

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, 2009 and 2010

Transactions with related parties

A. Cash in bank

Name	Item	For the year ended December 31, 2009		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in bank	\$117,909	0.02%-2.62%	\$-

Name	Item	For the year ended December 31, 2009		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in bank	\$3,690	0.02%-2.62%	\$-

Name	Item	For the year ended December 31, 2010		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in bank	\$310,162	0.02%-1.10%	\$-

Name	Item	For the year ended December 31, 2010		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in bank	\$10,644	0.02%-1.10%	\$-

As of December 31, 2009, NT\$12,000 (US\$376) in time deposits reflected premiums received for structured notes and were recognized under guarantee deposits paid.

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B. Open-end funds and currency market instruments

Name	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Bond Fund, etc.				
- Cathay Global Entertainment Fund	\$6,460	\$202	\$-	\$-
- Cathay Mandarin Fund	2,761	86	-	-
- Cathay Global Resources Fund	-	-	10,010	344
Total	<u>\$9,221</u>	<u>\$288</u>	<u>\$10,010</u>	<u>\$344</u>

C. Other receivables

Name	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.				
(Note)	<u>\$14,199</u>	<u>\$444</u>	<u>\$14,199</u>	<u>\$487</u>

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

D. Other payables

Name	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.				
(Note)	<u>\$200,470</u>	<u>\$6,274</u>	<u>\$42,437</u>	<u>\$1,456</u>

Note: As of December 31, 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\$179) by the National Tax Administration through 2005.

E. Revenue from underwriting commissions

Name	For the year ended December 31, 2009		For the year ended December 31, 2010	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.	<u>\$3,210</u>	<u>\$100</u>	<u>\$-</u>	<u>\$-</u>

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F. Brokerage commissions for introducing futures contracts

Name	For the year ended December 31, 2009		For the year ended December 31, 2010	
	NT\$	US\$	NT\$	US\$
	Cathay Futures Co., Ltd.	\$29,723	\$930	\$28,747

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

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

Name	For the year ended December 31, 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.	\$-	\$-	\$-	\$-	\$-	\$-	\$353,469	\$11,063

Name	For the year ended December 31, 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.	\$-	\$-	\$-	\$-	\$-	\$-	\$228,983	\$7,858

H. Rental expenses and guarantee deposits paid

Name	For the year ended December 31, 2009		For the year ended December 31, 2010	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay Life Insurance Co., Ltd.	\$21,473	\$4,710	\$21,486	\$4,710
Cathay United Bank Co., Ltd.	5,789	-	8,082	-
Total	\$27,262	\$4,710	\$29,568	\$4,710

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Name	For the year ended December 31, 2009		For the year ended December 31, 2010	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
Cathay Life Insurance Co., Ltd.	\$672	\$147	\$737	\$162
Cathay United Bank Co., Ltd.	181	-	277	-
Total	\$853	\$147	\$1,014	\$162

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

I. Operating expenses

Name	Description	For the year ended December 31, 2009		For the year ended December 31, 2010	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurances	\$-	\$-	\$3,116	\$107
Cathay United Bank Co., Ltd.	Other fees	4,389	137	6,852	235
Symphox Information Co., Ltd.	Cable service etc.	5,110	160	6,719	231
Total		\$9,499	\$297	\$16,687	\$573

J. Key management personnel compensation in total:

Item	For the year ended December 31, 2009		For the year ended December 31, 2010	
	NT\$	US\$	NT\$	US\$
Wages, bonuses, special payments, service payments, distributions	\$9,884	\$309	\$17,494	\$600

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

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Pledged assets

Item	Pledged Organization	December 31, 2009		December 31, 2010	
		NT\$	US\$	NT\$	US\$
Operating securities-dealing	Cathay United Bank Co., Ltd.	\$132,408	\$4,144	\$125,144	\$4,295
Operating securities-underwriting	"	467,840	14,643	442,175	15,174
Total		\$600,248	\$18,787	\$567,319	\$19,469

(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 December 31, 2010, NT\$340,000(US\$11,668) in bank of guarantee were the collateral for security lending traction.

Other important events

(1) Information related to financial instruments

	December 31, 2009			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$169,614	\$169,614	\$5,309	\$5,309
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	73,461	73,461	2,299	2,299
Operating securities - net	2,297,939	2,297,939	71,923	71,923
Receivable amount for margin loans	1,359,615	1,359,615	42,554	42,554
Securities refinancing margin deposits	4,470	4,470	140	140
Receivables from securities refinance	4,949	4,949	155	155
Receivables from refinance guaranty	56,004	56,004	1,753	1,753
Security lending deposits	71,756	71,756	2,246	2,246
Receivables - net	45,904	45,904	1,436	1,436

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Available-for-sale financial assets – current	937,848	937,848	29,354	29,354
Long-term investments under equity method	730,571	730,571	22,866	22,866
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,202	7,202
Settlement and clearance funds	74,138	74,138	2,320	2,320
Guarantee deposits paid	7,277	7,277	228	228

Liabilities:

Short-term loans	300,000	300,000	9,389	9,389
Commercial paper payable	1,170,000	1,170,000	36,620	36,620
Financial liabilities at fair value through profit or loss – current				
Security lending payable-hedging	72,674	72,674	2,275	2,275
Security lending payable-non-hedging	97,615	97,615	3,055	3,055
Securities financing guarantee deposits-in	108,717	108,717	3,403	3,403
Deposit payable for securities financing	125,997	125,997	3,943	3,943
Payables	343,059	343,059	10,738	10,738

Derivative

Assets:

Financial assets at fair value through profit or loss – current				
Call options – futures	\$3,557	\$3,557	\$111	\$111
Margin for futures trading – own funds	410,426	410,426	12,846	12,846
Derivative financial instrument assets				
-GreTai (over-the-counter)	50,334	50,334	1,576	1,576

Liabilities:

Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,669,460	1,669,460	52,252	52,252
Repurchase of issued call (put) warrants	(1,433,213)	(1,433,213)	(44,858)	(44,858)
Put options-futures	33,999	33,999	1,064	1,064

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	December 31, 2010			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$312,723	\$312,723	\$10,732	\$10,732
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	99,073	99,073	3,400	3,400
Operating securities - net	2,380,704	2,380,704	81,699	81,699
Receivable amount for margin loans	2,024,778	2,024,778	69,484	69,484
Receivables from refinance guaranty	87,878	87,878	3,016	3,016
Security lending deposits	299,327	299,327	10,272	10,272
Receivables - net	63,631	63,631	2,183	2,183
Available-for-sale financial assets - current	511,957	511,957	17,569	17,569
Long-term investments under equity method	738,676	738,676	25,349	25,349
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	245,097	245,097	8,411	8,411
Settlement and clearance funds	83,238	83,238	2,856	2,856
Guarantee deposits paid	8,668	8,668	297	297
Liabilities:				
Commercial paper payable	1,450,000	1,450,000	49,760	49,760
Bonds sold under repurchase agreements	460,000	460,000	15,786	15,786
Financial liabilities at fair value through profit or loss - current				
Security lending payable-hedging	91,656	91,656	3,145	3,145
Security lending payable-non-hedging	211,659	211,659	7,264	7,264
Securities financing guarantee deposits-in	67,522	67,522	2,317	2,317
Deposit payable for securities financing	74,445	74,445	2,555	2,555
Payables	230,578	230,578	7,913	7,913

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Derivative

Assets:

Financial assets at fair value through profit or

loss - current

Call options - futures	\$3,333	\$3,333	\$115	\$115
Margin for futures trading - own funds	256,941	256,941	8,817	8,817
Derivative financial instrument assets				
-GreTai (over-the-counter)	6,502	6,502	223	223

Liabilities:

Financial liabilities at fair value through profit

or loss - current

Liabilities for issuance of call (put) warrants	1,465,289	1,465,289	50,285	50,285
Repurchase of issued call (put) warrants	(1,271,118)	(1,271,118)	(43,621)	(43,621)
Put options-futures	32,321	32,321	1,109	1,109

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 securities refinance, 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, 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.

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- 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, 2009 and 2010:

	December 31, 2009			
	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	\$73,461	\$-	\$2,299	\$-
Operating securities - net	2,297,939	-	71,923	-
Call options - future	3,557	-	111	-
Margin for futures trading - own funds	410,426	-	12,846	-
Derivative financial instrument assets-GreTai (over-the-counter)	-	50,334	-	1,576
Available-for-sale financial assets - current	937,848	-	29,354	-
Available-for-sale financial assets - noncurrent	18	-	1	-

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As of December 31, 2009 and 2010

Liabilities:

Financial liabilities at fair value
through profit or loss - current

Liabilities for issuance of call

(put) warrants	1,669,460	-	52,252	-
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Repurchase of issued call (put)

warrants	(1,433,213)	-	(44,858)	-
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Security lending

payable-hedging	72,674	-	2,275	-
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Security lending

payable-non-hedging	97,615	-	3,055	-
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Put options - futures

	33,999	-	1,064	-
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December 31, 2010

	Based on quoted market price (NT\$)	Based on valuation method (NT\$)	Based on quoted market price (US\$)	Based on valuation method (US\$)
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Assets:

Financial assets at fair value
through profit or loss - current

Open-end funds and currency

market instruments	\$99,073	\$-	\$3,400	\$-
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Operating securities - net

	2,380,704	-	81,699	-
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Call options - future

	3,333	-	115	-
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Margin for futures trading -

own funds	256,941	-	8,817	-
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Derivative financial

instrument assets-GreTai

(over-the-counter)	-	6,502	-	223
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Available-for-sale financial

assets - current

	511,957	-	17,569	-
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Available-for-sale financial

assets - noncurrent

	18	-	1	-
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Liabilities:

Financial liabilities at fair value

through profit or loss - current

Liabilities for issuance of call

(put) warrants	1,465,289	-	50,285	-
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Repurchase of issued call (put)

warrants	(1,271,118)	-	(43,621)	-
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Security lending

payable-hedging	91,656	-	3,145	-
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Security lending

payable-non-hedging	211,659	-	7,264	-
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Put options - futures

	32,321	-	1,109	-
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The above derivative financial instrument assets-GreTai (over-the-counter) is valued using "Binomial Tree".

(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.

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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 1.41 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 (put) warrants

a. Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2009		December 31, 2010	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call (put) warrants	NT\$1,848,360 (US\$57,852)	NT\$- (US\$-)	NT\$1,544,734 (US\$53,011)	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.

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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 nine months starting from the date when the warrants are listed (OTC). Except for cash required for the related hedging transactions, there are no other cash requirements.

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

As of December 31, 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

	December 31, 2009		December 31, 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	\$1,669,460	\$52,252	\$1,465,289	\$50,285
Repurchase of issued call (put) warrants	(1,433,213)	(44,858)	(1,271,118)	(43,621)
Total	<u>\$236,247</u>	<u>\$7,394</u>	<u>\$194,171</u>	<u>\$6,664</u>

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Statement of income

	For the year ended		Account	Comments
	December 31, 2009			
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$(2,190,924)	\$(68,574)	Loss from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(3,741,865)	(117,116)	Loss from issuing call (put) warrants	
- Gain from valuation	784,892	24,566	Profit from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	5,186,976	162,347	Profit from issuing call (put) warrants	
Trading securities - hedging				
- Gain on disposal	99,263	3,107	Gain from trading securities	
- Gain from valuation	72,849	2,280	Gain on valuation of operating securities	Fair value method
Security lending payable - hedging				
- Loss on disposal	(814)	(25)	Loss on covering of borrowed securities and bonds with resale agreements	
- Loss from valuation	(7,943)	(249)	Loss on valuation of borrowed securities and bonds with resale agreements	Fair value method
Total	\$202,434	\$6,336		

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	For the year ended		Account	Comments
	December 31, 2010			
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$ (464,230)	\$ (15,931)	Loss from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(2,952,993)	(101,339)	Loss from issuing call (put) warrants	
- Gain from valuation	1,741	60	Profit from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	3,773,262	129,488	Profit from issuing call (put) warrants	
Trading securities - hedging				
- Loss on disposal	(137,889)	(4,732)	Loss from trading securities	
- Loss from valuation	(59,340)	(2,036)	Loss on valuation of operating securities	Fair value method
Security lending payable - hedging				
- Loss on disposal	(11,231)	(386)	Loss on covering of borrowed securities and bonds with resale agreements	
- Gain from valuation	2,442	84	Gain on valuation of borrowed securities and bonds with resale agreements	Fair value method
Futures transactions - hedging				
- Gain on disposal	2,752	94	Gain from derivative financial instruments - futures	
- Loss from valuation	(196)	(6)	Loss from derivative financial instruments - futures	Fair value method
Total	\$154,318	\$5,296		

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B. Structured notes transactions

a. Credit risk

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.

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.

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

Balance sheet

	December 31, 2009		December 31, 2010			
	NT\$	US\$	NT\$	US\$		
Derivative financial instrument liabilities - GreTai (over-the-counter) (note) Structured notes transactions			\$-	\$-	\$-	\$-
Other financial liabilities - current Principal of structured notes			-	-	-	-

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

Statement of income

	For the year ended December 31, 2009		For the year ended December 31, 2010		Account	Comments
	NT\$	US\$	NT\$	US\$		
Gain (Loss) from structured notes	\$(12,197)	\$(382)	\$-	\$-	Loss from derivative financial instruments - Gre Tai (over-the-counter)	Fair value method
Trading securities - hedging						
- Gain on disposal	9,369	293	-	-	Gain from trading securities	
- Loss from valuation	(79)	(2)	-	-	Loss on valuation of operating securities	Fair value method
Total	\$(2,907)	\$(91)	\$-	\$-		

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As of December 31, 2009 and 2010

C. Futures and options transactions

As of December 31, 2009 and 2010, the Company's unexercised futures and options were as follows:

December 31, 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	70	\$(65,747)	\$(2,058)	\$66,521	\$2,082
Futures	FITF	Sell	27	\$(24,383)	\$(763)	\$24,597	\$770
Futures	FITX	Sell	10	\$(16,285)	\$(510)	\$16,402	\$513
Futures	FITX	Buy	154	\$220,541	\$6,903	\$250,651	\$7,845
Options	TXO- Call	Buy	491	\$1,644	\$51	\$2,495	\$78
Options	TXO- Put	Buy	709	\$17,818	\$558	\$1,062	\$33
Options	TXO- Call	Sell	1,104	\$(18,586)	\$(582)	\$33,475	\$1,048
Options	TXO- Put	Sell	588	\$(7,330)	\$(229)	\$524	\$16

December 31, 2010

Item	Nature of Transaction	Unexercised Futures / options		Contract amount / payment (receipt) of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	FIGT	Buy	20	\$11,753	\$403	\$11,556	\$397
Futures	FITE	Sell	134	\$(183,427)	\$(6,295)	\$183,151	\$6,285
Futures	FITF	Sell	143	\$(136,088)	\$(4,670)	\$149,006	\$5,113
Futures	FITX	Buy	172	\$301,149	\$10,335	\$308,961	\$10,603
Futures	FITX	Sell	2	\$(3,391)	\$(116)	\$3,587	\$123
Futures	FIXI	Buy	2	\$2,317	\$80	\$2,369	\$81
Options	TXO- Call	Buy	751	\$2,234	\$77	\$3,310	\$114
Options	TXO- Put	Buy	151	\$362	\$12	\$23	\$1
Options	TXO- Call	Sell	1,372	\$(13,416)	\$(460)	\$30,714	\$1,054
Options	TXO- Put	Sell	1,158	\$(9,863)	\$(338)	\$1,607	\$55

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As of December 31, 2009 and 2010

a. Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2009	
	Nominal principal/ contract amount	Credit risk
STW futures	NT\$65,747 (US\$2,058)	NT\$- (US\$-)
FITF	NT\$24,383 (US\$763)	NT\$- (US\$-)
FITX	NT\$236,826 (US\$7,413)	NT\$- (US\$-)
TXO	NT\$45,378 (US\$1,420)	NT\$- (US\$-)

Financial instruments	December 31, 2010	
	Nominal principal/ contract amount	Credit risk
FIGT	NT\$11,753 (US\$403)	NT\$- (US\$-)
FITE	NT\$183,427 (US\$6,295)	NT\$- (US\$-)
FITF	NT\$136,088 (US\$4,670)	NT\$- (US\$-)
FITX	NT\$304,540 (US\$10,451)	NT\$- (US\$-)
FIXI	NT\$2,317 (US\$80)	NT\$- (US\$-)
TXO	NT\$25,875 (US\$887)	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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As of December 31, 2009 and 2010

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 years ended December 31, 2009 and 2010, the related gain (loss) of futures and options on the statements of income were as follows:

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As of December 31, 2009 and 2010

	For the year ended		For the year ended	
	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Gain from derivative financial instruments - futures				
Non-hedging				
Gain on futures contracts - realized	\$74,225	\$2,323	\$42,490	\$1,458
Gain on futures contracts - unrealized	60,783	1,903	9,110	313
Gain from options transactions - realized	21,629	677	25,657	880
Gain from options transactions - unrealized	29,681	929	32,066	1,100
Subtotal	186,318	5,832	109,323	3,751
Hedging				
Gain on futures contracts - realized	-	-	8,962	308
Gain on futures contracts - unrealized	-	-	2,675	92
Subtotal	-	-	11,637	400
Total	\$186,318	\$5,832	\$120,960	\$4,151

	For the year ended		For the year ended	
	December 31, 2009		December 31, 2010	
	NT\$	US\$	NT\$	US\$
Loss from derivative financial instruments - futures				
Non-hedging				
Loss on futures contracts - realized	\$91,190	\$2,854	\$47,939	\$1,645
Loss on futures contracts - unrealized	31,744	994	43,090	1,478
Loss from options transactions - realized	40,964	1,282	17,825	612
Loss from options transactions - unrealized	53,706	1,681	16,383	562
Subtotal	217,604	6,811	125,237	4,297
Hedging				
Loss on futures contracts - realized	-	-	6,210	213
Loss on futures contracts - unrealized	-	-	2,871	99
Subtotal	-	-	9,081	312
Total	\$217,604	\$6,811	\$134,318	\$4,609