

**Cathay Securities Investment Trust Co., Ltd.**  
**Financial Statements**  
**For The Years Ended**  
**December 31, 2012 and 2011**  
**With Independent Auditors' Report**

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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. 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.

English Translation of Report Originally Issued in Chinese

**Independent Auditors' Report**

The Board of Directors  
Cathay Securities Investment Trust Co., Ltd.

We have audited the accompanying balance sheets of Cathay Securities Investment Trust Co., Ltd. (the "Company") as of December 31, 2012 and December 31, 2011, and the related statements of income, change in stockholders' equity and cash flow for the year ended December 31, 2012 and December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted 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 the first paragraph present fairly, in all material respects, the financial positions of the Company as of December 31, 2012 and December 31, 2011, and the results of its operations and its cash flows for the year then ended December 31, 2012 and December 31, 2011, in conformity with requirements of the "Business Entity Accounting Act", the "Regulation of Business Entity Accounting Handling" with respect to financial accounting standard and accounting principles generally accepted in the ROC.

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
March 12, 2013

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the ROC 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 ROC.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Investment Trust Co., Ltd.  
Balance Sheets  
December 31, 2012 and 2011  
(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2012		December 31, 2011		Liabilities and Stockholders' Equity	Notes	December 31, 2012		December 31, 2011	
		Amount	%	Amount	%			Amount	%	Amount	%
<b>Current assets</b>						<b>Current liabilities</b>					
Cash and cash equivalents	II, IV.1, V and VII	\$1,574,633	68	\$1,578,727	71	Income tax payables	II, IV.6 and VII	\$-	-	\$29,344	1
Accounts receivables	II and III	10,739	0	7,938	1	Amount received in advance	IV.4	11,367	1	-	-
Accounts receivable from related parties	V and VII	87,689	4	78,712	4	Accrued expenses and other current liabilities	II, IV.5, IV.6, IV.7, V and VII	172,150	7	125,899	6
Prepaid expenses and other current assets	IV.4 and V	15,950	1	7,934	0	Total current liabilities		183,517	8	155,243	7
Total current assets		1,689,011	73	1,673,311	76						
<b>Funds and investments</b>						<b>Other liabilities</b>					
Available-for-sale financial assets-non current	II, IV.2, V and VII	128,032	5	118,147	5	Deferred revenues	IV.4	66,119	3	-	-
Held-to-maturity financial assets-non current	II, IV.2 and VII	200,000	9	200,000	9	Accrued retirement liabilities	II and IV.5	33,959	1	12,641	1
Total		328,032	14	318,147	14	Total other liabilities		100,078	4	12,641	1
						Total liabilities		283,595	12	167,884	8
<b>Property and equipment</b>	II					<b>Stockholders' equity</b>	IV.7				
Cost:						Capital stock					
Computer		20,016	1	17,695	1	Common stock		1,500,000	65	1,500,000	67
Office equipment		5,985	0	5,525	0	Capital reserves		13,908	1	13,908	1
Leasehold improvements		25,666	1	25,183	1	Retained earnings					
Total cost		51,667	2	48,403	2	Legal reserves		232,336	10	198,586	9
Less: accumulated depreciation		(31,715)	(1)	(24,355)	(1)	Special reserves		6,446	0	5,083	0
Net property and equipment		19,952	1	24,048	1	Undistributed earnings		277,157	12	337,789	15
						Other item in stockholder's equity					
<b>Intangible assets</b>						Unrealized gains or losses on financial instrument II		1,989	0	(7,547)	(0)
Computer software	II	10,475	0	10,376	1	Total stockholders' equity		2,031,836	88	2,047,819	92
Deferred retirement costs	II and IV.5	21,836	1	-	-						
		32,311	1	10,376	1						
<b>Other assets</b>											
Discretionary asset management deposits	IV.3 and VII	50,000	2	50,000	2						
Refundable deposits	V and VII	154,172	7	137,672	6						
Deferred expense	IV.4 and V	39,892	2	-	-						
Deferred income tax assets-non current	II and IV.6	2,061	0	2,149	0						
Total other assets		246,125	11	189,821	8						
<b>Total Assets</b>		<b>\$2,315,431</b>	<b>100</b>	<b>\$2,215,703</b>	<b>100</b>	<b>Total Liabilities and Stockholders' Equity</b>		<b>\$2,315,431</b>	<b>100</b>	<b>\$2,215,703</b>	<b>100</b>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Statements of Income

For the years ended December 31, 2012 and 2011

(Expressed in thousands of New Taiwan Dollars, except per share information)

Items	Notes	January 1- December 31, 2012		January 1- December 31, 2011	
		Amount	%	Amount	%
<b>Revenues</b>					
Operating revenues	II, IV.4 and V	\$1,111,684	98	\$1,102,632	99
Non-operating income	II	23,012	2	7,936	1
		<u>1,134,696</u>	<u>100</u>	<u>1,110,568</u>	<u>100</u>
<b>Expenses</b>					
Operating expenses	IV.4, IV.5, IV.7, IV.8 and V	800,902	71	703,516	64
Non-operating expenses		179	0	435	0
		<u>801,081</u>	<u>71</u>	<u>703,951</u>	<u>64</u>
Income before income tax		333,615	29	406,617	36
Income tax expenses	IV.6	56,458	5	69,117	6
Net income		<u>\$277,157</u>	<u>24</u>	<u>\$337,500</u>	<u>30</u>
<b>Basic earnings per share (In dollars) IV.8</b>					
Income before income tax		\$2.22		\$4.03	
Income tax expenses		<u>0.38</u>		<u>(0.68)</u>	
Net income		<u>\$1.85</u>		<u>\$3.35</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.  
 Statements of Changes in Stockholders' Equity  
 For the years ended December 31, 2012 and 2011  
 (Expressed in thousands of New Taiwan Dollars)

Description	Notes	Retained earnings					Other item in	Total
		Capital stock	Capital reserves	Legal reserves	Special reserves	Undistributed earnings	Unrealized gains or losses on financial instruments	
Balance as of January 1, 2011		\$431,400	\$13,908	\$159,131	\$1,927	\$396,648	\$-	\$1,003,014
Appropriation and distribution of 2010 earnings:	IV.6							
Legal reserves		-	-	39,455	-	(39,455)	-	-
Special reserves		-	-	-	3,156	(3,156)	-	-
Stock dividends		353,748	-	-	-	(353,748)	-	-
Issue of share capital	IV.6	714,852	-	-	-	-	-	714,852
Net income for 2011		-	-	-	-	337,500	-	337,500
Unrealized gains or losses on financial instruments		-	-	-	-	-	(7,547)	(7,547)
Balance as of December 31, 2011		1,500,000	13,908	198,586	5,083	337,789	(7,547)	2,047,819
Appropriation and distribution of 2011 earnings:	IV.6							
Legal reserves		-	-	33,750	-	(33,750)	-	-
Special reserves		-	-	-	1,363	(1,363)	-	-
Cash dividends		-	-	-	-	(302,676)	-	(302,676)
Net income for 2012		-	-	-	-	277,157	-	277,157
Unrealized gains or losses on financial instruments		-	-	-	-	-	9,536	9,536
Balance as of December 31, 2012		<u>\$1,500,000</u>	<u>\$13,908</u>	<u>\$232,336</u>	<u>\$6,446</u>	<u>\$277,157</u>	<u>\$1,989</u>	<u>\$2,031,836</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(Expressed in thousands of New Taiwan Dollars)

Items	Notes	January 1- December 31, 2012	January 1- December 31, 2011
Cash flows from operating activities:			
Net income		\$277,157	\$337,500
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	IV.9	9,416	7,682
Amortization	IV.9	6,884	5,010
Loss on disposal of property and equipment		63	64
Gain on disposal of investments		(2,228)	(194)
Gain on financial assets at fair value through profit		-	132
Increase or decrease in operating assets and liabilities:			
(Increase) decrease in operating assets:			
(Increase) decrease in accounts receivables		(2,801)	4,388
(Increase) decrease in accounts receivable from related parties		(8,976)	6,769
(Increase) decrease in prepayments		(5,145)	707
Increase in other current assets		(2,871)	(532)
Increase in deferred expenses		(39,892)	-
Decrease (increase) in deferred income tax assets		88	(1,494)
Increase (decrease) in operating liabilities:			
Decrease in income tax payables		(29,344)	(13,884)
Increase in amount received in advance		11,367	-
Increase (decrease) in accrued expenses		26,566	(15,385)
Increase in payable due to consolidated income tax		19,154	-
Increase in other current liabilities		531	619
Increase in unearned revenues		66,119	-
(Decrease) increase in accrued retirement liabilities		(518)	8,787
Net cash provided by operating activities		<u>325,570</u>	<u>340,169</u>
Cash flows from investing activities:			
Proceeds from financial assets at fair value through profit or loss		-	20,194
Purchase of available-for-sale financial assets		(50,350)	(125,694)
Disposal of available-for-sale financial assets		52,228	-
Purchase of property and equipment		(5,383)	(20,167)
Decrease in discretionary asset management deposits		-	4,700
Increase in refundable deposits		(16,500)	(20,425)
Purchase of intangible assets		(6,983)	(7,871)
Net cash used in investing activities		<u>(26,988)</u>	<u>(149,263)</u>
Cash flows from financing activities:			
Proceeds from issue of shares	IV.7	-	714,852
Cash dividends		(302,676)	-
Net cash (used in) provided by financing activities		<u>(302,676)</u>	<u>714,852</u>
Net (decrease) increase in cash and cash equivalents		(4,094)	905,758
Cash and cash equivalents at beginning of the period		<u>1,578,727</u>	<u>672,969</u>
Cash and cash equivalents at end of the period		<u>\$1,574,633</u>	<u>\$1,578,727</u>
Supplementary disclosure of cash flows information:			
Income tax paid		<u>\$66,780</u>	<u>\$84,495</u>
Non cash financing activities:			
Transfer of retained earnings to common stock	IV.7	<u>\$-</u>	<u>\$353,748</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.

Notes to Financial Statements

December 31, 2012 and 2011

(Amounts in thousands except for share and per share data and unless otherwise stated)

I、Organization and Operations

Cathay Securities Investment Trust Co., Ltd. (the “Company”) which obtained the license authorized to be established in Taipei on February 11, 2000. The Company was enfranchised by the Securities and Futures Bureau, Financial Supervisory Commission (“FSC”), Executive Yuan in the Republic of China (the “ROC”) on March 9, 2000.

In order to provide immediate services to clients in southern Taiwan, the Company established Kaohsiung branch on September 18, 2008 under permission of Explanatory Letter No. Financial-Supervisory-Securities-IV-0970049791 of the FSC and started its main operating business on December 15, 2008. The Company obtained the business license authorized to establish branches and started its main operating business in Hsinchu and Taichung in June, 2011 and May, 2010, respectively.

The Company has become one of the subsidiaries of Cathay Financial Holding Co., Ltd. as the former stockholders sold all shares to Cathay Financial Holding Co., Ltd. on June 24, 2011.

The Company has been approved to conduct business in (1) raising securities investment trust funds through issuance of beneficiary certificates to invest in securities and related products ; (2) discretionary investment services ; (3) futures trust business ; (4) securities investment consulting business ; (5) other business permitted by the Securities and Futures Bureau, FSC, Executive Yuan in the ROC.

As of December 31, 2012 and 2011, the Company had raised the following funds:

English Translation of Financial Statements Originally Issued in Chinese

Names	Type of Fund	Date of Inception	December 31,	
			2012	2011
			Amounts in millions (Not audited)	Amounts in millions (Not audited)
Cathay Dragon Fund	Open-end	March 1994	\$11,464	\$9,743
Cathay Cathay Fund	Open-end	June 2000	3,091	2,727
Cathay Taiwan Money Market Fund (Cathay Bond Fund renamed Cathay Taiwan Money Market Fund on January 14, 2011)	Open-end	August 2000	32,478	38,990
Cathay Small & Medium Cap Fund	Open-end	January 2001	5,623	4,650
Cathay Assets Allocation Neutral Fund	Open-end	June 2001	678	686
Cathay Greater China Fund	Open-end	January 2002	8,621	8,547
Cathay Technology Fund	Open-end	July 2002	2,675	2,504
Cathay Rich Ladder Umbrella Fund	Open-end	December 2005	1,413	1,670
Cathay Global Money Market Fund	Open-end	August 2006	213	294
Cathay Global Infrastructure Fund	Open-end	December 2006	2,414	2,736
Cathay Taiwan Quantitative Fund	Open-end	October 2007	318	331
Cathay Global Ecology Fund	Open-end	March 2008	633	664
Cathay Man AHL Futures Trust Fund of Funds	Open-end Portfolio	August 2009	817	1,181
Cathay Mandarin Fund	Open-end	November 2009	2,649	2,450
Cathay High Income Fund of Funds	Open-end	May 2010	1,586	1,846
Cathay Emerging Markets fund	Open-end	August 2010	1,294	1,442
Cathay Global Resources Fund	Open-end	December 2010	1,744	2,648
Cathay Oriental Bond Fund of Funds	Open-end	May 2011	-	420
Cathay China Domestic Demand Growth Fund	Open-end	June 2011	1,735	2,224
Cathay Emerging Market High Yield Fund-A	Open-end	September 2011	1,023	861
Cathay Emerging Market High Yield Fund-B	Open-end	September 2011	4,695	1,185
Cathay China Emerging Industries Fund	Open-end	April 2012	1,437	-
Cathay Value and Superior Fund	Open-end	July 2012	1,056	-
Cathay New Zealand Dollar Principal Protected Fund	Open-end	October 2012	2,155	-
			<u>\$89,812</u>	<u>\$87,799</u>



As of December 31, 2012 and 2011, the Company employed 230 and 223 employees, respectively.

## II、Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with requirements of the “Business Entity Accounting Act”, “Regulation on Business Entity Accounting Handling” with respect to financial accounting standards and accounting principles generally accepted in the ROC. Significant accounting policies are as follows:

### 1. Accounting estimations

When the Company prepared the accompanying financial statements in accordance with above guidelines, reasonable estimation and assumption that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities must be made. The estimation was usually made under uncertain circumstances and therefore may differ from the actual outcome.

### 2. Current and non-current classification of assets and liabilities

Cash or cash equivalents that are not restricted in use and assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current items.

Liabilities that will be incurred primarily for the purpose of being traded or are expected to be due within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current items.

### 3. Asset impairment

The Company assesses indicators of impairment for all its assets (individual assets or cash-generating unit (CGU)) on each balance sheet date. If impairment is indication exists, the Company shall then compare the carrying amount with the recoverable amount of the assets or the CGU and write down the carrying amount to the recoverable amount where applicable. Except for goodwill, once the recoverable amount increases, the Company shall reverse the recognized impairment loss to the

extent that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been recognized, net of depreciation, had there been no impairment loss for assets in prior years.

4. Cash equivalents

Cash equivalents represent highly liquid short-term investments that can be converted easily into cash and for which a change in interest rates does not have a significant impact on the value of the investment.

5. Financial assets

The Company adopted transaction-date accounting for financial instrument transactions. At the beginning of recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost and issuance cost are added to the original recognized cost.

The subsequent measurement of financial assets depends on their classification as follows:

(1) Financial assets at fair value through profit or loss

Financial assets held for trading or repurchasing in the near term are classified as financial assets at fair value through profit or loss. This category includes derivative financial instruments held by the Company that are not designated as hedging instruments in hedge relationships. Subsequently, these investments are measured on a monthly basis and changes in fair value are recognized in the income statement.

(2) Held-to-maturity financial assets

Held-to-maturity financial assets are measured at amortized cost. If there is objective evidence that impairment loss on held-to-maturity financial assets exists, the amount of the loss should be recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment

was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statements, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(3) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories.

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss and foreign currency exchange related gains or losses, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income statement.

However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by effective interest method as interest income or expense over the relevant periods.

(4) Assessment of impairment for loans and receivables

Effective from January 1, 2011, the Company adopted the third revision of the SFAS No. 34 “Financial Instruments: Recognition and Measurement” to treat its financial instruments. When receivables are recognized initially, they are measured at fair value and reported at amortized cost. The fair value is computed as present value of estimated future cash flows discounted at its effective interest rates, excluding receivables expected to be due recently and would be recoverable.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss on individual financial assets has been

incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a financial asset that is not individually significant has been incurred, the Company shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Similarly, if there no objective evidence that an impairment loss has incurred for financial assets, those assets shall be collectively assessed for impairment. The amount of the impairment loss is recognized and measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows discounted at its original effective interest rates. The carrying amount of the financial asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in income. The estimation of future cash flows including collateral and the related insurance's recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statements, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

6. Property, equipment and depreciation

Property and equipment are stated at cost, less accumulated depreciation or amortization. Improvements, addition, and major renewals that the life of an asset are capitalized while repairs and maintenance are expensed as incurred; relevant promulgated principle should be applied if impairment been found, Upon disposal of premises and equipment, the related cost, accumulated depreciation and accumulated impairment loss are removed from the account. Any gain or loss thereafter are charged to the income statement.

The residual value of property that is still in use at the end of the original service life is depreciated using the straight-line method over its newly estimated useful life. Such changes shall be accounted for as changes in accounting estimates.

Depreciation is provided using the straight-line method over the following estimated useful lives:

Office equipment	3~6	years
Computer equipment	3~8	years
Leasehold improvements	3	years

7. Intangible assets

The Company adopted Statement of Financial Accounting Standards No. 37 (SFAS No. 37) “Intangible Assets”. In accordance with SFAS No. 37, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The amortization amount of capitalized expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Intangible assets are software, which is stated at acquisition cost and amortized using the straight-line method over 3 years.

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Such changes shall be accounted for as changes in accounting estimates.

8. Employee retirement plan

The Company established a defined benefit retirement plan providing lump-sum retirement benefits to employees who qualify for retirement under the plan. The calculation of retirement benefits under the plan is based on the length of service provided by the employee. The earned basis points are from each employee’s 15 service years. When providing services over 1 year, employees can earn 2 basis points, while from 16th year, providing services over 1 year, employees can earn 1 basis point no more than 45 basis points. Effective July 1, 2005, the Company is

subject to the new ROC Labor Pension Act (the New Act). Employees could choose the old plan or the New Act. The new system is a defined contribution pension plan. The Company shall make monthly contribution to the employees' individual pension account on a basis 6% of the employee's monthly wages. Monthly contributions are recognized as pension costs.

The Company contributes 2%~4% of the employees' monthly wages to the pension fund in the separate account of the Bank of Taiwan. Retirement benefits are paid directly from the pension fund or against the provision. If the amount of the actual benefits exceeds that of the fund and the reserve, the Company will charge the excess amount to current operations.

The New Act stipulates that, for each employee, the Company must contribute 6% of each employee's monthly wages into the employee's retirement fund account, accounted for as current expenses.

#### 9. Employee bonus and director bonus

The Company adopted the Accounting Research and Development Foundation 96-052, "Employee Bonus and Director Bonus" in March, 2007. The employee bonus and remuneration of director should be accounted for expenses instead of the distribution of earnings.

#### 10. Recognition of revenues

The Company's operating revenues are mainly from the management fees and commission fees. The Company receives management fees resulting from managing the trust funds. Commissions are collected when investors subscribe the domestic securities investment trust funds under the Company's management. Some of the commissions charged are used to compensate for the expenditure of issuing beneficiary certificates and sales agent commissions. Operating revenues are recognized on an accrual basis.

## 11. Income tax

The Company adopted the ROC Statement of Financial Accounting Standards No. 22, “Accounting for Income Tax”. This Statement requires the inter-period as well as intra-period income tax allocation. Under this Statement, the tax effects of taxable temporary differences are recognized as deferred income tax liabilities while those of deductible temporary differences, net operating loss, and investment tax credits are recognized as deferred tax assets. A valuation allowance is provided for deferred tax assets if the realization is in doubt.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to any assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of shareholders’ meeting.

The Company has adopted the consolidated income tax return for income tax filings with the Company’s parent company, Cathay Financial Holding Co., Ltd. and its qualified subsidiaries.

## III、Accounting Changes

Effective from January 1, 2011, the Company adopted the third revision of the SFAS No. 34 “Financial Instruments: Recognition and Measurement” to treat its financial instruments. No significant effect to the Company’s net income for the year ended December 31, 2011.

IV、Breakdown of Significant Accounts

1. Cash and Cash Equivalents

	December 31,	
	2012	2011
Petty cash	\$30	\$100
Demand deposits	3,756	809
Checking accounts	25,297	15,858
Time deposits	1,525,550	1,500,950
Securities purchased under agreements to resell	20,000	61,010
<b>Total</b>	<b>\$1,574,633</b>	<b>\$1,578,727</b>

2. Financial assets

(1) Available-for-sale financial assets – non-current

	December 31,	
	2012	2011
Beneficiary certificates-open-end funds	\$128,032	\$118,147

(2) Held-to-maturity financial assets-non-current

	January1-December 31,	
	2012	2011
Bonds-92 Taipei Fubon Bank	\$200,000	\$200,000

The Company purchased Taipei Fubon Bank financial debentures in November 18, 2005. The debentures were totaling \$200,000 thousands with inverse floating rates connected with 6 months LIBOR rates. As from January 1 to December 31, 2012 and 2011, the actual rates computed by the year end LIBOR rates are as follows.

	January1-December 31,	
	2012	2011
Bonds-92 Taipei Fubon Bank	4.226%	0.429%



3. Discretionary asset management deposits

The discretionary asset management deposits is aiming to operate the futures trust business and discretionary asset management business under Standards Governing the Establishment of Futures Trust Enterprises and Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises. The Company had \$50,000 thousands and \$50,000 thousands in time deposits as of December 31, 2012 and 2011, respectively.

4. Deferred expenses and revenues

The Company organized an investment trust fund, and received fund management fees revenues of the contract amounted to \$79,567 thousands (calculated by raised scale accordingly) and paid distributors \$48,006 thousands for sales costs, which were recognized deferred expenses and revenues, respectively. The Company offered management service, in accordance with the contract and transferred deferred expenses and revenues to management fees income and marketing expenses over time. For the year ended December 31, 2012, the Company has transferred to management fees income and marketing expenses amounted to \$2,081 thousands and \$1,256 thousands, respectively, and prepaid expenses which will be transferred to revenues in one year and deferred expenses which will be transferred to revenue one year later are amounted to \$6,858 thousands and \$39,892 thousand, respectively. Amount received in advance which will be transferred to expenses in one year and deferred revenue which will be transferred to expenses one year later are amounted to \$11,367 thousands and \$66,119 thousands, respectively.

5. Accrued retirement liabilities

The following is a summary of the pension expenses for the years ended December 31, 2012 and 2011. :

	January 1- December 31,	
	2012	2011
Balance of plan assets	\$14,317	\$12,982
Current pension expenses :		
Defined benefit pension cost	951	10,776
Defined contribution pension cost	9,764	7,899
Balance of retirement liabilities	\$12,123	\$12,641
Adjustment to minimum retirement liabilities (Deferred retirement costs)	21,836	-

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	January 1- December 31,	
	2012	2011
Balance of accrued retirement liabilities (included in accrued retirement liabilities)	\$33,959	\$12,641
Accrued retirement expense (included in accrued expenses and other current liabilities)	\$1,632	\$1,635

For the years ended December 31, 2012 and 2011, retirement expenses were \$10,715 thousands and \$18,675 thousands, respectively.

6. Income Tax

According to the “The standards of profit-seeking enterprise elects to declare the combined business income tax in accordance with Article 49 of the Financial Holding Company Act and Article 40 of the Business Mergers And Acquisitions Act” released by Taiwan Finance Tax No 910458039 on February 12, 2003. Where a financial holding company holds more than 90% of the outstanding issued shares of a domestic subsidiary, such financial holding company may, for the tax year in which its such shareholding in the subsidiary has existed for the entire 12 months of the tax year, elect to be the tax payer itself, and jointly declare and report profit-seeking enterprise income tax. The Company jointly declared and reported 2012’s profit-seeking enterprise income tax and the 2011’s tax surcharge on surplus retained earnings of a profit-seeking enterprise with the Company’s parent company, Cathay Financial Holding Co., Ltd. and its qualified subsidiaries according to the regulation above. Additional tax or tax receivable caused by declaration consolidated income tax are recorded in receivables (payables) due to consolidated income tax. The ROC SFAS No.22 remains applicable to the Company.

The provision for income tax expense for the years ended December 31, 2012 and 2011 consists of the following:

	January 1- December 31,	
	2012	2011
Current income tax	\$56,248	\$70,611
Deferred tax expense	88	(1,494)
Income tax adjustment for previous years	122	-
Income tax expenses	\$56,458	\$69,117

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The Company's applicable income tax rate was 17% for 2012 and 2011, and subject to "Income Basic Tax Act". The difference between income tax payable computed by income before income tax and income tax expense were as follows:

	January 1- December 31,	
	2012	2011
Income tax payable computed by income before income tax	\$56,715	\$69,125
Tax-exempt income	(379)	-
Others	122	(8)
Income tax expense	<u>\$56,458</u>	<u>\$69,117</u>

The deferred tax expense consists of the following:

	January 1- December 31,	
	2012	2011
(Paid) provisions for retirement	<u>\$(88)</u>	<u>\$1,494</u>

The Company's deferred tax assets are as follows:

	December 31,	
	2012	2011
Non-current:		
Deferred tax assets	<u>\$2,061</u>	<u>\$2,149</u>

Deferred tax assets and income tax effects are as follows:

	December 31, 2012		December 31, 2011	
	Amount	Income tax effects	Amount	Income tax effects
Deferred tax assets:				
Provisions for retirement	<u>\$12,123</u>	<u>\$2,061</u>	<u>\$12,641</u>	<u>\$2,149</u>

The income tax payable (Payable due to consolidated income tax) for the years ended December 31, 2012 and 2011 consists of the following:

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	December 31,	
	2012	2011
Current income tax	\$56,248	\$70,611
Income tax withheld and prepayment	(37,094)	(41,267)
Income tax payable		
(Payable due to consolidated income tax)	<u>\$19,154</u>	<u>\$29,344</u>

The Company's income tax returns for the years prior to 2010 have been assessed by the tax authority, except for the income tax return for the year 2008.

The related information on shareholders' deductible income tax is as follows:

	December 31,	
	2012	2011
The Company's imputation credit	<u>\$48,916</u>	<u>\$51,628</u>

The following are the rate of tax credit available for dividends to the Company's shareholders for the years 2012 and 2011:

	December 31,	
	2012	2011
Creditable ratio	<u>20.50%</u>	<u>20.64%</u>

The information of the ending balance of undistributed earnings as follows:

	December 31,	
	2012	2011
Undistributed earnings after 1998	<u>\$277,157</u>	<u>\$337,789</u>

## 7. Stockholder's equity

### (1) Capital stock

As of January 1, 2011, the authorized capital of the Company was \$431,400 thousands, divided into 43,140 thousand shares at par value of \$10 each and the issued capital was \$431,400 thousands.

Based on the resolution of the Company's stockholders' meeting on July 13, 2011, the capital was increased to \$1,500,000 thousands by the creation of \$714,852 thousands from issuing of share capital and of \$353,748 thousands from transferring of retained earnings to common stock, respectively. The Company's increment in capital mentioned above had been approved by the Competence authority.

As of December 31, 2012, the authorized capital of the Company was \$1,500,000 thousands, divided into 150,000 thousand shares at par value of \$10 each and all issued.

(2) Capital reserve

The government's regulations stipulate that its capital reserve shall be transferred to capital stock after deducting any deficit of prior years and shall not be distributed in cash as dividends. Former we call capital reserve are including share issuing premiums and donated surplus.

(3) Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficits. For companies with no accumulated deficits, legal reserve may be distributed by issuing new shares or by cash. Once the legal reserve distributed, the portion of legal reserve which exceeds 25% of paid-in capital may be distributed by issuing new shares or by cash.

(4) Special reserve

According to the Rules Governing Future Trust Enterprises, the Company shall appropriate 20% of the current year after income tax earnings as special reserve. Once the special reserve reaches the paid-in capital, it shall not be appropriated.

(5) Retained earnings

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve and appropriate specific ratio of special reserve. The remaining earnings should be appropriated in accordance with the board meetings, the Company shall appropriate 1% as employees' bonus and remaining amount with prior years' accumulated undistributed earnings use as retained earnings and if any, shall appropriate as special reserve for business need.

The estimation of employee bonus for the years ended December 31, 2012 and 2011 were \$2,488 thousands and \$3,025 thousands, respectively based on the Company's Articles of Incorporation of 1% appropriated as employees' bonus. Resolution approved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the 2013 and 2012 year, respectively.

8. Earnings per share

The computations of earnings per share are as follows:

		In thousands of shares			
		2012	2011		
	Beginning balance	150,000	43,140		
	Stock dividends in 2010 and retroactive adjustment	-	35,375		
	Issue of share capital in 2010	-	22,327		
	Weighted-average shares outstanding	150,000	100,842		
		2012		2011	
		Before income tax	After income tax	Before income tax	After income tax
	Net income	\$333,615	\$277,157	\$406,617	\$337,500
Earnings per share (in dollars)		\$2.22	\$1.85	\$4.03	\$3.35

9. Operating expenses

For the years ended December 31, 2012 and 2011 the Company's employment, depreciation and amortization expenses were as follows:

	January 1- December 31,	
	2012	2011
Employment expenses:		
Salaries	\$309,984	\$254,082
Labor and health insurance	16,808	13,558
Pension	10,715	18,675
Other employment expenses	8,796	7,516
Depreciation expenses	9,416	7,682
Amortization expenses	6,884	5,010

V. Related party transactions

1. Name and relationships of related parties are as follows:

Name of related party	Relationship
Cathay Cathay Fund	A fund organized and managed by the Company
Cathay Taiwan Money Market Fund (Cathay Bond Fund renamed Cathay Taiwan Money Market Fund on January 14, 2011)	"
Cathay Small & Medium Cap Fund	"
Cathay Assets Allocation Neutral Fund	"
Cathay Greater China Fund	"
Cathay Technology Fund	"
Cathay Global Bond Fund (liquidated on December 26, 2011)	"
Cathay Dragon Fund	"
Cathay Rich Ladder Umbrella Fund	"
Cathay Global Money Market Fund	"
Cathay Global Infrastructure Fund	"
Cathay Taiwan Quantitative Fund	"
Cathay Global Ecology Fund	"
Cathay Man AHL Futures Trust Fund of Funds	"
Cathay Mandarin Fund	"
Cathay High Income Fund of Funds	"

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<u>Name of related party</u>	<u>Relationship</u>
Cathay Emerging Markets fund	A fund organized and managed by the Company
Cathay Global Resources Fund	//
Cathay Oriental Bond Fund of Funds	//
Cathay China Domestic Demand Growth Fund	//
Cathay Emerging Market High Yield Fund(A)	//
Cathay Emerging Market High Yield Fund(B)	//
Cathay China Emerging Industries Fund	//
Cathay Value and Superior Fund	//
Cathay New Zealand Dollar Principal Protected Fund	//
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	//
Cathay Venture Capital Co., Ltd.	//
Cathay Securities Corp.	//
Cathay Life Insurance Co., Ltd.	//
	(the original major stockholder of the Company)
Cathay Life Insurance (China) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd
Cathay Life Insurance (Vietnam) Co., Ltd.	//
Cathay Insurance (Bermuda) Co., Ltd	//
Symphox Information Co., Ltd.	//
Cathay Securities Investment Consulting Co., Ltd.	//
Lin Yuan (Shanghai) Real Estate Co., Ltd.	//
Cathay Futures Corp.	Subsidiary of Cathay Securities Corp.
Cathay Insurance Company Limited (China)	Subsidiary of Cathay Century Insurance Co., Ltd.
	Ltd.
Cathay Insurance (Vietnam) Co., Ltd.	//
Indovina Bank	Subsidiary of Cathay United Bank Co., Ltd.
Singapore Banking Corporation Limited	//
Seaward Card Co., Ltd.	//
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to Accounting Standard No.6
Lin Yuan Property Management Co., Ltd.	//
Discretionary Investment Account-Cathay Life Insurance Co., Ltd.	A mandatory discretionary investment account of the Company



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<u>Name of related party</u>	<u>Relationship</u>
Discretionary Investment Account-Cathay Century Insurance Co., Ltd.	A mandatory discretionary investment account of the Company
Discretionary Investment Account-Cathay Charity Foundation	"
Discretionary Investment Account-Cathay Real Estate Development Culture Education Foundation	"
Discretionary Investment Account-Po Han Investment Co., Ltd.	"

2. Significant transactions with the related parties are summarized as follows:

(1) Cash in bank

The Company's deposits and related interest income and receivables in Cathay United Bank Co., Ltd are as follows:

	<u>2012</u>	<u>2011</u>
Cash in bank	<u>\$1,550,795</u>	<u>\$1,516,733</u>
Discretionary asset management deposits	<u>\$50,000</u>	<u>\$50,000</u>
Refundable deposits	<u>\$145,000</u>	<u>\$128,500</u>
Interest income (accounted as non-operating income)	<u>\$12,880</u>	<u>\$6,449</u>
Interest receivable (accounted as prepaid expenses and other current assets)	<u>\$671</u>	<u>\$-</u>

(2) Management fees income and accounts receivable

Management fees income

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Related parties	January 1- December 31,			
	2012		2011	
	Amount	Percentage%	Amount	Percentage%
Cathay Cathay Fund	\$48,988	4	\$50,656	5
Cathay Taiwan Money Market Fund	74,519	7	73,004	7
Cathay Small & Medium Cap Fund	87,767	8	84,426	8
Cathay Assets Allocation Neutral Fund	8,385	1	9,325	1
Cathay Greater China Fund	144,200	13	160,815	15
Cathay Technology Fund	43,648	4	45,899	4
Cathay Global Bond Fund	-	-	1,851	-
Cathay Dragon Fund	141,201	13	134,426	12
Cathay Rich Ladder Umbrella Fund	12,552	1	15,437	1
Cathay Global Money Market Fund	1,237	-	1,485	-
Cathay Global Infrastructure Fund	40,777	4	49,029	5
Cathay Taiwan Quantitative Fund	5,410	-	7,538	1
Cathay Global Ecology Fund	10,690	1	13,202	1
Cathay Man AHL Futures Trust Fund of Funds	11,613	1	22,191	2
Cathay Mandarin Fund	45,732	4	57,013	5
Cathay High Income Fund of Funds	18,391	2	25,416	2
Cathay Emerging Markets Fund	21,873	2	31,999	3
Cathay Global Resources Fund	38,400	3	81,962	7
Cathay Oriental Bond Fund of Funds	1,572	-	1,926	-
Cathay China Domestic Demand Growth Fund	34,979	3	30,053	3

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Related parties	January 1- December 31,			
	2012		2011	
	Amount	Percentage%	Amount	Percentage%
Cathay Emerging Market High Yield Fund (A)	\$10,058	1	\$7,882	1
Cathay Emerging Market High Yield Fund (B)	28,728	2	7,205	-
Cathay China Emerging Industries Fund	29,784	3	-	-
Cathay Value and Superior Fund	12,022	1	-	-
Cathay New Zealand Dollar Principal Protected Fund	2,081	-	-	-
Discretionary Investment Account-Cathay Life Insurance Co., Ltd.	133,040	12	67,893	6
Discretionary Investment Account-Cathay Century Insurance Co., Ltd.	-	-	950	-
Discretionary Investment Account-Cathay Charity Foundation	291	-	296	-
Discretionary Investment Account-Cathay Real Estate Development Culture Education Foundation	-	-	26	-
Discretionary Investment Account-Po Han Investment Co., Ltd.	5,724	1	1,135	-
<b>Total</b>	<b>\$1,013,662</b>	<b>91</b>	<b>\$983,040</b>	<b>89</b>

Accounts receivable resulting from management fees income to related parties as of December 31, 2012 and 2011 are summarized as follows:

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Related parties	December 31,			
	2012		2011	
	Amount	Percentage%	Amount	Percentage%
Cathay Cathay Fund	\$4,245	4	\$3,634	4
Cathay Taiwan Money Market Fund	5,718	6	6,784	8
Cathay Small & Medium Cap Fund	7,634	8	6,144	7
Cathay Assets Allocation Neutral Fund	692	1	704	1
Cathay Greater China Fund	11,822	12	11,443	13
Cathay Technology Fund	3,659	4	3,341	4
Cathay Dragon Fund	12,259	12	10,207	12
Cathay Rich Ladder Umbrella Fund	1,012	1	1,169	1
Cathay Global Money Market Fund	93	-	124	-
Cathay Global Infrastructure Fund	3,308	3	3,706	4
Cathay Taiwan Quantitative Fund	434	-	446	1
Cathay Global Ecology Fund	850	1	906	1
Cathay Man AHL Futures Trust Fund of Funds	839	1	1,220	2
Cathay Mandarin Fund	3,920	4	3,802	5
Cathay High Income Fund of Funds	1,470	1	1,712	2
Cathay Emerging Markets Fund	1,741	2	2,009	2
Cathay Global Resources Fund	2,693	3	4,135	5
Cathay Oriental Bond Fund of Funds	-	-	195	-
Cathay China Domestic Demand Growth Fund	2,609	3	3,540	4
Cathay Emerging Market High Yield Fund(A)	1,230	1	1,252	1
Cathay Emerging Market High Yield Fund(B)	6,303	6	1,648	2
Cathay China Emerging Industries Fund	2,360	2	-	-
Cathay Value and Superior Fund	1,562	2	-	-

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Related parties	December 31,			
	2012		2011	
	Amount	Percentage%	Amount	Percentage%
Discretionary Investment Account-Cathay Life Insurance Co., Ltd.	\$10,586	11	\$10,551	12
Discretionary Investment Account-Cathay Charity Foundation	25	-	23	-
Discretionary Investment Account-Po Han Investment Co., Ltd.	625	1	17	-
<b>Total</b>	<b>\$87,689</b>	<b>89</b>	<b>\$78,712</b>	<b>91</b>

(3) Rental expense and refundable deposits

Details of rental expense of the office and car leased from related parties were as follows:

Related parties	January 1- December 31,	
	2012	2011
Cathay Life Insurance Co., Ltd.	\$39,082	\$34,900
Cathay Real Estate Development Co., Ltd.	1,945	-
<b>Total</b>	<b>\$41,027</b>	<b>\$34,900</b>

Refundable deposits of the office premises from Cathay Life Insurance Co., Ltd. for the years ended December 31, 2012 and 2011 were both \$8,903 thousands.

(4) Available-for-sale financial assets

Related parties	December 31, 2012		December 31, 2011	
	Account balance	Unit	Account balance	Unit
Cathay High Income Fund of Funds	\$20,055	1,807,092.80	\$49,564	4,824,994.90
Cathay Small & Medium Cap Fund	28,687	963,950.70	16,452	645,679.70
Cathay Greater China Fund	27,894	1,545,364.30	17,265	1,035,074.70

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Related parties	December 31, 2012		December 31, 2011	
	Account balance	Unit	Account balance	Unit
Cathay Dragon Fund	\$29,075	2,566,205.80	\$16,792	1,727,531.30
Cathay Assets Allocation Neutral Fund	19,523	1,065,084.20	18,074	1,065,084.20
Cathay Value and Superior Fund	1,276	117,043.20	-	-
Cathay Mandarin Fund	508	64,352.70	-	-
Cathay China Domestic Demand Growth Fund	506	53,967.30	-	-
Cathay China Emerging Industries Fund	508	47,666.00	-	-
<b>Total</b>	<b>\$128,032</b>	<b>8,230,727.00</b>	<b>\$118,147</b>	<b>9,298,364.80</b>

(5) Securities sold under agreements to resell

Details of securities sold under agreements to resell from related parties were as follows:

Related parties	January 1- December 31, Maximum balance	December 31, Account balance	January 1 - December 31,	
			Interest Rate (%)	Interest income
<u>2012</u>				
Cathay United Bank Co., Ltd.	\$778,000	\$20,000	0.42~0.46	\$492
<u>2011</u>				
Cathay United Bank Co., Ltd.	\$260,000	\$61,010	0.16~0.42	\$199

(6) Payable due to consolidated income tax

Related parties	January 1- December 31,	
	2012	2011
Cathay Financial Holding Co., Ltd.	\$19,154	\$-

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(7) Transaction of property

For the year ended December 31, 2012: None.

For the year ended December 31, 2011: Please refer to the following related disclosed:

Related parties	Property types of transactions	January 1- December 31, 2011	
		Purchase price	Accrued payable
Li Yuan Property Management Co., Ltd.	Leasehold improvements	\$7,205	\$-
Symphox Information Co., Ltd.	Fixed assets purchase	1,562	-

(8) Accrued expenses

Related parties	December 31,	
	2012	2011
Cathay Life Insurance Co., Ltd.	\$22,594	\$21,131

(9) Operating Expenses

Related parties	Transaction types	January 1- December 31,	
		2012	2011
Cathay United Bank Co., Ltd	Specimen seal impression for checking expense	\$5,568	\$6,424
Cathay United Bank Co., Ltd	Selling expenses	31,867	21,288
Cathay Life Insurance Co., Ltd.	Selling expenses and advertising expenses	98,070	106,428
Cathay Life Insurance Co., Ltd.	Insurance expenses	2,641	-
Cathay Life Insurance Co., Ltd.	Building administration expenses	2,812	-
Cathay Securities Investment Consulting Co., Ltd.	Consulting expenses	12,180	5,845
Symphox Information Co., Ltd.	Data transmission expenses...etc.	5,225	5,217
Total		<u>\$158,363</u>	<u>\$145,202</u>

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(10) Payments for marketing expenses

Related parties	January 1- December 31,	
Cathay Life Insurance Co., Ltd.	2012	2011
	\$41,289	\$-

VI、Commitments And Contingent Liabilities

As of December 31, 2012, the Company entered into lease agreements for its office and parking space. The future lease obligations under the lease agreements are as follows:

Periods	Amount
102.01.01~102.12.31	\$23,182
103.01.01~103.12.31	447
104.01.01~104.12.31	129
Total	\$23,758

VII、Subsequent events:

Based on the resolution for the change of the Board's chairman and general manager approved by Board of meeting on March 1, 2013, the director, Zhang Xi, succeed the Board's chairman, and the Company engaged Zhang Yong-Chuan to take over general manager. The appointment will take effect from the day following the approval of the competent authority. The Company has declared the documents to FSC on March 1, 2013.

VIII、Disclosure of financial instruments information

1. Information of fair value

	December 31,			
	2012		2011	
	Book Value	Fair Value	Book Value	Fair Value
<u>Financial assets</u>				
Cash and cash equivalents	\$1,574,633	\$1,574,633	\$1,578,727	\$1,578,727
Accounts receivable from related parties	87,689	87,689	78,712	78,712



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	December 31,			
	2012		2011	
	Book Value	Fair Value	Book Value	Fair Value
Available-for-sale financial assets-non-current	\$128,032	\$128,032	\$118,147	\$118,147
Held-to-maturity financial assets-non-current	200,000	200,000	200,000	200,000
Discretionary asset management deposits	50,000	50,000	50,000	50,000
Refundable deposits	154,172	154,172	137,672	137,672
<u>Financial liabilities</u>				
Income tax payables	19,154	19,154	29,344	29,344
Accrued expenses and other current liabilities	152,996	152,996	125,899	125,899

2. The methodologies and assumptions used by the Company to estimate the above fair value of financial instruments are summarized as following:

- (1) The carrying value of short-term financial instruments, such as cash and cash equivalents, accounts receivable from related parties, income tax payables, accrued expenses and other current liabilities arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization. Its book value should be a reasonable basis for the estimated fair value
- (2) Quoted available-for-sale financial assets and held-to-maturity financial assets market price, if available, are utilized as estimates of the fair values of financial instruments. If no quoted market prices exist for certain of the Company's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
- (3) If there is a quoted market price in an active market, the quoted market price of discretionary asset management deposits and refundable deposits are regarded as fair value. Otherwise, if the market for discretionary asset management deposits and refundable deposits are not active, the carrying value approximates fair value.

3. The fair values of the Company's financial assets determined by quoted market

price or pricing models are summarized as following:

	<u>Value determined by quoted market price</u>		<u>Value determined by pricing models</u>	
	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<u>Financial assets</u>				
Available-for-sale financial assets-current	\$128,032	\$118,147	\$-	\$-
Held-to-maturity financial assets-non-current	-	-	200,000	200,000

4. The interest income arising from other than financial assets at fair value through profit or loss for the years ended December 31, 2012 and 2011 were \$7,779 thousands and \$924 thousands, respectively.

5. Information on financial risk

(1) Market risk

The equity securities invest by the Company were measured by the fair value. The Company may expose to risk when the price of equity securities moves in adverse direction.

The Company provided inverse floating interest rates debt investments which measured at amortized cost. To manage market risk, the Company chose good goodwill banks for investing held-to-maturity financial assets.

(2) Credit risk

There is no significant credit risk exposure with respect to the financial instruments held by the Company as the counter-parties are reputable financial institutions with good global ratings.

(3) Liquidity risk

Capital and working capital of the Company have sufficed to deliver contracts. The Company has raised sufficient capital to execute the obligations so that it is without liquidity risk.

(4) Cash flow risk of interest rate fluctuation

The Company's debt investments are inverse floating interest rates, accordingly, cash flow are expected to fluctuate corresponsive as changes in market interest rates. When LIBOR rates under 4.95% at reset date, it will increase each half year cash flow about \$1,000 thousands after decrease 1%. If terms remain, it will increase each year cash flow about \$2,000 thousands.

IV、Others

1. According to the Rule No. 0990015020 issued by the FSC on April 20, 2010, Investment Trust Company's financial statements should be in accordance with International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the Accounting Research and Development Foundation (collectively referred to as "IFRSs"). The Company makes the following pre-disclosures on the adoption of IFRSs as follows:

(1) The main contents of the plan to adopt IFRSs and the current status:

The Company has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is senior manager of management departments that assistant manager authorized. The main contents of the plan, estimated completion schedule and status of execution as of December 31, 2012, were as follows:

Contents of Plan	Responsible Department or Personnel	Status of Execution
1. Establish a project team	Management departments	Completed
2. Make a plan to adopt IFRSs	Management departments	Completed
3. Identify differences between the existing accounting policies and IFRSs	Accounting departments	Completed
4. Identify consolidated entities under IFRSs	Accounting departments	Completed
5. Select voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards" and assess the impact of these exemptions	Management departments and accounting departments.	Completed

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Contents of Plan	Responsible Department or Personnel	Status of Execution
6. Assess the adjustments required for IT system	IT departments, accounting departments and HR departments.	Completed
7. Assess the adjustments required for internal controls	Accounting departments and HR departments...etc.	Completed
8. Finalize the accounting policies under IFRSs	Management departments and accounting departments.	Completed
9. Finalize the selection of voluntary exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards	Management departments and accounting departments.	Completed
10. Prepare opening IFRS statement of financial position	Accounting departments	Completed
11. Prepare IFRSs comparative information for 2012	Accounting departments	Actively in progress
12. Finalize adjustments to the internal control (including financial statements process and the associated IT system)	Accounting departments and HR departments...etc.	Completed

(2) Material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs are described as following.

A. The Company assesses the material differences in accounting polices based on the IFRSs as recognized by the FSC and the Regulations Governing the Preparation of Financial Reports by Securities Firms expected to become effective in 2013. However, these assessments may be changed as the FSC may recognize different versions of IFRSs in the future. Furthermore, the Company has decided the accounting policies to be adopted under IFRSs based on the current circumstances, should circumstances change in the future, the accounting policies to be adopted may change accordingly. The material differences in accounting policies described in the table below may not result in any adjustment on the date of transition to IFRSs, due to the voluntary exemptions selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards” .

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Accounting Issues	Description of differences
Employee benefits	The Company has selected a rate of return on relatively high-safety fixed-income investment as the discount rate under ROC GAAP. However under the requirements of IAS 19, the rate used to discount post-employment benefits obligations shall be determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used.
	Under the requirements of ROC GAAP, the unrecognized transitional net assets (or net benefit obligation) should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. There is no such requirement under IAS 19.
	Under the requirements of ROC GAAP, minimum pension liability is to be recognized for the excess of the accumulated benefit obligation over the pension plan assets. There is no such requirement under IAS 19.

B. The preliminary assessment on the monetary impacts of the material differences and effects between the existing accounting policies and the accounting policies to be adopted under IFRSs is as follows :

① Reconciliation of the balance sheet as of January 1, 2012:

Unit : NT thousand dollars

	ROC GAAP	Adjustments	IFRSs
Current assets (a)	\$1,673,311	\$(8,750)	\$1,664,561
Funds and investment (a)	318,147	8,750	326,897
Property and equipment	24,048	-	24,048
Intangible equipment	10,376	-	10,376
Others (b)	189,821	7,129	196,950
<b>Total assets</b>	<b>2,215,703</b>	<b>7,129</b>	<b>2,222,832</b>
Current liabilities	155,243	-	155,243
Non-current liabilities (b)	12,641	41,934	54,575
<b>Total liabilities</b>	<b>167,884</b>	<b>41,934</b>	<b>209,818</b>
Capital stock	1,500,000	-	1,500,000
Capital reserve	13,908	-	13,908
Retained earnings (b)	541,458	(34,805)	506,653
Others	(7,547)	-	(7,547)
<b>Total stockholders' equity</b>	<b>2,047,819</b>	<b>(34,805)</b>	<b>2,013,014</b>
<b>Liabilities and stockholders' equity</b>	<b>\$2,215,703</b>	<b>\$7,129</b>	<b>\$2,222,832</b>

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- (a) In accordance with the requirements of IFRSs for cash and cash equivalents, the Company reclassified time deposit over one year to debt securities with no active market, which amounted to \$8,750 thousands.
- (b) According to requirements of IFRSs, unrecognized actuarial loss retirement plan of the company, the IFRSs adjustment resulted in increase of accrual pension liability by \$41,934 thousands, deferred income tax assets increase by \$7,129 thousands, and \$34,805 thousands decrease in retained earnings.

② Reconciliation of the balance sheet as of December 31, 2012:

Unit : NT thousand dollars

	ROC GAAP	Adjustments	IFRSs
Current assets (a)	\$1,689,011	\$(11,250)	\$1,677,761
Funds and investment (a)	328,032	11,250	339,282
Property and equipment	19,952	-	19,952
Intangible equipment	32,311	(21,836)	10,475
Others (b)	246,125	7,345	253,470
<b>Total assets</b>	<b>2,315,431</b>	<b>(14,491)</b>	<b>2,300,940</b>
Current liabilities	183,517	-	183,517
Non-current liabilities (b)	100,078	21,369	121,447
<b>Total liabilities</b>	<b>283,595</b>	<b>21,369</b>	<b>304,964</b>
Capital stock	1,500,000	-	1,500,000
Capital reserve	13,908	-	13,908
Retained earnings (b)	515,939	(35,860)	480,079
Others	1,989	-	1,989
<b>Total stockholders' equity</b>	<b>2,031,836</b>	<b>(35,860)</b>	<b>1,995,976</b>
<b>Liabilities and stockholders' equity</b>	<b>\$2,315,431</b>	<b>\$(14,491)</b>	<b>\$2,300,940</b>

- (a) In accordance with the requirements of IFRSs for cash and cash equivalents, the Company reclassified time deposit over one year to debt securities with no active market, which amounted to \$11,250 thousands.
- (b) According to requirements of IFRSs, unrecognized actuarial loss pension plan of the company, the IFRSs adjustment resulted in increase of accrual pension liability by \$21,369 thousands, deferred income tax assets increase by \$7,345 thousands, deferred pension costs decrease by \$21,836 thousands, and \$35,860 thousands decrease in retained earnings.

③ Reconciliation of the income statement from January 1 to December 31, 2012:

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Unit : NT thousand dollars

	ROC GAAP	Adjustments	IFRSs
Operating revenues	\$1,111,684	\$-	\$1,111,684
Operating expenses (a)	800,902	1,271	802,173
<b>Operating income</b>	<b>310,782</b>	<b>(1,271)</b>	<b>309,511</b>
Non-operating income and losses	22,833	-	22,833
<b>Income from continuing operations before income taxes</b>	<b>333,615</b>	<b>(1,271)</b>	<b>332,334</b>
Income taxes benefit(a)	56,458	(216)	56,242
<b>Net income</b>	<b>\$277,157</b>	<b>\$(1,055)</b>	<b>\$276,102</b>

(a) To adjust employee benefit expenses amounted to \$1,271 thousands and the related income tax expenses amounted to \$216 thousands, which were caused by the differences between requirement of IFRSs and ROC GAAP.

2. According to the requirements under IFRS 1, “First-time Adoption of International Financial Reporting Standards”, the Company prepares its first IFRS financial statements based on the effective IFRS standards and makes adjustments retrospectively, except for the optional exemptions and mandatory exemptions under IFRS 1. The optional exemptions selected by the Bank are as follows:

- (1) The Company has recognized all cumulative actuarial gains and losses directly to retained earnings as at January 1, 2012.
- (2) The Company has elected to disclose amounts required by paragraph 120A (p) of IAS19 prospectively from January 1, 2012.