key management personnel compensation in total:

| Item | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|--|---|-------|---|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Wages, awards, Special Service execution expense, bonus | \$7,863 | \$242 | \$6,943 | \$212 |

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

6. Pledged assets

| Item | Pledged Organization | December 31, 2007 | | December 31, 2008 | |
|-----------------------------------|------------------------------|-------------------|----------|-------------------|----------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Restricted assets-time deposits | Cathay United Bank Co., Ltd. | \$- | \$- | \$83,000 | \$2,534 |
| Operating securities-dealing | " | 151,647 | 4,676 | 139,688 | 4,264 |
| Operating securities-underwriting | " | 519,280 | 16,012 | 493,563 | 15,066 |
| Total | | \$670,927 | \$20,688 | \$716,251 | \$21,864 |

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

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

7. Other important matters and contingent liabilities

As of December 31, 2008, the Company requested banks to issue letters of guarantee for warrants issuance of NT\$348,000(US\$10,623).

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8. Serious damages

None.

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

| | December 31, 2007 | | | |
|---|-------------------|-----------|----------|---------|
| | Carrying | Fair | Carrying | Fair |
| | amount | value | amount | value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Non-derivative | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$230,455 | \$230,455 | \$7,106 | \$7,106 |
| Financial assets at fair value through profit or loss - current | | | | |
| Open-end funds and currency market instruments | 540,791 | 540,791 | 16,676 | 16,676 |
| Operating securities - net | 1,090,181 | 1,090,181 | 33,616 | 33,616 |
| Receivable amount for margin loans | 1,053,680 | 1,053,680 | 32,491 | 32,491 |
| Receivables - net | 18,446 | 18,446 | 569 | 569 |
| Long-term investments under equity method | 719,500 | 719,500 | 22,186 | 22,186 |
| Available-for-sale financial assets - noncurrent | 18 | 18 | 1 | 1 |
| Operating deposits | 230,097 | 230,097 | 7,095 | 7,095 |
| Settlement and clearance funds | 50,550 | 50,550 | 1,559 | 1,559 |
| Guarantee deposits paid | 102,251 | 102,251 | 3,153 | 3,153 |
| Liabilities: | | | | |
| Securities financing guarantee deposits-in | 35,828 | 35,828 | 1,105 | 1,105 |
| Deposit payable for securities financing | 39,545 | 39,545 | 1,219 | 1,219 |
| Payables | 34,121 | 34,121 | 1,052 | 1,052 |
| Guarantee deposits-in | 141 | 141 | 4 | 4 |

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As of December 31, 2007 and 2008

| | December 31, 2008 | | | |
|--|-------------------|--------|----------|--------|
| | Carrying | Fair | Carrying | Fair |
| | amount | value | amount | value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Liabilities: | | | | |
| Securities financing guarantee deposits-in | 40,694 | 40,694 | 1,242 | 1,242 |
| Deposit payable for securities financing | 44,767 | 44,767 | 1,367 | 1,367 |
| Payables | 49,565 | 49,565 | 1,513 | 1,513 |

Derivative

Assets:

Financial assets at fair value through profit or loss - current

| | | | | |
|--|---------|---------|-------|-------|
| Call options - futures | 99 | 99 | 3 | 3 |
| Margin for futures trading - own funds | 241,319 | 241,319 | 7,366 | 7,366 |

Liabilities:

Financial liabilities at fair value through profit or loss - current

| | | | | |
|---|-----------|-----------|----------|----------|
| Liabilities for issuance of call (put) warrants | 714,272 | 714,272 | 21,803 | 21,803 |
| Repurchase of issued call (put) warrants | (684,071) | (684,071) | (20,881) | (20,881) |
| Put options-futures | 66 | 66 | 1 | 1 |
| Derivative financial instrument liabilities | | | | |
| -GreTai (over-the-counter) | (1,391) | (1,391) | (42) | (42) |
| Other financial liabilities - current | 101,788 | 101,788 | 3,107 | 3,107 |

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, securities refinancing margin deposits, 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 – current/noncurrent is estimated based on market prices, if available. If available-for-sale financial assets – current/noncurrent of the Company is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.
- C. If no quoted market prices exist for the Company’s long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- D. If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, the Company assesses fair value by using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value information of financial assets and liabilities as of December 31, 2007 and 2008:

| | December 31, 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 | \$540,791 | \$- | \$16,676 | \$- |
| Operating securities – net | 1,090,181 | - | 33,616 | - |
| Margin for futures trading – own funds | 221,839 | - | 6,840 | - |
| Derivative financial instrument assets – GrewTai (over –the – counter) | - | 640 | - | 20 |

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As of December 31, 2007 and 2008

| | December 31, 2007 | | | |
|--|-------------------|-----------|--------------|-----------|
| | 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 | 130,200 | - | 4,015 | - |
| Repurchase of issued call (put) | | | | |
| warrants | (119,436) | - | (3,683) | - |
| Derivative financial instrument | | | | |
| liabilities- GrewTai | | | | |
| (over-the-counter) | - | 413 | - | 13 |
| Other financial liabilities - current | - | 158,821 | - | 4,897 |
| | | | | |
| | December 31, 2008 | | | |
| | Based on | Based on | Based on | Based on |
| | quoted | valuation | quoted | valuation |
| | market price | method | market price | method |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Assets: | | | | |
| Financial assets at fair value | | | | |
| through profit or loss - current | | | | |
| Open-end funds and currency | | | | |
| market instruments | \$730,398 | \$- | \$22,296 | \$- |
| Operating securities - net | 1,235,773 | - | 37,722 | - |
| Call options - futures | 99 | - | 3 | - |
| Margin for futures trading - own | | | | |
| funds | 241,319 | - | 7,366 | - |
| Available-for-sale financial assets - | | | | |
| current | 201,770 | - | 6,159 | - |

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As of December 31, 2007 and 2008

| | December 31, 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 | \$714,272 | \$- | \$21,803 | \$- |
| Repurchase of issued call (put) | | | | |
| warrants | (684,071) | - | (20,881) | - |
| Put options-futures | 66 | - | 1 | - |
| Derivative financial instrument | | | | |
| liabilities- GrewTai | | | | |
| (over-the-counter) | - | (1,391) | - | (42) |
| Other financial liabilities - current | - | 101,788 | - | 3,107 |

The above derivative financial instrument assets (liabilities)-Greta (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.

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.

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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.

(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

| | December 31, 2007 | | December 31, 2008 | |
|-----------------------------|-----------------------------|------------------|-------------------------------|------------------|
| | Nominal principal | Credit risk | Nominal principal | Credit risk |
| Financial instruments | /contract amount | | /contract amount | |
| <u>For trading purposes</u> | | | | |
| Issuance of call warrants | NT\$377,020 (US\$11,625) | NT\$- (US\$-) | NT\$2,365,135 (US\$72,196) | NT\$- (US\$-) |

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

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e. Financial statement presentation of derivative financial instruments

As of December 31, 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

| | December 31, 2007 | | December 31, 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 | \$130,200 | \$4,015 | \$714,272 | \$21,803 |
| Repurchase of issued call (put) warrants | (119,436) | (3,683) | (684,071) | (20,881) |
| Total | \$10,764 | \$332 | \$30,201 | \$922 |

Statement of income

| | For the year ended | | Account | Comments |
|---|--------------------|---------|---|-------------------|
| | December 31, 2007 | | | |
| | NT\$ | US\$ | | |
| Liabilities for issuance of call (put) warrants | \$239,900 | \$7,398 | Profit from issuing call (put) warrants | Fair value method |
| Repurchase of issued call (put) warrants | | | | |
| - Loss on disposal | (93,512) | (2,884) | Loss from issuing call (put) warrants | |
| - Loss from valuation | (154,440) | (4,762) | Loss from issuing call (put) warrants | Fair value method |
| Gain from expiration of warrants issued | 24,420 | 753 | Profit from issuing call (put) warrants | |
| Trading securities - hedging | | | | |
| -Loss on disposal | (13,553) | (418) | Loss from trading securities | |
| -Gain from valuation | 2,307 | 71 | Gain on valuation of operating securities | Fair value method |
| Total | \$5,122 | \$158 | | |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

| | For the year ended | | Account | Comments |
|---|--------------------|--------------|---|-------------------|
| | December 31, 2008 | | | |
| | NT\$ | US\$ | | |
| Liabilities for issuance of call (put) warrants | \$1,404,038 | \$42,858 | Profit from issuing call (put) warrants | Fair value method |
| Repurchase of issued call (put) warrants | | | | |
| - Loss on disposal | (2,379,172) | (72,624) | Loss from issuing call (put) warrants | |
| -Loss from valuation | (586,233) | (17,895) | Loss from issuing call (put) warrants | Fair value method |
| Gain from expiration of warrants issued | 1,670,217 | 50,984 | Profit from issuing call (put) warrants | |
| Trading securities - hedging | | | | |
| - Loss on disposal | (89,546) | (2,733) | Loss from trading securities | |
| -Loss from valuation | (5,750) | (176) | Loss on valuation of operating securities | Fair value method |
| Total | \$13,554 | \$414 | | |

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

| Financial instruments | December 31, 2007 | | December 31, 2008 | |
|-----------------------------|------------------------------------|------------------|------------------------------------|------------------|
| | Nominal principal /contract amount | Credit risk | Nominal principal /contract amount | Credit risk |
| <u>For trading purposes</u> | | | | |
| Principal guaranteed notes | NT\$149,300 (US\$4,604) | NT\$- (US\$-) | MT\$103,800 (US\$3,168) | NT\$- (US\$-) |
| Equity-linked notes | NT\$10,000 (US\$308) | NT\$- (US\$-) | NT\$- (US\$-) | NT\$- (US\$-) |

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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As of December 31, 2007 and 2008

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 December 31, 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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Notes to financial statements (continued)

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As of December 31, 2007 and 2008

Balance sheet

| | December 31, 2007 | | December 31, 2008 | |
|---|-------------------|-------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Derivative financial instrument assets - | | | | |
| GreTai (over-the-counter) (note 1) | | | | |
| Structured notes transactions | \$640 | \$20 | \$- | \$- |
| Derivative financial instrument liabilities - | | | | |
| GreTai (over-the-counter) (note 2) | | | | |
| Structured notes transactions | 413 | 13 | (1,391) | (42) |
| Other financial liabilities - current | | | | |
| Principal of structured notes | 158,821 | 4,897 | 101,788 | 3,107 |

Note1: Recorded as "Financial assets at fair value through profit or loss - current" in the balance sheet.

Note2: Recorded as "Financial liabilities at fair value through profit or loss - current" in the balance sheet.

Statement of income

| | For the year ended | | For the year ended | | Account | Comments |
|-----------------------------------|--------------------|---------------|--------------------|----------------|--|-------------------|
| | December 31, 2007 | | December 31, 2008 | | | |
| | NT\$ | US\$ | NT\$ | US\$ | | |
| (Loss) Gain from structured notes | \$(4,902) | \$(151) | \$1,242 | \$38 | (Loss) Gain from derivative financial instruments - Gre Tai (over-the-counter) | Fair value method |
| Trading securities - hedging | | | | | | |
| - Gain(Loss) on disposal | 4,601 | 142 | (6,300) | (193) | Gain (Loss) from trading securities | |
| - (Loss)Gain from valuation | (791) | (25) | 214 | 7 | (Loss) Gain on valuation of operating securities | Fair value method |
| Total | <u>\$(1,092)</u> | <u>\$(34)</u> | <u>\$(4,844)</u> | <u>\$(148)</u> | | |

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As of December 31, 2007 and 2008

C. Futures and options transactions

As of December 31, 2007, the Company's futures and options transactions were exercised and as of December 31, 2008, the Company's unexercised futures and options were as follows:

December 31, 2008

| Item | Nature of Transaction | Unexercised Futures / options | | Contract amount / payment receipt of premium | | Fair value | |
|---------|-----------------------|-------------------------------|-------|--|--------|------------|------|
| | | Buy/Sell | Units | NT\$ | US\$ | NT\$ | US\$ |
| | | | | | | | |
| Futures | STW | Sell | 5 | \$(2,836) | \$(87) | \$2,870 | \$88 |
| Options | TXO-Call | Buy | 22 | \$3 | \$- | \$- | \$- |
| Options | TXO-Put | Buy | 41 | \$139 | \$5 | \$99 | \$3 |
| Options | TXO-Call | Sell | 609 | \$(73) | \$(2) | \$34 | \$1 |
| Options | TXO-Put | Sell | 42 | \$(73) | \$(2) | \$32 | \$- |

a. Nominal principal or contract amount and credit risk

| Financial instruments | December 31, 2008 | |
|-----------------------------|-------------------------------------|---------------|
| | Nominal principal / contract amount | Credit risk |
| <u>For trading purposes</u> | | |
| STW futures | NT\$2,836 (US\$87) | NT\$- (US\$-) |
| TXO | \$288 (US\$9) | NT\$- (US\$-) |

The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with the futures agency, 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.

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Notes to financial statements (continued)

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As of December 31, 2007 and 2008

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.

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 years ended December 31, 2007 and 2008, the related gain (loss) of futures and options on the statements of income were as follows:

| | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---|---|--------------|---|--------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Gain from derivative financial instruments - futures | | | | |
| Gain on futures contracts - realized | \$14,959 | \$461 | \$9,530 | \$291 |
| Gain on futures contracts - unrealized | 967 | 30 | 1,014 | 31 |
| Gain from options transactions - realized | 5,811 | 179 | 8,953 | 273 |
| Gain from options transactions - unrealized | 1,448 | 45 | 1,973 | 60 |
| Total | <u>\$23,185</u> | <u>\$715</u> | <u>\$21,470</u> | <u>\$655</u> |

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Notes to financial statements (continued)

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

As of December 31, 2007 and 2008

| | For the year ended December 31, 2007 | | For the year ended December 31, 2008 | |
|---|---|--------------|---|--------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Loss from derivative financial instruments - futures | | | | |
| Loss on futures contracts - realized | \$6,332 | \$195 | \$9,672 | \$295 |
| Loss on futures contracts - unrealized | 967 | 30 | 1,048 | 32 |
| Loss from options transactions - realized | 1,416 | 44 | 3,786 | 116 |
| Loss from options transactions - unrealized | 1,448 | 44 | 1,936 | 59 |
| Total | <u>\$10,163</u> | <u>\$313</u> | <u>\$16,442</u> | <u>\$502</u> |