

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Unaudited balance sheets
As of September 30, 2009 and 2010
(Expressed in thousands of dollars)

ASSETS	September 30, 2009		September 30, 2010	
	NT\$	US\$	NT\$	US\$
Current assets				
Cash and cash equivalents	\$176,099	\$5,498	\$318,432	\$10,210
Financial assets at fair value through profit or loss - current	2,431,861	75,925	2,331,838	74,762
Receivable amount for margin loans	1,139,318	35,570	1,707,490	54,745
Securities refinancing margin deposits	4,194	131	-	-
Receivables from refinancing guaranty	26,364	823	100,657	3,227
Security lending deposits	23,809	743	186,734	5,987
Accounts receivable	16,982	530	122,711	3,934
Accounts receivable - related parties	3,374	105	1,807	58
Prepayments	5,542	173	53,561	1,717
Other receivables	18,404	575	33,384	1,070
Other receivables- related parties	14,199	443	14,199	455
Deferred income tax assets - current	216,270	6,752	-	-
Available-for-sale financial assets - current	909,444	28,394	266,325	8,539
Other current assets	682	21	985	32
Total current assets	4,986,542	155,683	5,138,123	164,736
Funds and investments				
Long-term investments under equity method	730,419	22,804	736,316	23,607
Available-for-sale financial assets - noncurrent	18	1	18	1
Total funds and investments	730,437	22,805	736,334	23,608
Property and equipment				
Equipment	101,475	3,168	110,532	3,544
Prepayment for equipment	922	29	1,592	51
Leasehold improvement	54,717	1,708	56,745	1,820
Less: Accumulated depreciation	(120,620)	(3,766)	(138,287)	(4,434)
Net property and equipment	36,494	1,139	30,582	981
Intangible assets				
Deferred pension cost	2,620	82	2,620	84
Other intangible assets	3,591	112	3,002	96
Total intangible assets	6,211	194	5,622	180
Other assets				
Operating deposits	230,098	7,184	230,098	7,377
Settlement and clearance funds	61,938	1,934	78,738	2,524
Guarantee deposits paid	19,277	602	8,668	278
Deferred income tax assets - noncurrent	15,494	483	14,400	462
Total other assets	326,807	10,203	331,904	10,641
Securities brokerage debit accounts - net	21,649	676	-	-
Total assets	\$6,108,140	\$190,700	\$6,242,565	\$200,146

(The exchange rate of September 30, 2009 and 2010 provided by the Federal Reserve Bank of New York was NT\$32.03 and NT\$31.19 to US\$1.00, respectively)

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

(Forward)

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Cathay Securities Corporation
Unaudited balance sheets
As of September 30, 2009 and 2010
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2009		September 30, 2010	
	NT\$	US\$	NT\$	US\$
Current liabilities				
Short-term loans	\$300,000	\$9,366	\$400,000	\$12,825
Commercial paper payable	600,000	18,732	540,000	17,313
Bonds sold under repurchase agreements	-	-	260,287	8,345
Financial liabilities at fair value through profit or loss - current	292,393	9,129	433,407	13,896
Securities financing guarantee deposits-in	128,517	4,012	93,810	3,008
Deposit payable for securities financing	142,870	4,461	103,865	3,330
Accounts payable	66,811	2,086	8,934	287
Accounts payable - related parties	127	4	42	1
Receipts under custody	20,152	629	10,802	346
Other payables	29,132	910	47,336	1,518
Other payables - related parties	227,051	7,089	29,826	956
Deferred income tax liabilities - current	-	-	8,715	279
Other financial liabilities - current	65,753	2,053	-	-
Other current liabilities	-	-	507	16
Total current liabilities	1,872,806	58,471	1,937,531	62,120
Long-term liabilities				
Other long-term liabilities	909	28	801	26
Other liabilities				
Reserve for default losses	42,358	1,322	56,038	1,797
Reserve for trading losses	5,128	160	3,118	100
Accrued pension liability - noncurrent	8,401	262	9,237	296
Total other liabilities	55,887	1,744	68,393	2,193
Securities brokerage credit accounts - net	-	-	257	8
Total liabilities	1,929,602	60,243	2,006,982	64,347
Stockholders' equity				
Capital stock				
Common stock	3,700,000	115,517	3,700,000	118,627
Capital surplus	258,434	8,068	258,434	8,286
Retained earnings				
Legal reserve	10,231	319	25,513	818
Special reserve	20,462	639	51,025	1,636
Unappropriated retained earnings	129,835	4,054	193,197	6,194
Equity adjustments				
Unrealized (losses) gains on financial instruments	59,576	1,860	7,414	238
Total stockholders' equity	4,178,538	130,457	4,235,583	135,799
Total liabilities and stockholders' equity	\$6,108,140	\$190,700	\$6,242,565	\$200,146

(The exchange rate of September 30, 2009 and 2010 provided by the Federal Reserve Bank of New York was NT\$32.03 and NT\$31.19 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statements of income

For the nine months ended September 30, 2009 and 2010

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

ITEMS	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010	
	NT\$	US\$	NT\$	US\$
Revenue				
Brokerage commissions	\$231,386	\$7,224	\$259,000	\$8,304
Revenue from underwriting commissions	29,560	923	33,661	1,079
Profit from trading securities	245,687	7,671	-	-
Interest revenue	54,193	1,692	92,700	2,972
Dividend revenue	17,173	536	41,850	1,342
Gain on valuation of operating securities	41,467	1,295	-	-
Gain on valuation of borrowed securities and bonds with resale agreements	-	-	2,737	88
Profit from issuing call (put) warrants	-	-	283,046	9,075
Brokerage commissions for introducing futures contracts	21,883	683	22,244	713
Gain from derivative financial instruments - futures	120,266	3,755	101,153	3,243
Gain from derivative financial instruments - GreTai (over-the-counter)	3,410	106	-	-
Other operating revenue	13,435	419	17,962	576
Non-operating revenue and profits	14,714	459	19,185	615
Total revenue	<u>793,174</u>	<u>24,763</u>	<u>873,538</u>	<u>28,007</u>
Expenses				
Brokerage securities transaction charges	(17,397)	(543)	(21,086)	(676)
Dealing securities transaction charges	(10,608)	(331)	(4,653)	(149)
Refinancing transaction fees	(97)	(3)	(76)	(2)
Underwriting transaction fees	(206)	(6)	(202)	(7)
Loss from trading securities	-	-	(32,325)	(1,036)
Interest expense	(230)	(7)	(1,212)	(39)
Loss on valuation of operating securities	-	-	(84,112)	(2,697)
Loss on covering of borrowed securities and bonds with resale agreements	(1,464)	(46)	(6,076)	(195)
Loss on valuation of borrowed securities and bonds with resale agreements	(2,306)	(72)	-	-
Expenses from issuing call (put) warrants	(9,640)	(301)	(13,408)	(430)
Loss from issuing call (put) warrants	(9,599)	(300)	-	-
Clearing and settlement fees	(1,677)	(52)	(265)	(8)
Loss from derivative financial instruments - futures	(170,553)	(5,325)	(105,897)	(3,395)
Loss from derivative financial instruments - GreTai (over-the-counter)	(12,447)	(389)	(2,523)	(81)
Operating expenses	(384,690)	(12,010)	(425,145)	(13,631)
Other operating expenses	(57)	(2)	(2)	-
Non-operating expense and losses	(2,640)	(82)	(3,334)	(107)
Total expenses	<u>(623,611)</u>	<u>(19,469)</u>	<u>(700,316)</u>	<u>(22,453)</u>
Income from continuing operations before income taxes	169,563	5,294	173,222	5,554
Income tax benefit	(24,173)	(755)	19,975	640
Net income	<u>\$145,390</u>	<u>\$4,539</u>	<u>\$193,197</u>	<u>\$6,194</u>
Earnings per share (in dollars)				
Net income	<u>\$0.39</u>	<u>\$0.0122</u>	<u>\$0.52</u>	<u>\$0.0167</u>

(The exchange rate of September 30, 2009 and 2010 provided by the Federal Reserve Bank of New York was NT\$32.03 and NT\$31.19 to US\$1.00, respectively)

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(2) Transactions with related parties

A. Cash in bank

Name	Item	For the nine months ended September 30, 2009		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in bank	\$180,076	0.02%-2.62%	\$-

Name	Item	For the nine months ended September 30, 2009		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in bank	\$5,622	0.02%-2.62%	\$-

Name	Item	For the nine months ended September 30, 2010		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in bank	\$305,734	0.02%~1.05%	\$-

Name	Item	For the nine months ended September 30, 2010		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in bank	\$9,802	0.02%~1.05%	\$-

As of September 30, 2009, NT\$12,000 (US\$375) in time deposits reflected premiums received for structured notes and were recognized under guarantee deposits paid.

B. Open-end funds and currency market instruments

Name	September 30, 2009		September 30, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Bond Fund, etc.				
- Cathay Global Entertainment Fund	\$3,110	\$97	\$-	\$-
- Cathay Emerging Markets Fund	-	-	5,000	160
Total	\$3,110	\$97	\$5,000	\$160

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C. Other receivables

Name	September 30, 2009		September 30, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.				
(Note)	\$14,199	\$443	\$14,199	\$455

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

D. Other payables

Name	September 30, 2009		September 30, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd. (Note)	\$227,026	\$7,088	\$29,808	\$956

Note :

As of September 30, 2010, payable due to the adoption of the Integrated Income Tax System, except for the Company's income tax returns have been filed and assessed at NT\$5,213 (US\$167) by the National Tax Administration through 2005.

E. Brokerage commissions for introducing futures contracts

Name	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$21,883	\$683	\$22,244	\$713

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

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

Name	For the nine months ended September 30, 2009							
	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.	\$-	\$-	\$-	\$-	\$-	\$-	\$333,880	\$10,424

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Name	For the nine months ended September 30, 2010							
	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.	\$-	\$-	\$-	\$-	\$-	\$-	\$212,168	\$6,802

G. Rental expenses and guarantee deposits paid

Name	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay Life Insurance Co., Ltd.	\$16,017	\$4,710	\$16,254	\$4,710
Cathay United Bank Co., Ltd.	4,323	-	5,446	-
Total	\$20,340	\$4,710	\$21,700	\$4,710

Name	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
Cathay Life Insurance Co., Ltd.	\$500	\$147	\$521	\$151
Cathay United Bank Co., Ltd.	135	-	175	-
Total	\$635	\$147	\$696	\$151

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

H. Operating expenses

Name	Description	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010	
		NT\$	US\$	NT\$	US\$
		Cathay United Bank Co., Ltd.	Other fees	\$3,153	\$98
Symphox Information Co., Ltd.	Cable service etc.	3,721	116	4,868	156
Total		\$6,874	\$214	\$9,442	\$303

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Pledged assets

Item	Pledged Organization	September 30, 2009		September 30, 2010	
		NT\$	US\$	NT\$	US\$
Operating securities-dealing	Cathay United Bank Co., Ltd.	\$136,047	\$4,247	\$128,892	\$4,132
Operating securities-underwriting	"	480,699	15,008	455,418	14,602
Total		<u>\$616,746</u>	<u>\$19,255</u>	<u>\$584,310</u>	<u>\$18,734</u>

- (1) The assets above were the collaterals for the over-loaning of settlement accounts.
- (2) The assets above were disclosed at their net carrying amounts.

Other important matters and contingent liabilities

As of September 30, 2010, NT\$440,000(US\$14,107) in bank of guarantee were the collateral for security lending traction.

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Other important events

(1) Information related to financial instruments

	September 30, 2009			
	Carrying	Fair value	Carrying	Fair value
	amount	(NT\$)	amount	(US\$)
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$176,099	\$176,099	\$5,498	\$5,498
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	62,304	62,304	1,945	1,945
Operating securities - net	1,919,966	1,919,966	59,943	59,943
Receivable amount for margin loans	1,139,318	1,139,318	35,570	35,570
Securities refinancing margin deposits	4,194	4,194	131	131
Receivables from refinance guaranty	26,364	26,364	823	823
Security lending deposits	23,809	23,809	743	743
Receivables - net	52,959	52,959	1,653	1,653
Available-for-sale financial assets - current	909,444	909,444	28,394	28,394
Long-term investments under equity method	730,419	730,419	22,804	22,804
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,184	7,184
Settlement and clearance funds	61,938	61,938	1,934	1,934
Guarantee deposits paid	19,277	19,277	602	602

	September 30, 2009			
	Carrying	Fair value	Carrying	Fair value
	amount	(NT\$)	amount	(US\$)
	(NT\$)	(NT\$)	(US\$)	(US\$)
Liabilities:				
Short-term loans	300,000	300,000	9,366	9,366
Commercial paper payable	600,000	600,000	18,732	18,732
Financial liabilities at fair value through profit or loss - current				
Security lending payable-hedging	28,081	28,081	877	877
Security lending payable-non-hedging	26,650	26,650	832	832
Securities financing guarantee deposits-in	128,517	128,517	4,012	4,012

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Deposit payable for securities financing	142,870	142,870	4,461	4,461
Payables	323,121	323,121	10,089	10,089

Derivative

Assets:

Financial assets at fair value through profit or loss - current				
Call options - futures	\$16,242	\$16,242	\$507	\$507
Margin for futures trading - own funds	375,804	375,804	11,733	11,733
Derivative financial instrument assets				
-GreTai (over-the-counter)	57,545	57,545	1,797	1,797

Liabilities:

Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	1,308,360	1,308,360	40,848	40,848
Repurchase of issued call (put) warrants	(1,100,856)	(1,100,856)	(34,370)	(34,370)
Put options-futures	30,421	30,421	950	950
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	(263)	(263)	(8)	(8)
Other financial liabilities - current	65,753	65,753	2,053	2,053

September 30, 2010

Carrying amount	Fair value	Carrying amount	Fair value
(NT\$)	(NT\$)	(US\$)	(US\$)

Non-derivative

Assets:

Cash and cash equivalents	\$318,432	\$318,432	\$10,210	\$10,210
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	92,699	92,699	2,972	2,972
Operating securities - net	1,987,990	1,987,990	63,738	63,738
Receivable amount for margin loans	1,707,490	1,707,490	54,745	54,745
Receivables from refinance guaranty	100,657	100,657	3,227	3,227
Security lending deposits	186,734	186,734	5,987	5,987

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As of September 30, 2009 and 2010

Receivables - net	172,101	172,101	5,517	5,517
Available-for-sale financial assets – current	266,325	266,325	8,539	8,539
Long-term investments under equity method	736,316	736,316	23,607	23,607
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,377	7,377
Settlement and clearance funds	78,738	78,738	2,524	2,524
Guarantee deposits paid	8,668	8,668	278	278

Liabilities:

Short-term loans	400,000	400,000	12,825	12,825
Commercial paper payable	540,000	540,000	17,313	17,313
Bonds sold under repurchase agreements	260,287	260,287	8,345	8,345
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	120,920	120,920	3,877	3,877
Security lending payable-non-hedging	84,745	84,745	2,717	2,717
Securities financing guarantee deposits-in	93,810	93,810	3,008	3,008
Deposit payable for securities financing	103,865	103,865	3,330	3,330
Payables	86,138	86,138	2,762	2,762

Derivative

Assets:

Financial assets at fair value through profit or loss – current				
Call options – futures	\$3,621	\$3,621	\$116	\$116
Margin for futures trading – own funds	246,438	246,438	7,901	7,901
Derivative financial instrument assets				
-GreTai (over-the-counter)	1,090	1,090	35	35

Liabilities:

Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,578,715	1,578,715	50,616	50,616
Repurchase of issued call (put) warrants	(1,362,156)	(1,362,156)	(43,673)	(43,673)
Put options-futures	11,183	11,183	359	359

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

- A. Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, securities refinancing margin deposits, receivables from refinance guaranty, security lending deposits, receivables, operating deposits, settlement and clearance funds, guarantee deposits paid, short-term loans, commercial paper payable, bonds sold under repurchase agreements, security lending payable, securities financing guarantee deposits-in, deposit payable for securities financing, and payables.
- 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 September 30, 2009 and 2010:

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	September 30, 2009			
	Based on quoted market price	Based on valuation method	Based on quoted market price	Based on valuation method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Assets:				
Financial assets at fair value				
through profit or loss – current				
Open-end funds and currency				
market instruments	\$62,304	\$-	\$1,945	\$-
Operating securities – net	1,919,966	-	59,943	-
Call options – future	16,242		507	
Margin for futures trading –				
own funds	375,804	-	11,733	-
Derivative financial				
instrument assets-GreTai				
(over-the-counter)		57,545		1,797
Available-for-sale financial				
assets – current	990,444	-	28,394	-
Liabilities:				
Financial liabilities at fair value				
through profit or loss – current				
Liabilities for issuance of call				
(put) warrants	1,308,360	-	40,848	-
Repurchase of issued call (put)				
warrants	(1,110,856)	-	(34,370)	-
Security lending				
payable-hedging	28,081		877	
Security lending				
payable-non-hedging	26,650		832	
Put options – futures	30,421		950	
Derivative financial				
instrument liabilities-GreTei				
(over-the-counter)	-	(263)	-	(8)
Other financial liabilities –				
current	-	65,753	-	2,053

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	September 30, 2010			
	Based on quoted market price	Based on valuation method	Based on quoted market price	Based on valuation method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Assets:				
Financial assets at fair value				
through profit or loss – current				
Open-end funds and currency				
market instruments	\$92,699	\$-	\$2,972	\$-
Operating securities – net	1,987,990	-	63,738	-
Call options – future	3,621	-	116	-
Margin for futures trading –				
own funds	246,438	-	7,901	-
Available-for-sale financial				
assets – current	266,325	-	8,539	-
Available-for-sale financial				
assets – noncurrent	18	-	1	-
Liabilities:				
Financial liabilities at fair value				
through profit or loss – current				
Liabilities for issuance of call				
(put) warrants	1,578,715	-	50,616	-
Repurchase of issued call (put)				
warrants	(1,362,156)	-	(43,673)	-
Security lending				
payable-hedging	120,920	-	3,877	-
Security lending				
payable-non-hedging	84,745	-	2,717	-
Put options – futures	11,183	-	359	-

The above derivative financial instrument assets-GreTai (over-the-counter), derivative financial instrument liabilities-GreTai (over-the-counter) and other financial liabilities – current are valued using “Binomial Tree”, “Monte Carlo Simulations” and “Interest Method”.

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(2) Financial risk information

A. Market risk

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

B. Credit risk

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

The counterparties to the Company's other financial assets (including cash and cash equivalents and all other current and noncurrent 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 remains 1.75 years, and

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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

Financial instruments	September 30, 2009		September 30, 2010	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call (put) warrants	NT\$1,513,260 (US\$47,245)	NT\$- (US\$-)	NT\$1,868,200 (US\$59,897)	NT\$- (US\$-)

b. Market risk

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

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

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

The call (put) warrants issued by the Company typically have contract periods of six to 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.

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d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

As of September 30, 2009 and 2010, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

Balance sheet

	September 30, 2009		September 30, 2010	
	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	\$1,308,360	\$40,848	\$1,578,715	\$50,616
Repurchase of issued call (put) warrants	(1,100,856)	(34,370)	(1,362,156)	(43,673)
Total	\$207,504	\$6,478	\$216,559	\$6,943

Statement of income

	For the nine months ended		Account	Comments
	September 30, 2009			
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$(2,093,629)	\$(65,365)	Loss from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(3,016,676)	(94,183)	Loss from issuing call (put) warrants	
- Gain from valuation	624,386	19,494	Profit from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	4,476,320	139,754	Profit from issuing call (put) warrants	

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Trading securities - hedging				
- Gain on disposal	86,992	2,716	Gain from trading securities	
- Gain from valuation	13,679	427	Gain on valuation of operating securities	Fair value method
Security lending payable - hedging				
- Loss on disposal	(409)	(13)	Loss on covering of borrowed securities and bonds with resale agreements	
- Loss from valuation	(1,516)	(47)	Loss on valuation of borrowed securities and bonds with resale agreements	Fair value method
Total	<u><u>\$89,147</u></u>	<u><u>\$2,783</u></u>		
	For the nine months ended September 30, 2010			
	<u>NT\$</u>	<u>US\$</u>	<u>Account</u>	<u>Comments</u>
Liabilities for issuance of call (put) warrants	\$ (18,104)	\$ (580)	Loss from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(2,435,143)	(78,074)	Loss from issuing call (put) warrants	
- Loss from valuation	(67,165)	(2,153)	Loss from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	2,803,458	89,883	Profit from issuing call (put) warrants	
Trading securities - hedging				
- Loss on disposal	(122,307)	(3,921)	Loss from trading securities	
- Loss from valuation	(67,272)	(2,157)	Loss on valuation	Fair value

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			of operating securities	method
Security lending payable - hedging				
- Loss on disposal	(12,558)	(403)	Loss on covering of borrowed securities and bonds with resale agreements	
- Loss from valuation	(1,974)	(63)	Loss on valuation of borrowed securities and bonds with resale agreements	Fair value method
Futures transactions - hedging				
- Gain on disposal	2,781	89	Gain from derivative financial instruments - futures	
- Gain from valuation	421	13	Gain from derivative financial instruments - futures	Fair value method
Total	<u>\$82,137</u>	<u>\$2,634</u>		

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	September 30, 2009		September 30, 2010	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Principal guaranteed notes	NT\$65,900 (US\$2,057)	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

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collected in advance of structured notes being issued.

b. Market risk

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

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

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

d. Types, purposes, and strategies for financial derivatives

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

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

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

e. Financial statement presentation of derivative financial instruments

As of September 30, 2009 and 2010, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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Balance sheet

	September 30, 2009		September 30, 2010	
	NT\$	US\$	NT\$	US\$
Derivative financial instrument liabilities - GreTai (over-the-counter) (note)				
Structured notes transactions	\$ (263)	\$ (8)	\$ -	\$ -
Other financial liabilities - current				
Principal of structured notes	65,753	2,053	-	-

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

Statement of income

	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010		Account	Comments
	NT\$	US\$	NT\$	US\$		
Loss from structured notes	\$(12,447)	\$(389)	\$-	\$-	Loss from derivative financial instruments - Gre Tai (over-the-counter)	Fair value method
Trading securities hedging	-					
-Gain on disposal	9,533	298	-	-	Gain from trading securities	
- Gain from valuation	15	-	-	-	Gain on valuation of operating securities	Fair value method
Total	\$(2,899)	\$(91)	\$-	\$-		

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C. Futures and options transactions

As of September 30, 2009 and 2010, Cathay Securities' unexercised futures and options were as follows:

September 30, 2009

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	91	\$(80,051)	\$(2,499)	\$80,059	\$2,500
Futures	FITE	Sell	6	\$(7,262)	\$(227)	\$7,319	\$229
Futures	FITF	Sell	15	\$(12,877)	\$(402)	\$13,155	\$411
Futures	FITX	Sell	35	\$(52,055)	\$(1,625)	\$52,423	\$1,637
Futures	FITX	Buy	153	\$219,049	\$6,839	\$226,287	\$7,065
Options	TXO-Put	Buy	1,225	\$19,554	\$610	\$13,767	\$430
Options	TXO-Call	Buy	401	\$1,949	\$61	\$2,475	\$77
Options	TXO-Put	Sell	1,599	\$(12,860)	\$(401)	\$6,409	\$200
Options	TXO-Call	Sell	980	\$(20,286)	\$(633)	\$24,012	\$750
Options	TFO-Put	Sell	1	\$(1)	\$-	\$-	\$-

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September 30, 2010

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	7	\$(6,347)	\$(203)	\$6,366	\$204
Futures	MTX	Buy	4	\$1,623	\$(52)	\$1,643	\$53
Futures	FITF	Sell	10	\$(9,045)	\$(290)	\$9,086	\$291
Futures	FITF	Buy	2	\$1,820	\$58	\$1,814	\$58
Futures	FITX	Sell	31	\$(51,117)	\$(1,639)	\$50,912	\$1,632
Futures	FITX	Buy	17	\$27,395	\$878	\$27,868	\$893
Options	TXO- Put	Buy	662	\$2,270	\$73	\$267	\$9
Options	TXO- Call	Buy	794	\$2,021	\$65	\$3,354	\$108

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Options	TXO- Put	Sell	1,572	\$(10,805)	\$(346)	\$1,765	\$57
Options	TXO- Call	Sell	881	\$(5,502)	\$(176)	\$9,418	\$302

a. Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2009	
	Nominal principal/ contract amount	Credit risk
STW futures	NT\$80,051 (US\$2,499)	NT\$- (US\$-)
FITE	NT\$7,262 (US\$227)	NT\$- (US\$-)
FITF	NT\$12,877 (US\$402)	NT\$- (US\$-)
FITX	NT\$271,104 (US\$8,464)	NT\$- (US\$-)
TXO	NT\$54,649 (US\$1,705)	NT\$- (US\$-)
TFO	NT\$1 (US\$-)	NT\$- (US\$-)

Financial instruments	September 30, 2010	
	Nominal principal/ contract amount	Credit risk
STW futures	NT\$6,347 (US\$203)	NT\$- (US\$-)
MTX	NT\$1,623 (US\$52)	NT\$- (US\$-)
FITF	NT\$10,865 (US\$348)	NT\$- (US\$-)
FITX	NT\$78,512 (US\$2,517)	NT\$- (US\$-)
TXO	NT\$20,598 (US\$660)	NT\$- (US\$-)

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

b. Market risk

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

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

Cathay Securities' unexercised futures and options could all be liquidated at reasonable prices in the market. As a result, Cathay Securities believes liquidity risk is low.

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

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss - current ("margin for futures trading - own funds") on the balance sheet. For the nine months ended September 30, 2009 and 2010, the related gain (loss) of futures and options on the statements of income were as follows:

	For the nine months ended September 30, 2009		For the nine months ended September 30, 2010	
	NT\$	US\$	NT\$	US\$
Gain from derivative financial instruments - futures				
Non-hedging				
Gain on futures contracts - realized	\$51,080	\$1,595	\$34,584	\$1,109
Gain on futures contracts - unrealized	30,165	942	7,781	249
Gain from options transactions - realized	14,383	449	16,859	541

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Gain from options transactions - unrealized	24,638	769	30,660	983
Subtotal	<u>120,266</u>	<u>3,755</u>	<u>89,884</u>	<u>2,882</u>
Hedging				
Gain on futures contracts - realized	-	-	8,594	275
Gain on futures contracts - unrealized	-	-	2,675	86
Subtotal	<u>-</u>	<u>-</u>	<u>11,269</u>	<u>361</u>
Total	<u>\$120,266</u>	<u>\$3,755</u>	<u>\$101,153</u>	<u>\$3,243</u>
			For the nine months ended September 30, 2009	For the nine months ended September 30, 2010
	NT\$	US\$	NT\$	US\$
Loss from derivative financial instruments - futures				
Non-hedging				
Loss on futures contracts - realized	\$78,870	\$2,462	\$42,793	\$1,372
Loss on futures contracts - unrealized	23,604	737	36,574	1,173
Loss from options transactions - realized	40,869	1,276	16,244	521
Loss from options transactions - unrealized	27,210	850	2,219	71
Subtotal	<u>170,553</u>	<u>5,325</u>	<u>97,830</u>	<u>3,137</u>
Hedging				
Loss on futures contracts - realized	-	-	5,813	186
Loss on futures contracts - unrealized	-	-	2,254	72
Subtotal	<u>-</u>	<u>-</u>	<u>8,067</u>	<u>258</u>
Total	<u>\$170,553</u>	<u>\$5,325</u>	<u>\$105,897</u>	<u>\$3,395</u>