

Cathay Securities Co.,Ltd.
Financial Statements
Together with
Independent Auditors' Report
As of December 31, 2012 and 2011

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the “ Business Entity Accounting Act”, “Regulation on Business Entity Accounting Handling”, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and the “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants”, and generally accepted accounting principles in the ROC. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese
Independent Auditors' Report

To: Board of Directors
Cathay Securities Co.,Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Co.,Ltd as of December 31, 2012 and 2011, and the results of its operations and their cash flows for the years ended December 31, 2012 and 2011 in conformity with requirements of the "Business Entity Accounting Act" and "Regulation on Business Entity Accounting Handling" with respect to financial accounting standards, "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC.

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2012 and 2011, and expressed an unqualified opinion.

Ernst & Young
Taipei, Taiwan
Republic of China
March 15, 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 accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Balance sheets

As of December 31, 2012 and 2011

(Expressed in thousands of dollars)

| ASSETS | NOTES | December 31,2012 | | December 31,2011 | |
|--|-------------|---------------------|------------------|--------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | | | | | |
| Cash and cash equivalents | 2,4(1),5 | \$788,977 | \$27,159 | \$266,078 | \$8,790 |
| Financial assets at fair value through profit or loss - current | 2,4(2),5,10 | 6,547,471 | 225,386 | 3,189,710 | 105,375 |
| Securities margin loans receivable | 2,4(3) | 1,521,977 | 52,392 | 1,362,756 | 45,020 |
| Margin deposits for securities refinancing | 2 | 17,757 | 611 | - | - |
| Collateral for securities refinancing | 2 | 18,997 | 654 | 2,078 | 69 |
| Collateral for securities borrowed | | 236,893 | 8,155 | 366,228 | 12,099 |
| Deposits for securities borrowed | | 1,658,897 | 57,105 | 1,990,015 | 65,742 |
| Accounts receivable | | 285,200 | 9,818 | 47,927 | 1,583 |
| Accounts receivable - related parties | | 1,970 | 68 | 1,974 | 65 |
| Prepayments | | 71,585 | 2,464 | 13,193 | 436 |
| Other receivables | | 37,578 | 1,294 | 30,894 | 1,021 |
| Other receivables- related parties | 5 | 1,300 | 45 | 152,759 | 5,047 |
| Restricted assets - current | 5,6 | 1,000,000 | 34,423 | 587,900 | 19,422 |
| Available-for-sale financial assets - current | 2,4(4) | 578,712 | 19,921 | 581,774 | 19,219 |
| Other current assets | | 1,668 | 57 | 1,211 | 40 |
| Total current assets | | 12,768,982 | 439,552 | 8,594,497 | 283,928 |
| Funds and investments | | | | | |
| Long-term investments under equity method | 2,4(5) | 781,240 | 26,893 | 773,814 | 25,563 |
| Available-for-sale financial assets - noncurrent | 2,4(6) | 18 | 1 | 18 | 1 |
| Total funds and investments | | 781,258 | 26,894 | 773,832 | 25,564 |
| Property and equipment | | | | | |
| Equipment | 2,4(7) | 203,641 | 7,010 | 136,676 | 4,515 |
| Prepayment for equipment | | 8,478 | 292 | 2,357 | 78 |
| Leasehold improvement | | 85,673 | 2,949 | 64,544 | 2,132 |
| Less: Accumulated depreciation | | (175,819) | (6,052) | (157,236) | (5,194) |
| Net property and equipment | | 121,973 | 4,199 | 46,341 | 1,531 |
| Intangible assets | | | | | |
| Deferred pension cost | 2 | 2,620 | 90 | 2,620 | 87 |
| Other intangible assets | 2,4(8) | 12,128 | 417 | 8,477 | 280 |
| Total intangible assets | | 14,748 | 507 | 11,097 | 367 |
| Other assets | | | | | |
| Operating deposits | 4(9) | 305,000 | 10,499 | 245,000 | 8,093 |
| Settlement and clearance funds | 4(10) | 121,863 | 4,195 | 84,720 | 2,799 |
| Guarantee deposits paid | 5 | 9,999 | 344 | 8,673 | 287 |
| Deferred income tax assets - noncurrent | 2,4(19) | 5,337 | 184 | 5,218 | 172 |
| Cash and cash equivalents - funds for subscription of shares collected | | - | - | 19 | 1 |
| Total other assets | | 442,199 | 15,222 | 343,630 | 11,352 |
| Securities brokerage debit accounts - net | 4(11) | 13,667 | 470 | 27,935 | 923 |
| Total assets | | \$14,142,827 | \$486,844 | \$9,797,332 | \$323,665 |

(The exchange rate of December 31, 2012 and 2011 provided by the Federal Reserve Bank of New York was NT\$29.05 and NT\$30.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Co., Ltd.
Balance sheets
As of December 31, 2012 and 2011
(Expressed in thousands of dollars)

| LIABILITIES AND STOCKHOLDERS' EQUITY | NOTES | December 31, 2012 | | December 31, 2011 | |
|--|------------|---------------------|------------------|--------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current liabilities | | | | | |
| Commercial paper payable | 4(12) | \$5,540,000 | \$190,705 | \$2,290,000 | \$75,652 |
| Liabilities for bonds with repurchase agreements | 2,4(13) | 1,400,000 | 48,193 | 1,000,000 | 33,036 |
| Financial liabilities at fair value through profit or loss - current | 2,4(14),10 | 1,706,923 | 58,758 | 1,534,719 | 50,701 |
| Short sale margins | 2 | 171,897 | 5,917 | 164,037 | 5,419 |
| Payables for short sale collateral received | 2 | 196,956 | 6,780 | 179,810 | 5,940 |
| Deposits for securities lent | | 245,018 | 8,434 | - | - |
| Notes payable | | 387 | 13 | - | - |
| Accounts payable | | 20,065 | 691 | 148,762 | 4,915 |
| Accounts payable - related parties | | 253 | 9 | 115 | 4 |
| Advance receipts | | 433 | 15 | - | - |
| Receipts under custody | | 13,831 | 476 | 14,547 | 481 |
| Other payables | | 80,056 | 2,756 | 45,641 | 1,508 |
| Other payables - related parties | 5 | 116,528 | 4,011 | - | - |
| Deferred income tax liabilities - current | 2,4(19) | 9,110 | 314 | 151,327 | 4,999 |
| Other current liabilities | | 98 | 3 | 35 | 1 |
| Total current liabilities | | <u>9,501,555</u> | <u>327,075</u> | <u>5,528,993</u> | <u>182,656</u> |
| Long-term liabilities | | | | | |
| Other long-term liabilities | | 316 | 11 | 1,797 | 59 |
| Other liabilities | | | | | |
| Guarantee deposits received | | 106 | 4 | 106 | 4 |
| Accrued pension liability - noncurrent | 2,4(15) | 11,966 | 412 | 11,264 | 372 |
| Total other liabilities | | <u>12,072</u> | <u>416</u> | <u>11,370</u> | <u>376</u> |
| Total liabilities | | <u>9,513,943</u> | <u>327,502</u> | <u>5,542,160</u> | <u>183,091</u> |
| Stockholders' equity | | | | | |
| Capital stock | | | | | |
| Common stock | 4(16) | 3,866,660 | 133,103 | 3,700,000 | 122,233 |
| Capital surplus | 4(17) | 291,766 | 10,044 | 258,434 | 8,537 |
| Retained earnings | 4(18) | | | | |
| Legal reserve | | 47,706 | 1,642 | 47,706 | 1,576 |
| Special reserve | | 159,307 | 5,484 | 158,000 | 5,220 |
| Unappropriated retained earnings | | 253,976 | 8,743 | 92,339 | 3,051 |
| Equity adjustments | | | | | |
| Unrealized gains or losses on financial instruments | 4(4) | 9,469 | 326 | (1,307) | (43) |
| Total stockholders' equity | | <u>4,628,884</u> | <u>159,342</u> | <u>4,255,172</u> | <u>140,574</u> |
| Total liabilities and stockholders' equity | | <u>\$14,142,827</u> | <u>\$486,844</u> | <u>\$9,797,332</u> | <u>\$323,665</u> |

(The exchange rate of December 31, 2012 and 2011 provided by the Federal Reserve Bank of New York was NT\$29.05 and NT\$30.27 to US\$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Statements of income

For the years ended December 31, 2012 and 2011

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

| ITEMS | NOTES | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|---|---------|--------------------------------------|-----------------|--------------------------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Revenue | 2,5 | | | | |
| Brokerage fee revenue | | \$312,123 | \$10,744 | \$347,604 | \$11,483 |
| Revenue from borrowed securities | | 3,897 | 134 | 31 | 1 |
| Revenue from underwriting business | | 82,030 | 2,824 | 30,316 | 1,002 |
| Gains on sale of securities held for operations | | 131,547 | 4,528 | - | - |
| Interest revenue | | 112,033 | 3,857 | 141,184 | 4,664 |
| Dividend revenue | | 229,569 | 7,903 | 57,432 | 1,897 |
| Gains on measurement at fair value through profit or loss for securities held for operations | | 60,131 | 2,070 | - | - |
| Gains on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements | | - | - | 73,445 | 2,426 |
| Gains on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements | | - | - | 49,812 | 1,646 |
| Gains on issuance of call (put) warrants | 10 | 136,103 | 4,685 | 416,561 | 13,761 |
| Brokerage commissions for introducing futures contracts | | 23,560 | 811 | 28,205 | 932 |
| Gain from derivative financial instruments - futures | 10 | 298,925 | 10,290 | 263,912 | 8,719 |
| Other operating revenue | | 26,670 | 918 | 26,654 | 881 |
| Non-operating revenue and profits | | 54,457 | 1,875 | 43,334 | 1,432 |
| Total revenue | | <u>1,471,045</u> | <u>50,639</u> | <u>1,478,490</u> | <u>48,844</u> |
| Expenses | 2,5 | | | | |
| Broker's exchange fees | | (25,635) | (882) | (29,415) | (972) |
| Dealer's exchange fees | | (9,131) | (314) | (6,923) | (229) |
| Refinancing transaction fees | | (378) | (13) | (83) | (3) |
| Underwriting handling fees | | (284) | (10) | (210) | (7) |
| Loss on sale of securities held for operations | | - | - | (666,199) | (22,008) |
| Interest expense | | (12,262) | (422) | (6,089) | (201) |
| Loss on measurement at fair value through profit or loss for securities held for operations | | - | - | (22,217) | (734) |
| Losses on the covering of securities borrowing and short sales of bonds with reverse repurchase agreements | | (14,631) | (504) | - | - |
| Losses on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements | | (78,335) | (2,697) | - | - |
| Loss from borrowed securities | | (35,128) | (1,209) | (14,586) | (482) |
| Expenses from issuing call (put) warrants | | (26,379) | (908) | (24,485) | (809) |
| Clearing and settlement fees | | (2,137) | (74) | (652) | (22) |
| Loss from derivative financial instruments - futures | 10 | (213,449) | (7,348) | (94,097) | (3,108) |
| Loss from derivative financial instruments - GreTai (over-the-counter) | 10 | (310) | (11) | (9,845) | (325) |
| Operating expenses | | (869,524) | (29,932) | (652,112) | (21,543) |
| Other operating expenses | | (52) | (2) | - | - |
| Non-operating expense and losses | | (32,371) | (1,114) | (13,398) | (443) |
| Total expenses | | <u>(1,320,006)</u> | <u>(45,440)</u> | <u>(1,540,311)</u> | <u>(50,886)</u> |
| Income (loss) from continuing operations before income taxes | | 151,039 | 5,199 | (61,821) | (2,042) |
| Income tax (expense) benefit | 2,4(19) | 11,905 | 410 | (11,438) | (378) |
| Net income (loss) | | <u>\$162,944</u> | <u>\$5,609</u> | <u>\$(73,259)</u> | <u>\$(2,420)</u> |
| Earnings per share (in dollars) | 4(21) | | | | |
| Net income (loss) | | <u>\$0.43</u> | <u>\$0.01</u> | <u>\$(0.20)</u> | <u>\$(0.01)</u> |

(The exchange rate of December 31, 2012 and 2011 provided by the Federal Reserve Bank of New York was NT\$29.05 and NT\$30.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Statements of changes in stockholders' equity

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

| SUMMARY | Common stock | | Capital surplus | | Legal reserve | | Retained earnings | | | | Equity adjustments | | Total | |
|---|--------------|-----------|-----------------|----------|---------------|---------|-------------------|---------|-----------|---------|---|--------|-------------|-----------|
| | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | (NT\$) | (US\$) | Unrealized gains or losses on financial instruments | | (NT\$) | (US\$) |
| | | | | | | | | | | | | | | |
| Balance on January 1, 2011 | \$3,700,000 | \$122,233 | \$258,434 | \$8,537 | \$25,513 | \$843 | \$51,025 | \$1,686 | \$221,930 | \$7,332 | \$6,869 | \$227 | \$4,263,771 | \$140,858 |
| Special reserve result from reverse of reserve for default losses and trading losses | | | | | | | 51,933 | 1,716 | 10,247 | 338 | | | \$62,180 | 2,054 |
| Special reserve result from recognition of investee's reverse of reserve for default losses | | | | | | | 10,656 | 352 | | | | | \$10,656 | 352 |
| Appropriations and distributions for 2010: | | | | | | | | | | | | | | |
| Legal reserve | | | | | 22,193 | 733 | | | (22,193) | (733) | | | - | - |
| Special reserve | | | | | | | 44,386 | 1,466 | (44,386) | (1,466) | | | - | - |
| Changes in unrealized gains or losses on financial instruments | | | | | | | | | | | (8,176) | (270) | (8,176) | (270) |
| Net loss for the year ended December 31, 2011 | | | | | | | | | (73,259) | (2,420) | | | (73,259) | (2,420) |
| Balance on December 31, 2011 | \$3,700,000 | \$122,233 | \$258,434 | \$8,537 | \$47,706 | \$1,576 | \$158,000 | \$5,220 | \$92,339 | \$3,051 | \$(1,307) | \$(43) | \$4,255,172 | \$140,574 |
| Balance on January 1, 2012 | \$3,700,000 | \$127,366 | \$258,434 | \$8,896 | \$47,706 | \$1,642 | \$158,000 | \$5,439 | \$92,339 | \$3,179 | \$(1,307) | \$(45) | \$4,255,172 | \$146,477 |
| Cash capital increase | 166,660 | 5,737 | | | | | | | | | | | 166,660 | \$5,737 |
| Premium of cash capital increase | | | 33,332 | 1,148 | | | | | | | | | 33,332 | \$1,148 |
| Appropriations and distributions of 2011: | | | | | | | | | | | | | | |
| Special reserve | | | | | | | 1,307 | 45 | (1,307) | (45) | | | - | - |
| Changes in unrealized gains or losses on financial instruments | | | | | | | | | | | 10,776 | 371 | 10,776 | 371 |
| Net income for the year ended December 31, 2012 | | | | | | | | | 162,944 | 5,609 | | | 162,944 | 5,609 |
| Balance on December 31, 2012 | \$3,866,660 | \$133,103 | \$291,766 | \$10,044 | \$47,706 | \$1,642 | \$159,307 | \$5,484 | \$253,976 | \$8,743 | \$9,469 | \$326 | \$4,628,884 | \$159,342 |

(The exchange rate of December 31, 2012 and 2011 provided by the Federal Reserve Bank of New York was NT\$29.05 and NT\$30.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Statements of cash flows

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

| ITEMS | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|--|--------------------------------------|----------|--------------------------------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from operating activities | | | | |
| Net income (loss) | \$162,944 | \$5,609 | \$(73,259) | \$(2,420) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 18,582 | 640 | 15,925 | 526 |
| Amortization | 6,371 | 219 | 3,577 | 118 |
| (Gain) loss on valuation of securities held for operations | (60,131) | (2,070) | 22,217 | 734 |
| (Gain) loss on valuation of open-end funds and currency market instruments | (8,838) | (304) | 5,633 | 186 |
| Valuation (gains) losses on securities borrowing and short sales of bonds with reverse repurchase agreements | 78,335 | 2,697 | (49,812) | (1,646) |
| Investment income recognized by equity method in excess of cash dividends received | (7,427) | (256) | (24,481) | (809) |
| Loss on disposal of property and equipment | - | - | 369 | 12 |
| Changes in assets and liabilities | | | | |
| Financial assets at fair value through profit or loss - current | | | | |
| Increase in securities lended | (12,884) | (444) | - | - |
| Increase in securities held for operations - dealing | (2,515,654) | (86,597) | (1,017,853) | (33,625) |
| (Increase)decrease in securities held for operations - underwriting | (265,507) | (9,140) | 429,619 | 14,193 |
| (Increase)decrease in securities held for operations - hedging | (131,617) | (4,531) | 316,360 | 10,451 |
| (Increase)decrease in long options - futures | (3,958) | (136) | 2,730 | 90 |
| Increase in margin for futures trading - proprietary funds | (84,804) | (2,919) | (241,963) | (7,993) |
| Decrease in derivative financial instrument assets - GreTai (over-the-counter) | 1,402 | 48 | 5,100 | 168 |
| (Increase) decrease in securities margin loans receivable | (159,221) | (5,481) | 662,022 | 21,871 |
| Increase in margin deposits for securities refinancing | (17,757) | (611) | - | - |
| Increase in collateral for securities refinancing | (16,919) | (582) | (2,078) | (69) |
| Decrease (increase) in collateral for securities borrowed | 129,334 | 4,452 | (278,350) | (9,196) |
| Decrease (increase) in deposits for securities borrowed | 331,119 | 11,398 | (1,690,688) | (55,853) |
| Increase in accounts receivable | (237,272) | (8,168) | (30,876) | (1,020) |
| Decrease in accounts receivable - related parties | 4 | - | 380 | 13 |
| Increase in prepayments | (58,392) | (2,010) | (11,382) | (376) |
| Increase in other receivables | (6,684) | (230) | (896) | (30) |
| Decrease (increase) in other receivables - related parties | 151,459 | 5,214 | (152,730) | (5,046) |
| Increase in other current assets | (456) | (16) | (521) | (17) |
| Decrease (increase) in cash and cash equivalents - funds for subscription of shares collected | 19 | 1 | (19) | (1) |
| Increase in liabilities for bonds with repurchase agreement | 400,000 | 13,770 | 540,000 | 17,839 |
| Financial liabilities at fair value through profit or loss - current | | | | |
| Decrease (increase) in liabilities for issuance of call (put) warrants | (798) | (27) | 5,891 | 195 |
| Increase (decrease) in short options - futures | 3,675 | 127 | (32,019) | (1,058) |
| (Decrease)increase in liabilities for securities and bonds borrowed - hedging | (115,289) | (3,969) | 313,712 | 10,364 |
| Increase in liabilities for securities and bonds borrowed - non-hedging | 206,280 | 7,101 | 767,140 | 25,344 |
| Increase in short sale margins | 7,860 | 271 | 96,516 | 3,189 |
| Increase in payables for short sale collateral received | 17,145 | 590 | 105,366 | 3,481 |
| Increase in deposits for securities lended | 245,018 | 8,434 | - | - |
| Increase in notes payable | 387 | 13 | - | - |
| (Decrease) increase in accounts payable | (128,696) | (4,430) | 26,762 | 884 |
| Increase in accounts payable - related parties | 138 | 5 | 68 | 2 |
| Increase (decrease) in advance receipts | 433 | 15 | (66) | (2) |
| (Decrease) increase in receipts under custody | (716) | (25) | 2,599 | 86 |
| Increase (decrease) in other payables | 34,414 | 1,185 | (20,134) | (665) |
| Increase (decrease) in other payables - related parties | 116,528 | 4,011 | (28,558) | (943) |
| Increase in other current liabilities | 63 | 2 | 25 | 1 |
| Net change in deferred income tax assets/liabilities | (142,335) | (4,900) | 146,728 | 4,847 |
| Decrease (increase) in other long-term liabilities | (1,480) | (51) | 1,115 | 37 |
| Net change in pension assets/liabilities-net | 702 | 24 | 1,613 | 53 |
| Net change in securities brokerage debit/credit accounts - net | 14,268 | 491 | (34,828) | (1,151) |
| Net cash used in operating activities | (2,050,355) | (70,580) | (219,046) | (7,236) |

(The exchange rate of December 31, 2012 and 2011 provided by the Federal Reserve Bank of New York was NT\$29.05 and NT\$30.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.

Statements of cash flows

For the years ended December 31, 2012 and 2011

(Expressed in thousands of dollars)

| ITEMS | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|---|--------------------------------------|-----------------|--------------------------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from investing activities | | | | |
| Financial assets at fair value through profit or loss - current | | | | |
| Increase (decrease) in open-end funds and currency market instruments | (275,769) | (9,493) | 35,000 | 1,156 |
| Increase in restricted assets - current | (412,100) | (14,185) | (587,900) | (19,422) |
| Decrease (increase) in available-for-sale financial assets - current | 13,837 | 476 | (77,993) | (2,577) |
| Acquisition of property and equipment | (97,214) | (3,346) | (29,052) | (960) |
| Disposal of property and equipment | - | - | 16 | 1 |
| Increase in other intangible assets | (7,023) | (242) | (6,387) | (211) |
| (Increase) decrease in operating deposits | (60,000) | (2,065) | 98 | 3 |
| Increase in settlement and clearance funds | (37,143) | (1,279) | (1,482) | (49) |
| Increase in guarantee deposits paid | (1,326) | (46) | (5) | - |
| Net cash used in investing activities | <u>(876,738)</u> | <u>(30,180)</u> | <u>(667,705)</u> | <u>(22,059)</u> |
| Cash flows from financing activities | | | | |
| Increase in commercial paper payable | 3,250,000 | 111,876 | 840,000 | 27,750 |
| Increase in guarantee deposits received | - | - | 106 | 4 |
| Cash capital increase | <u>199,992</u> | <u>6,884</u> | <u>-</u> | <u>-</u> |
| Net cash provided by financing activities | <u>3,449,992</u> | <u>118,760</u> | <u>840,106</u> | <u>27,754</u> |
| Increase (decrease) in cash and cash equivalents | 522,899 | 18,000 | (46,645) | (1,541) |
| Cash and cash equivalents at the beginning of period | <u>266,078</u> | <u>9,159</u> | <u>312,723</u> | <u>10,331</u> |
| Cash and cash equivalents at the end of period | <u>\$788,977</u> | <u>\$27,159</u> | <u>\$266,078</u> | <u>\$8,790</u> |
| Supplemental disclosure of cash flows information | | | | |
| Interest paid during the period | <u>\$41,078</u> | <u>\$1,414</u> | <u>\$5,982</u> | <u>\$198</u> |
| Interest paid (excluding capitalized interest) | <u>\$41,078</u> | <u>\$1,414</u> | <u>\$5,982</u> | <u>\$198</u> |
| Income tax paid | <u>\$2,501</u> | <u>\$86</u> | <u>\$3,000</u> | <u>\$99</u> |

(The exchange rate of December 31, 2012 and 2011 provided by the Federal Reserve Bank of New York was NT\$29.05 and NT\$30.27 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co.,Ltd.

Notes to financial statements

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

As of December 31, 2012 and 2011

1. Organization and business scope

Cathay Securities Co.,Ltd. (the “Company”) was incorporated in Taipei on May 12, 2004, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). The Company mainly engages in the business of securities dealing, brokerage and underwriting, margin lending and securities lending, dealing and brokerage services related to futures, and other operations approved by the authorities. As of December 31, 2012, the Company had 9 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of December 31, 2012 and 2011, the Company had 460 and 358 employees, respectively.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with requirements of the “Business Entity Accounting Act” and “Regulation on Business Entity Accounting Handling” with respect to financial accounting standards, “Regulations Governing the Preparation of Financial Reports by Securities Firms”, “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants” and generally accepted accounting principles in the ROC. A summary of significant accounting policies is as follows:

(1) Current and noncurrent assets and liabilities

Cash and cash equivalents that are not restricted in use, assets held for the purpose of trading, or assets that will be held on a short-term basis and are expected to be converted to cash within 12 months after the balance sheet date are classified as current assets; otherwise, they are classified as noncurrent assets.

Liabilities that must be fully liquidated within 12 months after the balance sheet date are classified as current liabilities; otherwise, they are classified as noncurrent liabilities.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

(2) Foreign currency transactions

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

Non-monetary assets or liabilities are measured using historical rates, but fair value is calculated using the exchange rates at the balance sheet date when the fair value is determined. When a gain or loss on a non-monetary asset or liability is recognized through profit and loss, any gain or loss of exchange component shall be recognized in current income. When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any gain or loss of exchange component shall be recognized in equity.

(3) Cash equivalents

Cash equivalents refer to short-term and highly liquid investments that are both:

A. Readily convertible to known amounts of cash ; and

B. Near maturity and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

(4) Financial assets and financial liabilities

Pursuant to the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No. 34 “Accounting for Financial Instruments” and “Regulations Governing the Preparation of Financial Reports by Securities Firms” the Company’s financial assets are categorized as “financial assets at fair value through profit or loss”, “held-to-maturity financial assets”, “derivative financial assets for hedging”, “investments in debt securities with no active market” or “available-for-sale financial assets”. Financial assets are initially recognized at fair value. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging”, or “financial liabilities carried at cost”.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

All “regular way” purchases and sales of financial assets are recorded as of the trade date (i.e. the date that the Company commits to purchase or sell the asset). “Regular way” purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as financial assets held for trading or designated as assets to be measured at fair value. Gains and losses from changes in fair values of such assets are reflected in the income statement.

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

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

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

a. Open-end funds and currency market instruments

Investments in open-end funds are initially recognized at cost and valued at fair value as of the balance sheet date. The fair value of the beneficiary certificates of open-end funds are based on the net asset value of the funds as of the balance sheet date. The cost of sale is calculated using the weighted-average method.

b. Securities held for operations

Securities held for operations include securities and call(put) warrants held by the dealing department with trading purpose.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

These securities are initially recognized at cost with their unit cost calculated by weight average method and valued at fair value as of the balance sheet date.

Emerged stocks are valued at cost; listed stocks, call (put) warrants and convertible bonds are valued at the closing price of Taiwan Stock Exchange or the GreTai (Over-the-counter) on the balance sheet date; government bonds and corporate bonds are valued at market price of GreTai (Over-the counter). Cost at sale is adopting the weighted average method. Stock dividend only remark as number of shares increase instead of investment income.

c. Long options and short options

Long options and short options are recorded based on option premium. Changes in market values are reflected in “long options – futures”, “short options – futures” and “gain (loss) from derivative financial instruments – futures”.

The difference between the market value and the exercise price of options at the exercise date is recognized as current period earnings. The difference between the settlement price and the average cost of open interest options at the balance sheet date is recognized as current period earnings.

d. Margin for futures trading – proprietary funds

The margin and premium resulting from trading futures and options are recorded as “margin for futures trading –proprietary funds”. The profit or loss from the trading or valuation of futures and options is recorded as “gain (loss) on futures contracts” or “gain (loss) from options transactions”, and the amount of “margin for futures trading –proprietary funds” is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is present separately base on realized or not.

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus cumulative amortization using the effective interest method of any difference between cost and the maturity amount, and less any impairment. Contract terms related to the financial assets, transaction costs, fees, and premiums/discounts are taken into consideration by the Company when calculating the effective interest rate.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair values are recognized when investments in debt securities with no active market are derecognized, impaired, or amortized.

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the aforementioned categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses recognized as a separate component of stockholders' equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in stockholders' equity is included in the current period income statement.

According to "Regulations Governing the Preparation of Financial Reports by Securities Firms", equity securities not listed on the Taiwan Stock Exchange or the GreTai(over-the-counter) market and where there is no significant influence are classified as available-for-sale financial assets and measured at cost as of the balance sheet date.

E. Derivative financial assets for hedging

Derivative financial assets for hedging are derivative financial assets that have been designated as hedges based on hedge accounting and are effective hedging instruments. These assets are measured at fair value.

The fair value of a listed stock or a depositary receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

F. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are categorized as financial liabilities held for trading or designated as assets to be measured at fair value. Gains and losses from changes in fair values of such liabilities are reflected in the income statement.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

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

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

(5) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset or a portion of a financial asset is derecognized when the Company loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. A transfer of a financial asset or a portion of the asset in which the Company surrenders control over the asset in exchange of consideration received is deemed a sale.

If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the Company accounts for the transaction as a secured borrowing. In that case, the Company’s right to reacquire the asset is not a derivative financial instrument.

B. Financial liabilities

An entire or a part of a financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Where an existing financial liability is replaced by another one from the same creditor with substantially different terms of agreement, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized as a gain or loss for the period.

(6) Repo bond transaction

Repo bonds include, “liabilities for bonds with repurchase agreements” and “investments in bonds with reverse repurchase agreements” and are treated as financing activities when the interest and risk not transferred from the seller. The difference between the recorded cost and the amount, at which the bond will be resold or reacquired, as specified in the respective agreements, is accrued as interest income or expense.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

- (7) Assessment of impairment for loans and margin trading of securities
- A. Margin loans extended to stock investors are recorded as “securities margin loans receivable” and the stocks purchased by the investors are held by the Company as collateral. The collateral is recorded in a memorandum and is returned to the investors when the loans are repaid.
- B. Guarantee deposits received from stock investors on short sales are recorded as “short sale margins”. The proceeds from short sales (less the securities transaction tax and processing fees) are held by the Company as guarantee deposits and recorded as “payables for short sale collateral received”. The stocks lent to the investors are recorded in a memorandum. When the stocks are returned to the Company, the guarantee deposits and proceeds from the short sales are returned to the investors accordingly.
- C. Loans borrowed by the Company from other securities finance firms when the Company is short of funds in dealing margin trading business are recorded as “margin loans from other securities finance firms”. When the Company has insufficient stocks to conduct securities lending, the Company borrows stocks from other securities finance firms and the guarantee deposits paid are recorded as “deposits paid for securities refinancing”. The proceeds from short sales are then paid to the securities lenders as additional guarantee deposits and are recorded as “collateral for securities refinancing”.
- D Prior to January 1, 2011, assessment of impairment for loans and margin trading of securities is based on historical experience in determining the aging analysis and collectability of loans Margin trading of securities as at balance sheet date.

Since January 1, 2011, the Company first assesses whether objective evidence of impairment exists individually for loans and margin trading of securities that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable 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, for loans and margin trading of securities with no objective evidence that an impairment loss has been incurred, those assets shall be collectively assessed for impairment.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

(8) Long-term investments under equity method

Long-term investments are accounted for under the equity method if the Company has more than 20% of the investee's voting shares or has significant influence over the operating and financial policies of the investee.

The difference between the acquisition cost and the Company's interest in the book value is analyzed and accounted for in the manner similar to the acquisition cost allocation as provided in ROC SFAS No. 25 "Business Combination-Accounting Treatment under Purchase Method". Amounts attributable to goodwill can not be amortized.

With respect to investees over which the Company has significant influence, the Company must account for such investment under the equity method and prepare semi-annual and annual consolidated financial statements.

(9) Property and equipment

Property and equipment are stated at cost. Renewals and leasehold improvements are capitalized and depreciated accordingly; repairs and maintenance are expensed when incurred. Except for land, depreciation of equipment is calculated using the straight-line method over the estimated useful lives of the respective assets which are 3~5 years. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements. The disposed profit or loss is reflected in the non-operating income or loss.

(10) Intangible assets

The Company adopted the ROC SFAS No. 37 "Accounting for Intangible Assets" since January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair value. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

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

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment on intangible assets are found. The Company and Subsidiaries reevaluate the amortization periods and amortization methods for the intangible assets with finite useful lives at each balance sheet date and any resulting changes are treated as changes in accounting estimates.

The intangible assets of the Company are mainly computer software and are amortized over the estimated useful lives of three to five years using the straight-line method.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

(11) Accounting for asset impairment

Pursuant to R.O.C. SFAS No. 35, the Company evaluates whether indicators of impairment exist at each balance sheet date for all assets subject to guidelines set forth under the Statement. If impairment indicators exist, the Company shall perform impairment testing by comparing the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”). Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount which is defined as the higher of fair values less costs to sell and the values in use. Conversely, if there is any evidence that the impairment loss may no longer exist or may have decreased, the recoverable amount of the asset shall be subsequently re-evaluated. The impairment loss may be reversed to reflect the asset’s estimated increase in future service potential since the date of its last recognition of impairment loss. However, the carrying amount of the asset after the reversal of impairment loss should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. If the recoverable amount of the CGU assets or the group of CGUs assets is smaller than their carrying amount, impairment loss should be recognized to reduce the carrying amount of the assets. First, the carrying amount of the goodwill allocated to the CGU or group of CGUs shall be reduced. Then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset within the CGU or group of CGUs. Recognized impairment loss for goodwill should not be reversed.

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

(12) Accounting for impairment of financial assets

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

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in earnings, is transferred from stockholders’ equity to the income statement. Reversals of impairment losses on assets classified as available-for-sale are not recognized in earnings but, instead, are recognized as a separate component of stockholders’ equity. The decrease of impairment losses on debt instruments that can be related to an event occurring after an impairment loss was recognized should be reversed and recognized in current period earnings.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

(13) Pension

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

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

The Labor Pension Act of the ROC ("the Act"), which adopted a defined contribution scheme, took effect on July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

(14) Income taxes

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company file joint corporate income tax returns and 10% surcharge on unappropriated retained earnings returns under the consolidated income tax return system since 2005. If there are any tax effects due to the adoption of the consolidated income tax return system, the parent company can proportionately allocate the effects to the deferred income tax, taxes payable and other receivables of the Company and the parent company.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

The deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, if a deferred items cannot be related to an asset or liability in the financial statements, then it will be classified as current or noncurrent items based on the expected reversal date of the temporary difference.

Effective from January 1, 2006, the Company adopted “Income Basic Tax Act” and “Enforcement Rules of Income Basic Tax Act” to estimate and file joint income basic tax.

(15) Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses rather than distribution of earnings.

(16) Recognition of revenue and expenses

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

- A. Brokerage commissions, profit or loss from disposal of securities held for operations are recognized at the transaction date.
- B. Interest revenue or expense from margin loans are recognized on an accrued basis.
- C. The Company engages in futures introducing broker and collects commissions from futures agencies. Commissions are recognized as “brokerage commissions for introducing futures contracts” on an accrued basis.

(17) Operating segment information

An operating segment is a component of an entity that has the following characteristics:

- A. engaging in business activities from which it may earn revenues and incur expenses,
- B. whose operating results are regularly reviewed by the entity’s chief operating decision maker in order to make resources allocation decision to the segment and assess its performance,
- C. for which discrete financial information is available.

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

(18) Convenience translation into US dollars

These financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these financial statements solely for the convenience of the reader using the noon buying rate of NT\$29.05 and NT\$30.27 to US\$1.00 effective on December 31, 2012 and 2011, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at these rates or any other rates of exchange.

3. Change in accounting and its effects

- (1) Effective from January 1, 2011, the Company adopted the third revision of the SFAS No.34 “Financial Instruments: Recognition and Measurement”. This change in accounting principles has no significant impact on net income and earnings per share for the year of 2011.
- (2) Effective January 1, 2011, the Company adopted SFAS No.41, “Operating Segments”, to present operating segment information. The new SFAS No.41 replaces SFAS No.20, “Segment Reporting”; the comparative operating segment information has been restated accordingly.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

| Item | December 31, 2012 | | December 31, 2011 | |
|-------------------|-------------------|-----------------|-------------------|----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash on hand | \$260 | \$9 | \$190 | \$6 |
| Savings accounts | 638,717 | 21,986 | 215,883 | 7,132 |
| Checking accounts | - | - | 5 | - |
| Time deposits | 150,000 | 5,164 | 50,000 | 1,652 |
| Total | <u>\$788,977</u> | <u>\$27,159</u> | <u>\$266,078</u> | <u>\$8,790</u> |

A. Time deposits are defined as deposits with maturity shorter than one year. The ranges of interest rate for the years ended 2012 and 2011 are between 0.70%~1.215% and 0.3% ~ 1.215% respectively.

B. No pledged were made for the cash and cash equivalents mentioned above.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

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

| Item | December 31, 2012 | | December 31, 2011 | |
|-------------------|-------------------|-------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Securities lented | \$15,569 | \$536 | \$- | -\$ |

| Item | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|-----------|-------------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Open-end funds and currency market instruments | 343,047 | 11,809 | 58,440 | 1,931 |
| Securities held for operations – dealing | 4,461,585 | 153,583 | 1,916,030 | 63,297 |
| Securities held for operations – underwriting | 283,875 | 9,772 | 12,263 | 405 |
| Securities held for operations – hedging | 855,126 | 29,436 | 702,068 | 23,194 |
| Long options - futures | 4,561 | 157 | 603 | 20 |
| Margin for futures trading –proprietary funds | 583,708 | 20,093 | 498,904 | 16,482 |
| Derivative financial instrument assets – GreTai (over-the-counter) | - | - | 1,402 | 46 |
| Total | \$6,547,471 | \$225,386 | \$3,189,710 | \$105,375 |

No pledge were made for financial assets at fair value through profit or loss – current mentioned above .

A. Securities lented

| Item | December 31, 2012 | | December 31, 2011 | |
|----------------------|-------------------|-------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Securities lented | \$12,884 | \$444 | \$- | -\$ |
| Valuation adjustment | 2,685 | 92 | - | - |
| Net | \$15,569 | \$536 | \$- | -\$ |

B. Open-end funds and currency market instruments

| Item | December 31, 2012 | | December 31, 2011 | |
|----------------------|-------------------|----------|-------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Open-end funds | \$340,769 | \$11,731 | \$65,000 | \$2,147 |
| Valuation adjustment | 2,278 | 78 | (6,560) | (216) |
| Net | \$343,047 | \$11,809 | \$58,440 | \$1,931 |

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Cathay Securities Co.,Ltd.

Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

C. Securities held for operations – dealing

| Item | December 31, 2012 | | December 31, 2011 | |
|-----------------------------|-------------------|-----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$1,671,504 | \$57,539 | \$994,696 | \$32,861 |
| OTC stocks | 965 | 33 | 10,388 | 343 |
| OTC corporate bonds | 1,762,424 | 60,669 | 694,806 | 22,954 |
| Emerging stocks | 479,850 | 16,518 | 108,653 | 3,589 |
| Exchange Traded Funds (ETF) | 515,518 | 17,746 | 107,437 | 3,549 |
| Foreign Securities | 1,375 | 47 | - | - |
| Subtotal | 4,431,636 | 152,552 | 1,915,980 | 63,296 |
| Valuation adjustment | 29,949 | 1,031 | 50 | 1 |
| Net | \$4,461,585 | \$153,583 | \$1,916,030 | \$63,297 |

As of December 31, 2012 and 2011, the company provides NT\$1,300,000 (US\$44,750) thousands and NT\$550,000(US\$18,170) thousands of securities held for operations dealing repurchase agreement.

D. Securities held for operations – underwriting

| Item | December 31, 2012 | | December 31, 2011 | |
|----------------------|-------------------|---------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$- | \$- | \$12,503 | \$413 |
| OTC corporate bonds | 278,010 | 9,570 | - | - |
| Subtotal | 278,010 | 9,570 | 12,503 | 413 |
| Valuation adjustment | 5,865 | 202 | (240) | (8) |
| Net | \$283,875 | \$9,772 | \$12,263 | \$405 |

E. Securities held for operations – hedging

| Item | December 31, 2012 | | December 31, 2011 | |
|-----------------------------|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$543,008 | \$18,692 | \$493,011 | \$16,287 |
| OTC stocks | 269,941 | 9,292 | 113,803 | 3,760 |
| Exchange Traded Funds (ETF) | 4,370 | 151 | 39,853 | 1,317 |
| Call (Put) Warrants | 11,248 | 387 | 50,283 | 1,661 |
| Subtotal | 828,567 | \$28,522 | 696,950 | 23,025 |
| Valuation adjustment | 26,559 | 914 | 5,118 | 169 |
| Net | \$855,126 | \$29,436 | \$702,068 | \$23,194 |

F. Margin for futures trading – proprietary funds

As of December 31, 2012 and 2011, the amounts of each account for margin deposits funds in future department are summarized as follows:

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| December 31, 2012 | | | | | | |
|------------------------------|------------------|-----------------|------------------------------|----------------|-------------------|-----------------|
| Futures Commission Merchants | Account balance | | Gain (loss) on open interest | | Net account value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$544,955 | \$18,760 | \$(9,781) | \$(337) | \$535,174 | \$18,423 |
| UOB Bullion & Futures Ltd. | 49,152 | 1,691 | (618) | (21) | 48,534 | 1,670 |
| | <u>\$594,107</u> | <u>\$20,451</u> | <u>\$(10,399)</u> | <u>\$(358)</u> | <u>\$583,708</u> | <u>\$20,093</u> |
| December 31, 2011 | | | | | | |
| Futures Commission Merchants | Account balance | | Gain (loss) on open interest | | Net account value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$451,145 | \$14,904 | \$3,562 | \$118 | \$454,707 | \$15,022 |
| Capital Futures Co., Ltd. | 44,040 | 1,455 | 157 | 5 | 44,197 | 1,460 |
| | <u>\$495,185</u> | <u>\$16,359</u> | <u>\$3,719</u> | <u>\$123</u> | <u>\$498,904</u> | <u>\$16,482</u> |

Please refer to note 10 for details of the Company's transactions on futures and options.

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

Please refer to note 10.

(3) Securities margin loans receivable

| Item | December 31, 2012 | | December 31, 2011 | |
|------------------------------------|--------------------|-----------------|--------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Securities margin loans receivable | \$1,521,977 | \$52,392 | \$1,362,756 | \$45,020 |
| Allowance for bad debts | - | - | - | - |
| Net | <u>\$1,521,977</u> | <u>\$52,392</u> | <u>\$1,362,756</u> | <u>\$45,020</u> |

For the years ended December 31, 2012 and 2011, Securities margin loans receivable had an annual interest rate between 3.25% ~6.90%.

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

| Item | December 31, 2012 | | December 31, 2011 | |
|----------------------|-------------------|-----------------|-------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$269,243 | \$9,268 | \$- | \$- |
| OTC corporate bonds | 300,000 | 10,327 | 583,081 | 19,262 |
| Subtotal | 569,243 | 19,595 | 583,081 | 19,262 |
| Valuation adjustment | 9,469 | 326 | (1,307) | (43) |
| Net | <u>\$578,712</u> | <u>\$19,921</u> | <u>\$581,774</u> | <u>\$19,219</u> |

As of December 31, 2012 and 2011, the face values of financial assets in available for sales-current provided for repurchase agreement are NT\$0(US\$0) and NT\$450,000(US\$14,866) thousands, respectively.

The above available-for-sale financial assets-current were not pledged.

(5) Long-term investments under equity method

A.

| Name of investee | December 31, 2012 | | | December 31, 2011 | | |
|--------------------------|-------------------|-----------------|--------------|-------------------|-----------------|--------------|
| | NT\$ | US\$ | Percentage | NT\$ | US\$ | Percentage |
| | | | of ownership | | | of ownership |
| Cathay Futures Co., Ltd. | <u>\$781,240</u> | <u>\$26,893</u> | 99.99% | <u>\$773,814</u> | <u>\$25,563</u> | 99.99% |

B. Changes in investments under the equity method for the years ended December 31, 2012 and 2011 are listed below:

| Item | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|--|---|-----------------|---|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance on January 1 | \$773,814 | \$26,638 | \$738,676 | \$24,403 |
| Investment income recognized under the equity method | 30,628 | 1,054 | 33,146 | 1,095 |
| The recognition of investee's default losses transfer to special reserve | - | - | 10,656 | 352 |
| Cash dividends | (23,202) | (799) | (8,664) | (287) |
| Balance on December 31 | <u>\$781,240</u> | <u>\$26,893</u> | <u>\$773,814</u> | <u>\$25,563</u> |

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C. The investment income recognized by the equity method for the years ended December 31, 2012 and 2011 is listed below:

| Name of investee | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|------------------|---|----------|---|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| | Cathay Futures Co., Ltd. | \$30,628 | \$1,054 | \$33,146 |

D. The Company's investment income recognized was determined based on the audited financial statements of the investee for the same period.

E. None of the long-term investments under equity method were pledged to other parties.

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

| Name of investee | December 31, 2012 | | | December 31, 2011 | | |
|------------------|---|------|----------------------------|-------------------|------|----------------------------|
| | NT\$ | US\$ | Percentage of ownership | NT\$ | US\$ | Percentage of ownership |
| | Stock: Taiwan Futures Exchange Co.,Ltd. | \$18 | \$1 | - | \$18 | \$1 |

None of the available-for-sale financial assets – noncurrent were pledged to other parties.

(7)Property and equipment

| Item | December 31, 2012 | | | | | |
|--------------------------|-------------------|----------|-----------------------------|---------|-----------------|---------|
| | Original cost | | Accumulated depreciation | | Carrying amount | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Equipment | \$203,641 | \$7,010 | \$117,544 | \$4,046 | \$86,097 | \$2,964 |
| Prepayment for equipment | 8,478 | 292 | - | - | 8,478 | 292 |
| Leasehold improvement | 85,673 | 2,949 | 58,275 | 2,006 | 27,398 | 943 |
| Total | \$297,792 | \$10,251 | \$175,819 | \$6,052 | \$121,973 | \$4,199 |

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As of December 31, 2012 and 2011

| Item | December 31, 2011 | | | | | |
|--------------------------|-------------------|---------|--------------------------|---------|-----------------|---------|
| | Original cost | | Accumulated depreciation | | Carrying amount | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Equipment | \$136,676 | \$4,515 | \$103,983 | \$3,435 | \$32,693 | \$1,080 |
| Prepayment for equipment | 2,357 | 78 | - | - | 2,357 | 78 |
| Leasehold improvement | 64,544 | 2,132 | 53,253 | 1,759 | 11,291 | 373 |
| Total | \$203,577 | \$6,725 | \$157,236 | \$5,194 | \$46,341 | \$1,531 |

None of the property and equipment were pledged to other parties.

(8) Other intangible assets

| Item | January 1, 2012 | | Increase | | Reclassification | | Decrease | | December 31, 2012 | |
|------------------------------|-----------------|-------|----------|-------|------------------|-------|-----------|-------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Acquired cost: | | | | | | | | | | |
| Computer software | \$13,591 | \$468 | \$7,022 | \$241 | \$3,000 | \$103 | \$(4,503) | (155) | \$19,110 | \$657 |
| Amortization and impairment: | | | | | | | | | | |
| Amortization | (5,114) | (176) | (6,371) | (219) | - | - | 4,503 | 155 | (6,982) | (240) |
| Book value | \$8,477 | \$292 | | | | | | | \$12,128 | \$417 |

| Item | January 1, 2011 | | Increase | | Reclassification | | Decrease | | December 31, 2011 | |
|------------------------------|-----------------|-------|----------|-------|------------------|------|-----------|--------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Acquired cost: | | | | | | | | | | |
| Computer software | \$9,565 | \$315 | \$6,387 | \$211 | \$595 | \$20 | \$(2,956) | \$(98) | \$13,591 | \$448 |
| Amortization and impairment: | | | | | | | | | | |
| Amortization | (4,493) | (148) | (3,577) | (118) | - | - | 2,956 | 98 | (5,114) | (168) |
| Book value | \$5,072 | \$167 | | | | | | | \$8,477 | \$280 |

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

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(9) Operating deposits

As stipulated in the Regulations Governing Securities Firms, Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms and Regulations Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$305,000 (US\$10,499) thousand dollars and NT\$245,000 (US\$8,093) thousand dollars as of December 31, 2012 and 2011, respectively.

(10) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC Rules for Administration of the Joint Responsibility System Clearing and Settlement Fund, the Company deposited NT\$121,863 (US\$4,195) thousand dollars and NT\$84,720 (US\$2,799) thousand dollars in settlement and clearance funds as of December 31, 2012 and 2011, respectively.

(11) Debit items for trade brokerage-net

| | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|----------|-------------------|--------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Debit items for trade brokerage: | | | | |
| Cash and cash equivalents – settlement account | \$10,011 | \$345 | \$193 | \$6 |
| Accounts receivable from TSE for settlement | 637,212 | 21,935 | 1,519,623 | 50,202 |
| Accounts receivable-settlement | 935,728 | 32,210 | 949,981 | 31,384 |
| Credit transaction | - | - | 4,959 | 164 |
| Subtotal | 1,582,951 | \$54,490 | 2,474,756 | 81,756 |
| Credit items for trade brokerage: | | | | |
| Accounts payable-settlement | 1,568,814 | 54,004 | 2,446,821 | 80,833 |
| Accounts payable to TSE for settlement | 470 | 16 | - | - |
| Subtotal | 1,569,284 | 54,020 | 2,446,821 | 80,833 |
| Net | \$13,667 | \$470 | \$27,935 | \$923 |

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(12) Commercial Papers Payable

| Item | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|-----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Commercial papers payable | \$5,540,000 | \$190,705 | \$2,290,000 | \$75,652 |
| Less: discount on commercial papers payable | - | - | - | - |
| Net | \$5,540,000 | \$190,705 | \$2,290,000 | \$75,652 |
| Interest rate | 0.74%~0.93% | | 0.47%~0.9% | |

(13) Liabilities for bonds with Repurchase Agreements

Liabilities for bonds with repurchase agreements amounted to NT\$1,400,000 (US\$48,193) thousand dollars and NT\$1,000,000(US\$33,036) thousand dollars, respectively, as of December 31, 2012 and 2011. The bonds sold will be repurchased as specified in respective agreements plus accrued interest amounted to NT\$1,400,673 (US\$48,216) thousand dollars and NT\$1,000,671(US\$33,058) thousand dollars, respectively, as of December 31, 2012 and 2011.

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

| Item | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Liabilities for issuance of call (put) warrants | \$1,638,117 | \$56,389 | \$1,426,164 | \$47,115 |
| Repurchase of issued call (put) warrants | (1,438,853) | (49,530) | (1,226,103) | (40,506) |
| Short options - futures | 3,977 | 137 | 302 | 10 |
| Liabilities for securities and bonds borrowed | | | | |
| – hedging | 287,312 | 9,890 | 374,345 | 12,367 |
| Liabilities for securities and bonds borrowed | | | | |
| – non-hedging | 1,216,370 | 41,872 | 960,011 | 31,715 |
| Total | \$1,706,923 | \$58,758 | \$1,534,719 | \$50,701 |

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

| Item | December 31, 2012 | | December 31, 2011 | |
|-----------------------|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Warrants issued | \$1,960,708 | \$67,494 | \$2,334,861 | \$77,135 |
| Gains from valuation | (322,591) | (11,105) | (908,697) | (30,020) |
| | 1,638,117 | 56,389 | 1,426,164 | 47,115 |
| Repurchased warrants | 1,571,026 | 54,080 | 1,778,827 | 58,766 |
| Losses from valuation | (132,173) | (4,550) | (552,724) | (18,260) |
| | 1,438,853 | 49,530 | 1,226,103 | 40,506 |
| Net | \$199,264 | \$6,859 | \$200,061 | \$6,609 |

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

B. Short options-future.

Please refer to note 10.

C. Liabilities for securities and bonds borrowed – hedging

| Item | December 31, 2012 | | December 31, 2011 | |
|-----------------------------|-------------------|----------------|-------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$261,173 | \$8,991 | \$366,452 | \$12,106 |
| OTC stocks | 17,148 | 590 | 33,416 | 1,104 |
| Exchange Traded Funds (ETF) | 6,258 | 215 | - | - |
| Subtotal | 284,579 | 9,796 | 399,868 | 13,210 |
| Valuation adjustment | 2,733 | 94 | (25,523) | (843) |
| Net | <u>\$287,312</u> | <u>\$9,890</u> | <u>\$374,345</u> | <u>\$12,367</u> |

D. Liabilities for securities and bonds borrowed – non-hedging

| Item | December 31, 2012 | | December 31, 2011 | |
|-----------------------------|--------------------|-----------------|-------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$1,076,568 | \$37,060 | \$934,869 | \$30,884 |
| OTC stocks | 24,223 | 834 | 23,387 | 773 |
| Exchange Traded Funds (ETF) | 63,745 | 2,194 | - | - |
| Subtotal | 1,164,536 | 40,088 | 958,256 | 31,657 |
| Valuation adjustment | 51,834 | 1,784 | 1,755 | 58 |
| Net | <u>\$1,216,370</u> | <u>\$41,872</u> | <u>\$960,011</u> | <u>\$31,715</u> |

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(15) Pension/Accrued pension liability

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

A. Net pension cost

| | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|---|---|-------------|---|-------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| 1) Service cost | \$1,535 | \$53 | \$2,400 | \$79 |
| 2) Interest cost | 292 | 10 | 321 | 11 |
| 3) Expected return on plan assets | (193) | (7) | (180) | (6) |
| 4) Amortization of transitional net benefit obligation | 138 | 5 | 138 | 5 |
| | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Net pension cost | <u>\$1,772</u> | <u>\$61</u> | <u>\$2,679</u> | <u>\$89</u> |

B. Pension funding status

| | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|--------------|-------------------|--------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| 1) Vested benefit obligation (VBO) | \$459 | \$16 | \$486 | \$16 |
| 2) Non-vested benefit obligation | 11,495 | 395 | 8,994 | 297 |
| 3) Accumulated benefit obligation (ABO) | 11,954 | 411 | 9,480 | 313 |
| 4) Effect from projected salary increase | 5,886 | 203 | 5,229 | 172 |
| 5) Projected benefit obligation (PBO) | 17,840 | 614 | 14,709 | 485 |
| 6) Fair value of plan assets | (9,984) | (344) | (8,823) | (291) |
| 7) Pension funding status | 7,856 | 270 | 5,886 | 194 |
| 8) Unrecognized transitional net benefit obligation | (1,931) | (66) | (2,069) | (68) |
| 9) Unrecognized pension gain (loss) | 6,041 | 208 | 7,447 | 246 |
| 10) Adjustment required to recognize minimum pension liability | - | - | - | - |
| 11) Accrued pension liability = 7)+8)+9)+10) | <u>\$11,966</u> | <u>\$412</u> | <u>\$11,264</u> | <u>\$372</u> |

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C. Actuarial assumptions

| | <u>For the year ended December 31, 2012</u> | <u>For the year ended December 31, 2011</u> |
|--|---|---|
| Discount rate | 1.8% | 2.0% |
| Rate of increase in future salaries | 2.5% | 2.5% |
| Expected long-term rate of return on plan assets | 1.8% | 2.0% |

(16)Capital Stock

A cash capital increase resolution for issuance of 16,666,000 new shares was resolved by board of directors in June 15, 2012. The record date of cash capital increase was set in July 31,2012, and the amendment of register was completed.

As of December 31, 2012 and 2011, the Company's total authorized shares and the number of shares outstanding were 386,666, 000 and 370,000,000 with a par value of NT\$10 per share.

(17)Capital surplus

According to the Company Act in the ROC, capital surplus result from additional paid in capital or granted revenue can be used to increase share capital when the Company has no accumulated deficit. However, the amount capitalized cannot exceed 10% of paid in capital. Any remaining amounts can only be used to make up deficiencies. The Company shall not use capital surplus to make up deficiencies unless the legal reserve and special reserve are insufficient to offset such deficiencies.

(18)Retained earnings

A. According to the Company's articles of incorporation, the Company's annual earnings, after paying applicable income taxes and offsetting deficits, if any, shall be appropriated as legal reserve and special reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 1% of the aforementioned amount should be distributed as the employee bonus.

B. Legal reserve is only used for offsetting deficits according to law. However, the Company may distribute the legal reserve by issuance of new shares or cash in accordance with the resolution by the stockholders' meeting if no deficit occurs and limited to the part that exceed 25% of issued share capital.

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- C. Under the Regulations Governing Securities Firms, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 20% of the remaining amount shall be set aside as special reserve. However, if the accumulated amount reaches the paid-in capital amount, no further fund needs to be set aside. The special reserve shall not be used for purposes other than make up the deficit or, when the special reserve reaches 50% of the amount of paid-in capital, half of it may be used for capitalization.
- D. Pursuant to the Article No.0950000507 issued by SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments since 2007.
- E. According to Article No.09900738571 and 10000002891 issued by SFB, the provisions for trading losses and default losses are no longer required to reserve. The remaining balances should be reclassified to special reserve starting from 2011. This portion of special reserve can only be used to offset deficit or half of it may be used for capitalization when the reserve reaches 50% of the amount of paid-in capital.
- F. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

(19) Income taxes

- A. The applicable income tax rate of the Company is 17%. The reconciliation between estimated income tax and net income (loss) before income tax in the statements of income for the years ended December 31, 2012 and 2011 are as follows:

| Item | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|--|---|----------------|---|---------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Tax (benefits) expenses after adjusting temporary and other differences | \$128,858 | \$4,436 | \$(136,092) | \$(4,496) |
| Prior year adjustment | 1,573 | 54 | 803 | 27 |
| Deferred tax expenses (benefits) | (142,336) | (4,900) | 146,727 | 4,847 |
| Income tax expenses (benefits) | <u>\$(11,905)</u> | <u>\$(410)</u> | <u>\$ 11,438</u> | <u>\$ 378</u> |

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

| | December 31, 2012 | | December 31, 2011 | |
|--|-------------------|----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| a. Total deferred income tax assets | \$314,139 | \$10,814 | \$372,938 | \$12,320 |
| b. Total deferred income tax liabilities | \$317,912 | \$10,944 | \$519,047 | \$17,147 |

c. Deferred income tax assets resulting from the following temporary differences:

| | December 31, 2012 | | | |
|--|--------------------|-----------------|-------------------|-----------------|
| | (Income) | | (Tax) | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Provision for pensions | \$10,054 | \$346 | \$1,709 | \$59 |
| Unrealized gain on valuation of securities held for operations – hedging | (26,559) | (914) | (4,515) | (155) |
| Unrealized gain of futures contracts – hedging | (574) | (20) | (97) | (3) |
| Gains on sale of securities-warrant hedge- unexpired | (8,246) | (284) | (1,402) | (48) |
| Gains on issuance of call(put) warrant | (322,591) | (11,105) | (54,840) | (1,888) |
| Losses on repurchase of issuance of call(put) warrant | | | | |
| – Deferred losses on sale -unexpired | 1,671,038 | 57,523 | 284,076 | 9,779 |
| – Unrealized valuation losses | 132,173 | 4,550 | 22,469 | 773 |
| Gains on overdue of issuance of call (put) warrants- unexpired | (1,511,037) | (52,015) | (256,877) | (8,843) |
| Expenses on issuance of call(put) warrant- unexpired | 9,427 | 325 | 1,603 | 55 |
| Losses on measurement at fair value through profit or loss for securities borrowing and short sales of bonds with reverse repurchase agreements – unexpired | 2,733 | 94 | 465 | 16 |
| Gains on the converging of securities borrowing and short sales of bonds with reverse repurchase agreements- unexpired | (1,065) | (37) | (181) | (6) |
| Unrealized exchange losses | 1,110 | 38 | 189 | 6 |
| Tax effects under consolidated income tax system | 21,341 | 735 | 3,628 | 125 |
| Total | \$ (22,196) | \$ (764) | \$ (3,773) | \$ (130) |

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| | December 31, 2011 | | | |
|---|--------------------|-------------------|--------------------|------------------|
| | (Income) | (Tax) | | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Provision for pensions | \$9,351 | \$309 | \$1,590 | \$53 |
| Unrealized (gain) loss on valuation of securities | | | | |
| held for operations – hedging | (5,118) | (169) | (870) | (29) |
| Losses (gains) on sale of securities-warrant | | | | |
| hedge- unexpired | 201,338 | 6,651 | 34,227 | 1,131 |
| Gains on issuance of call(put) warrant | (908,697) | (30,019) | (154,478) | (5,103) |
| Losses on repurchase of | | | | |
| issuance of call(put) warrant | | | | |
| – Deferred losses on sale -unexpired | 1,395,968 | 46,117 | 237,315 | 7,840 |
| – Unrealized valuation losses (gains) | 552,724 | 18,260 | 93,963 | 3,104 |
| Gains on overdue of issuance of call (put) | | | | |
| warrants - unexpired | (2,018,884) | (66,695) | (343,211) | (11,339) |
| Expenses on issuance of call(put) warrant- | | | | |
| unexpired | 13,030 | 430 | 2,215 | 73 |
| Losses(gains) on measurement at fair value | | | | |
| through profit or loss for securities | | | | |
| borrowing and short sales of bonds with | | | | |
| reverse repurchase agreements – unexpired | (25,523) | (843) | (4,339) | (143) |
| Gains on the converging of securities borrowing | | | | |
| and short sales of bonds with reverse | | | | |
| repurchase agreements- unexpired | (93,405) | (3,086) | (15,879) | (525) |
| Unrealized exchange gains | (1,590) | (53) | (270) | (9) |
| Tax effects under consolidated income tax | | | | |
| system | 21,341 | 705 | 3,628 | 120 |
| Total | <u>\$(859,465)</u> | <u>\$(28,393)</u> | <u>\$(146,109)</u> | <u>\$(4,827)</u> |

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

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| | December 31, 2012 | | December 31, 2011 | |
|--|-------------------|-----------|-------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| d. Deferred income tax assets – current | \$308,802 | \$10,630 | \$367,720 | \$12,148 |
| | (317,912) | (519,047) | | |
| Deferred income tax liabilities – current | (10,944) | (17,147) | (519,047) | (17,147) |
| Net deferred income tax assets (liabilities) – current | \$ (9,110) | | \$ (314) | |
| Deferred income tax assets – noncurrent | \$5,337 | \$184 | \$5,218 | \$172 |
| Net deferred income tax assets – noncurrent | \$5,337 | \$184 | \$5,218 | \$172 |

C. Imputation credit account and creditable ratio:

| | December 31, 2012 | | December 31, 2011 | |
|--------------------------------------|-------------------|-------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance of imputation credit account | \$27,991 | \$964 | \$6,458 | \$213 |

| | 2012(Estimated) | 2011 (Actual) |
|---------------------------------|-----------------|---------------|
| Imputation credit account ratio | 11.02% | 6.99% |

D. Information related to unappropriated earnings:

| | December 31, 2012 | | December 31, 2011 | |
|-----------------|-------------------|---------|-------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| After year 1998 | \$253,976 | \$8,743 | \$92,339 | \$3,051 |

E. The Company's income tax returns have been filed and assessed by the National Tax Administration through 2006.

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As of December 31, 2012 and 2011

(20) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the years ended December 31, 2012 and 2011 are summarized as follows:

| Item | For the year ended December 31, 2012 (NT\$) | | | For the year ended December 31, 2012 (US\$) | | |
|-----------------------------------|---|--------------------|-----------|---|--------------------|----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| | Personnel expenses | | | | | |
| Salary and wages | \$- | \$407,687 | \$407,687 | \$- | \$14,034 | \$14,034 |
| Labor & health insurance expenses | - | 26,827 | 26,827 | - | 923 | 923 |
| Pension expenses | - | 17,762 | 17,762 | - | 611 | 611 |
| Other expenses | - | 18,713 | 18,713 | - | 644 | 644 |
| Depreciation | - | 18,582 | 18,582 | - | 640 | 640 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 6,371 | 6,371 | - | 219 | 219 |

| Item | For the year ended December 31, 2011 (NT\$) | | | For the year ended December 31, 2011 (US\$) | | |
|-----------------------------------|---|--------------------|-----------|---|--------------------|---------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| | Personnel expenses | | | | | |
| Salary and wages | \$- | \$289,774 | \$289,774 | \$- | \$9,573 | \$9,573 |
| Labor & health insurance expenses | - | 19,753 | 19,753 | - | 653 | 653 |
| Pension expenses | - | 14,239 | 14,239 | - | 470 | 470 |
| Other expenses | - | 13,954 | 13,954 | - | 461 | 461 |
| Depreciation | - | 15,925 | 15,925 | - | 526 | 526 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 3,577 | 3,577 | - | 118 | 118 |

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

(21) Earnings per share

| | | For the year ended December 31, 2012 | | | | | | | | | |
|------------|--|--------------------------------------|---------|--------------------|---------|-------------|-------------|-------------------|--------|------------------|--------|
| | | Amount | | | | Outstanding | Average | EPS (in dollars) | | | |
| | | | | | | shares | Outstanding | | | | |
| | | | | | | (thousands) | shares | | | | |
| | | Before income taxes | | After income taxes | | | (thousands) | Before income tax | | After income tax | |
| | | NT\$ | US\$ | NT\$ | US\$ | | | NT\$ | US\$ | NT\$ | US\$ |
| Net income | | \$151,039 | \$5,199 | \$162,944 | \$5,609 | 386,666 | 376,986 | \$0.40 | \$0.01 | \$0.43 | \$0.01 |

| | | For the year ended December 31, 2011 | | | | | | | | | |
|----------|--|--------------------------------------|-----------|--------------------|-----------|-------------|-------------|-------------------|----------|------------------|----------|
| | | Amount | | | | Outstanding | Average | EPS (in dollars) | | | |
| | | | | | | shares | Outstanding | | | | |
| | | | | | | (thousands) | shares | | | | |
| | | Before income taxes | | After income taxes | | | (thousands) | Before income tax | | After income tax | |
| | | NT\$ | US\$ | NT\$ | US\$ | | | NT\$ | US\$ | NT\$ | US\$ |
| Net loss | | \$(61,821) | \$(2,042) | \$(73,259) | \$(2,420) | 370,000 | 370,000 | \$(0.17) | \$(0.01) | \$(0.20) | \$(0.01) |

(22) Earnings distribution and dividend policy

According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal reserve and special reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting, and 1% of the aforementioned amount should be distributed as the employee bonus.

According to the company's articles of incorporation for the dividend policy, except the additional requirements by law, not only the company's products, operations, and services provided are taken into considerations, but also the goal of stable dividend distribution. Cash dividend is the major way to distribute the earnings to the stockholders. Also, stock dividend is another form but limited to the 50% of total dividend amounts. The policy might adjusted depending upon the requirement and condition of the operations and other relevant factors.

The employee bonus and remuneration of directors in the Company for the years ended December 31, 2012 and 2011, amounting to NT\$15 thousands and NT\$0 thousands, respectively, was accrued based on after-tax current profit without deducting the employee bonus and remuneration minus estimated legal reserves, special reserves, and other reserves and recognized as operating expenses. The difference between the actual distribution and the estimated amount will be adjusted in the following fiscal year.

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The Company's distribution of 2012 retained earnings has been approved by the board of directors. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Co.,Ltd..

The 2011 actual amount of employee bonus distributed is NT\$0 thousands, which is the same as the accrued amounts.

The Company's distribution of 2011 retained earnings has been approved by the board of directors and the annual earnings are not distributed except appropriated as special reserves amounting to NT\$1,307 thousands.

(23) Operating segment information

Segment information has been disclosed in the consolidated financial report.

(24) Presentation of financial statements

Certain accounts in the financial statements for the year ended December 31, 2011 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2012.

5. Related party transactions

(1) Related parties

| Name | Relationship |
|--|---|
| Cathay Financial Holding Co., Ltd. | Parent company |
| Cathay Life Insurance Co., Ltd. | Subsidiary of Cathay Financial Holding Co., Ltd |
| Cathay United Bank Co., Ltd. | Subsidiary of Cathay Financial Holding Co., Ltd |
| Cathay Century Insurance Co., Ltd. | Subsidiary of Cathay Financial Holding Co., Ltd |
| Cathay Venture Inc. | Subsidiary of Cathay Financial Holding Co., Ltd |
| Cathay Securities Investment Trust Co., Ltd. | Subsidiary of Cathay Financial Holding Co., Ltd |
| Cathay Conning Assets Management Ltd. | Subsidiary of Cathay Financial Holding Co., Ltd |
| Cathay Life Insurance Co., Ltd. (China) | Subsidiary of Cathay Life Insurance Co., Ltd. |
| Cathay Life Insurance (Vietnam) Co., Ltd. | Subsidiary of Cathay Life Insurance Co., Ltd. |

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

| Name | Relationship |
|---|---|
| Cathay Insurance (Bermuda) Co., Ltd. | Subsidiary of Cathay Life Insurance Co., Ltd. |
| Symphox Information Co., Ltd | Subsidiary of Cathay Life Insurance Co., Ltd. |
| Cathay Securities Investment Consulting Co., Ltd. | Subsidiary of Cathay Life Insurance Co., Ltd. |
| Indovina Bank Limited | Subsidiary of Cathay United Bank Co, Ltd. |
| Seaward Card Co., Ltd. | Subsidiary of Cathay United Bank Co, Ltd. |
| Cathay Futures Co., Ltd. | Subsidiary of the Company |
| Cathay Insurance Co., Ltd (China) | Subsidiary of Cathay Century Insurance Co., Ltd. |
| Cathay Insurance Co., Ltd. (Vietnam) | Subsidiary of Cathay Century Insurance Co., Ltd. |
| Other related parties(Cathay Securities Investment Trust Co., Ltd.) | Investment Trust Funds managed by Cathay Financial Holding's equity method investee, Cathay Securities Investment Trust Co., Ltd. |

(2) Transactions with related parties

A. Cash in bank

| | | For the year ended December 31, 2012 | | | | |
|------------------------------|--------------|--------------------------------------|----------|---------------|-----------------|-------|
| Name | Item | Ending balance | | Interest rate | Interest income | |
| | | NT\$ | US\$ | | NT\$ | US\$ |
| Cathay United Bank Co., Ltd. | Cash in bank | \$1,797,618 | \$61,880 | 0.17%~1.215% | \$7,040 | \$242 |

| | | For the year ended December 31, 2011 | | | | |
|------------------------------|--------------|--------------------------------------|----------|---------------|-----------------|------|
| Name | Item | Ending balance | | Interest rate | Interest income | |
| | | NT\$ | US\$ | | NT\$ | US\$ |
| Cathay United Bank Co., Ltd. | Cash in bank | \$746,384 | \$24,658 | 0.02%~1.345% | \$- | \$- |

As of December 31, 2012, the amount of NT\$1,000,000 (US\$34,423) thousands in bank account is pledged as collateral for the overdraft in settlement account and accounted as restricted assets-current. No other cash in bank has been pledged as collateral.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

B. Open-end funds and currency market instruments

| Name | December 31, 2012 | | December 31, 2011 | |
|--------------------------------------|-------------------|------|-------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Money Market Funds | | | | |
| –Cathay China Domestic Demand Growth | \$- | \$- | \$10,000 | \$330 |

C. Other receivables

| Name | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|------|-------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holding Co., Ltd.(Note1) | \$- | \$- | \$152,759 | \$5,047 |

Note 1: Due to the adoption of the consolidated Income Tax System.

D. Other payables

| Name | December 31, 2012 | | December 31, 2011 | |
|---|-------------------|---------|-------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holdings Co., Ltd. (Note2) | \$113,915 | \$3,921 | \$- | \$- |

Note 2: Due to the adoption of the consolidated Income Tax System.

E. Brokerage commissions for introducing futures contracts

| Name | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|------|---|----------|---|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| | Cathay Futures Co., Ltd. | \$23,560 | \$811 | \$28,205 |

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

F Clearing and settlement fees, dealing handling fee expense and margin for futures trading – proprietary funds

| Name | For the year ended December 31, 2012 | | | | | | | |
|--------------------------|--------------------------------------|------|------------------------------|------|------------------|------|---|----------|
| | Clearing and settlement fees | | Dealing handling fee expense | | Accounts payable | | Margin for futures trading –proprietary funds | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$- | \$- | \$- | \$- | \$- | \$- | \$535,174 | \$18,423 |

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

| Name | For the year ended December 31, 2011 | | | | | | | |
|--------------------------|--------------------------------------|------|------------------------------|------|------------------|------|---|----------|
| | Clearing and settlement fees | | Dealing handling fee expense | | Accounts payable | | Margin for futures trading –proprietary funds | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Futures Co., Ltd. | \$- | \$- | \$- | \$- | \$- | \$- | \$454,707 | \$15,022 |

G. Rental expenses and guarantee deposits paid

| Name | For the year ended December 31, 2012 | | | | For the year ended December 31, 2011 | | | |
|---------------------------------|--------------------------------------|----------------|-------------------------|--------------|--------------------------------------|----------------|-------------------------|--------------|
| | Rental expenses | | Guarantee deposits paid | | Rental expenses | | Guarantee deposits paid | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$23,134 | \$796 | \$5,853 | \$201 | \$20,563 | \$680 | \$5,182 | \$171 |
| Cathay United Bank Co., Ltd. | 8,207 | 283 | - | - | 10,789 | 356 | - | - |
| Total | \$31,341 | \$1,079 | \$5,853 | \$201 | \$31,352 | \$1,036 | \$5,182 | \$171 |

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

H. Operating expenses

| Name | Description | For the year ended | | For the year ended | |
|---------------------------------|--------------------|--------------------|--------------|--------------------|--------------|
| | | December 31, 2012 | | December 31, 2011 | |
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | Insurance | \$4,710 | \$162 | \$3,419 | \$113 |
| Cathay United Bank Co., Ltd. | Other fees | 6,898 | 237 | 8,868 | 293 |
| Symphox Information Co., Ltd. | Cable service etc. | 9,280 | 319 | 10,140 | 335 |
| Total | | \$20,888 | \$718 | \$22,427 | \$741 |

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As of December 31, 2012 and 2011

I. Key management personnel compensation in total:

| Item | For the year ended December 31, 2012 | | For the year ended December 31, 2011 | |
|--|---|---------|---|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Wages, bonuses, special payments, service payments, distributions | \$51,768 | \$1,782 | \$34,106 | \$1,127 |

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

6. Pledged assets

| Item | Pledged Organization | December 31, 2012 | | December 31, 2011 | |
|---------------------------------|---------------------------------|-------------------|----------|-------------------|----------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Restricted assets-time deposits | Cathay United Bank Co., Ltd. | \$1,000,000 | \$34,423 | \$587,900 | \$19,422 |

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

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

7. Other important matters and contingent liabilities

As of December 31, 2012, a total amount of NT\$430,000 (US\$14,802) thousand financial institutions' letter of guarantee were issued to the Company for hedging securities borrowing businesses.

8. Significant disaster losses

None.

9. Subsequent events

None.

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Notes to financial statements (continued)

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

As of December 31, 2012 and 2011

10. Other important events

(1) Information related to financial instruments

| | December 31, 2012 | | | |
|--|-------------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Non-derivative | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$788,977 | \$788,977 | \$27,159 | \$27,159 |
| Financial assets at fair value through profit or loss – current | | | | |
| Securities lendd | 15,569 | 15,569 | 536 | 536 |
| Open-end funds and currency market instruments | 343,047 | 343,047 | 11,809 | 11,809 |
| Securities held for operations – net | 5,600,586 | 5,600,586 | 192,791 | 192,791 |
| Securities margin loans receivable | 1,521,977 | 1,521,977 | 52,392 | 52,392 |
| Margin deposits for securities refinancing | 17,757 | 17,757 | 611 | 611 |
| Collateral for securities refinancing | 18,997 | 18,997 | 654 | 654 |
| Collateral for securities borrowed | 236,893 | 236,893 | 8,155 | 8,155 |
| Deposits for securities borrowed | 1,658,897 | 1,658,897 | 57,105 | 57,105 |
| Receivables - net | 326,048 | 326,048 | 11,224 | 11,224 |
| Restricted assets – current | 1,000,000 | 1,000,000 | 34,423 | 34,423 |
| Available-for-sale financial assets – current | 578,712 | 578,712 | 19,921 | 19,921 |
| Long-term investments under equity method | 781,240 | 781,240 | 26,893 | 26,893 |
| Available-for-sale financial assets – noncurrent | 18 | - | 1 | - |
| Operating deposits | 305,000 | 305,000 | 10,499 | 10,499 |
| Settlement and clearance funds | 121,863 | 121,863 | 4,195 | 4,195 |
| Guarantee deposits paid | 9,999 | 9,999 | 344 | 344 |
| Liabilities: | | | | |
| Commercial paper payable | 5,540,000 | 5,540,000 | 190,705 | 190,705 |
| Liabilities for bonds with repurchase agreements | 1,400,000 | 1,400,000 | 48,193 | 48,193 |
| Financial liabilities at fair value through profit or loss – current | | | | |
| Liabilities for securities and bonds borrowed – hedging | 287,312 | 287,312 | 9,890 | 9,890 |
| Liabilities for securities and bonds borrowed – nonhedging | 1,216,370 | 1,216,370 | 41,872 | 41,872 |

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| | December 31, 2012 | | | |
|---|-------------------|------------|----------|------------|
| | Carrying | | Carrying | |
| | amount | Fair value | amount | Fair value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Short sale margins | \$171,897 | \$171,897 | \$5,917 | \$5,917 |
| Payables for short sale collateral received | 196,956 | 196,956 | 6,780 | 6,780 |
| Deposits for securities lent | 245,018 | 245,018 | 8,434 | 8,434 |
| Payables | 217,289 | 217,289 | 7,480 | 7,480 |
| Guarantee deposits-in | 106 | 106 | 4 | 4 |

Derivative

Assets:

| | | | | |
|---|---------|---------|--------|--------|
| Financial assets at fair value through profit or loss – current | | | | |
| Long options – futures | 4,561 | 4,561 | 157 | 157 |
| Margin for futures trading – proprietary funds | 583,708 | 583,708 | 20,093 | 20,093 |

Liabilities:

| | | | | |
|--|-------------|-------------|----------|----------|
| Financial liabilities at fair value through profit or loss – current | | | | |
| Liabilities for issuance of call (put) warrants | 1,638,117 | 1,638,117 | 56,389 | 56,389 |
| Repurchase of issued call (put) warrants | (1,438,853) | (1,438,853) | (49,530) | (49,530) |
| Short options – futures | 3,977 | 3,977 | 137 | 137 |

| | December 31, 2011 | | | |
|---|-------------------|------------|----------|------------|
| | Carrying | | Carrying | |
| | amount | Fair value | amount | Fair value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Non-derivative | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$266,078 | \$266,078 | \$8,790 | \$8,790 |
| Financial assets at fair value through profit or loss – current | | | | |
| Open-end funds and currency market instruments | 58,440 | 58,440 | 1,931 | 1,931 |
| Securities held for operations – net | 2,630,361 | 2,630,361 | 86,896 | 86,896 |
| Securities margin loans receivable | 1,362,756 | 1,362,756 | 45,020 | 45,020 |
| Collateral for securities refinancing | 2,078 | 2,078 | 69 | 69 |
| Collateral for securities borrowed | 366,228 | 366,228 | 12,099 | 12,099 |
| Deposits for securities borrowed | 1,990,015 | 1,990,015 | 65,742 | 65,742 |

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As of December 31, 2012 and 2011

| | December 31, 2011 | | | |
|---|-------------------|------------|---------|----------|
| | Carrying | Fair value | | Carrying |
| | amount | (NT\$) | (US\$) | amount |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Receivables - net | \$233,554 | \$233,554 | \$7,716 | \$7,716 |
| Restricted assets - current | 587,900 | 587,900 | 19,422 | 19,422 |
| Available-for-sale financial assets – current | 581,774 | 581,774 | 19,219 | 19,219 |
| Long-term investments under equity method | 773,814 | 773,814 | 25,563 | 25,563 |
| Available-for-sale financial assets – noncurrent | 18 | - | 1 | - |
| Operating deposits | 245,000 | 245,000 | 8,093 | 8,093 |
| Settlement and clearance funds | 84,720 | 84,720 | 2,799 | 2,799 |
| Guarantee deposits paid | 8,673 | 8,673 | 287 | 287 |
| Liabilities: | | | | |
| Commercial paper payable | 2,290,000 | 2,290,000 | 75,652 | 75,652 |
| Liabilities for bonds with repurchase agreements | 1,000,000 | 1,000,000 | 33,036 | 33,036 |
| Financial liabilities at fair value through profit or loss – current | | | | |
| Liabilities for securities and bonds borrowed – hedging | 374,345 | 374,345 | 12,367 | 12,367 |
| Liabilities for securities and bonds borrowed – nonhedging | 960,011 | 960,011 | 31,715 | 31,715 |
| Short sale margins | 164,037 | 164,037 | 5,419 | 5,419 |
| Payables for short sale collateral received | 179,810 | 179,810 | 5,940 | 5,940 |
| Payables | 194,518 | 194,518 | 6,427 | 6,427 |
| Guarantee deposits-in | 106 | 106 | 4 | 4 |

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| | December 31, 2011 | | | |
|--|-------------------|-------------|----------|------------|
| | Carrying | | Carrying | |
| | amount | Fair value | amount | Fair value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Derivative | | | | |
| Assets: | | | | |
| Financial assets at fair value through profit or loss – current | | | | |
| Long options – futures | \$603 | \$603 | \$20 | \$20 |
| Margin for futures trading –proprietary funds | 498,904 | 498,904 | 16,482 | 16,482 |
| Derivative financial instrument assets –Gre Tai (over – the – counter) | 1,402 | 1,402 | 46 | 46 |
| Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss – current | | | | |
| Liabilities for issuance of call (put) warrants | 1,426,164 | 1,426,164 | 47,115 | 47,115 |
| Repurchase of issued call (put) warrants | (1,226,103) | (1,226,103) | (40,506) | (40,506) |
| Short options – futures | 302 | 302 | 10 | 10 |

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, Securities margin loans receivable, collateral for securities refinancing, collateral for securities borrowed, deposits for securities borrowed, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, commercial paper payable, liabilities for bonds with repurchase agreements, short sale margins, payables for short sale collateral received, payables and guarantee deposits-in.
- 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, 2012 and 2011:

| | December 31, 2012 | | | |
|--|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| | Based on quoted market price | Based on valuation method | Based on quoted market price | Based on valuation method |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Assets: | | | | |
| Financial assets at fair value through profit or loss – current | | | | |
| Securities lent | \$15,569 | \$- | \$536 | \$- |
| Open-end funds and currency market instruments | 343,047 | - | 11,809 | - |
| Securities held for operations – net | 5,600,586 | - | 192,791 | - |
| Long options – futures | 4,561 | - | \$157 | \$- |
| Margin for futures trading – proprietary funds | 583,708 | - | 20,093 | - |
| Available-for-sale financial assets – current | 578,712 | - | 19,921 | - |

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As of December 31, 2012 and 2011

| | December 31, 2011 | | | |
|---|---|---|--|---|
| | Based on quoted market price <hr/> (NT\$) | Based on valuation method <hr/> (NT\$) | Based on quoted market price <hr/> (US\$) | Based on valuation method <hr/> (US\$) |
| Derivative financial instrument assets – GreTai (over –the – counter) | - | 1,402 | - | 46 |
| Available-for-sale financial assets – current | 581,774 | - | 19,219 | - |
| Liabilities: | | | | |
| Financial liabilities at fair value through profit or loss – current | | | | |
| Liabilities for issuance of call (put) warrants | 1,462,164 | - | 48,304 | - |
| Repurchase of issued call (put) warrants | (1,226,103) | - | (40,506) | - |
| Liabilities for securities and bonds borrowed – hedging | 374,345 | - | 12,367 | - |
| Liabilities for securities and bonds borrowed – nonhedging | 960,011 | - | 31,715 | - |
| Short options – futures | 302 | - | 10 | - |

The above derivative financial instrument assets (liabilities)-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

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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 non current investments) are all creditworthy and well-known financial institutions in the ROC. As a result, counterparty credit risk is relatively low.

C. Liquidity risk

The Company believes its working capital is sufficient for its operations and that the risk of contract defaults resulting from a lack of capital is low.

The financial assets held by the Company all have active markets and can be sold at prices approximate to fair values. As the result, the Company believes there is no significant cash flow risk.

D. Cash flow risk from interest rate fluctuations

The Company currently has no exposure to floating interest rates related to financial assets or liabilities and thus the Company believes there is no significant cash flow risk from interest rate fluctuations.

(3) Financial derivatives

A. Issuance of call(put) warrants

a. Nominal principal or contract amount and credit risk

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As of December 31, 2012 and 2011

| Financial instruments | December 31, 2012 | | December 31, 2011 | |
|-----------------------------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | Nominal principal /contract amount | Credit risk | Nominal principal /contract amount | Credit risk |
| <u>For trading purposes</u> | | | | |
| Issuance of call(put) warrants | NT\$1,960,708 | NT\$- | NT\$2,334,861 | NT\$- |
| | US\$67,494 | US\$- | US\$77,135 | US\$- |

b. Market risk

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

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

When issuing call (put) warrants, the underlying securities and futures of the warrants held are all actively traded and it is expected that they can be sold in the open market at fair prices. As a result, there should not be significant liquidity risk. Risk from cash requirements results from the need to adjust hedge positions in response to changes in the prices of the underlying securities. Assuming favourable 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, 2012 and 2011, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

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As of December 31, 2012 and 2011

Balance sheet

| | December 31, 2012 | | December 31, 2011 | |
|--|---|----------|---|----------|
| | 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 | \$1,638,117 | \$56,389 | \$1,426,164 | \$47,115 |
| Repurchase of issued call (put) warrants | (1,438,853) | (49,530) | (1,226,103) | (40,506) |
| Total | \$199,264 | \$6,859 | \$200,061 | \$6,609 |

Statement of income

| | For the year ended | | Account | Comments |
|---|--------------------|------------|--|-------------------|
| | December 31, 2012 | | | |
| | NT\$ | US\$ | | |
| Liabilities for issuance of call (put) warrants | \$(521,667) | \$(17,958) | Loss from issuing call (put) warrants | Fair value method |
| Repurchase of issued call (put) warrants | | | | |
| - Loss on disposal | (5,950,682) | (204,842) | Loss from issuing call (put) warrants | |
| - Gain from valuation | 420,551 | 14,477 | Profit from issuing call (put) warrants | Fair value method |
| Gain from expiration of warrants issued | 6,187,901 | 213,009 | Profit from issuing call (put) warrants | |
| Securities held for operations – hedging | | | | |
| -Gain on disposal | 57,002 | 1,962 | Gain from securities held for operations | |
| -Gain from valuation | 21,441 | 738 | Gain on valuation of securities held for operations | Fair value method |
| Liabilities for securities and bonds borrowed – hedging | | | Gains (loss) on the converging of securities borrowing and short sales of bonds with reverse repurchase agreements | |

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As of December 31, 2012 and 2011

| | For the year ended | | Account | Comments |
|---------------------------|--------------------|----------------|--|-------------------|
| | December 31, 2012 | | | |
| | NT\$ | US\$ | | |
| -Loss on disposal | (9,286) | (320) | Valuation loss on securities borrowing and short sales of bonds with reverse repurchase agreements | Fair value method |
| -Loss from valuation | (28,256) | (973) | | |
| Trading futures – hedging | | | | |
| -Loss on disposal | (623) | (21) | Losses on derivative financial instruments-futures | |
| Total | \$176,381 | \$6,072 | | |

| | For the year ended | | Account | Comments |
|---|--------------------|-----------|---|-------------------|
| | December 31, 2011 | | | |
| | NT\$ | US\$ | | |
| Liabilities for issuance of call (put) warrants | \$226,028 | \$7,467 | Profit from issuing call (put) warrants | Fair value method |
| Repurchase of issued call (put) warrants | | | | |
| - Loss on disposal | (3,910,019) | (129,171) | Loss from issuing call (put) warrants | |
| - Loss from valuation | (595,179) | (19,662) | Loss from issuing call (put) warrants | Fair value method |
| Gain from expiration of warrants issued | 4,695,733 | 155,128 | Profit from issuing call (put) warrants | |
| Securities held for operations – hedging | | | | |
| -Loss on disposal | (378,462) | (12,503) | Loss from securities held for operations – hedging | |
| -Loss from valuation | (4,882) | (161) | Gain on valuation of securities held for operations | Fair value method |
| Liabilities for securities and bonds borrowed – hedging | | | | |

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As of December 31, 2012 and 2011

| | For the year ended December 31, 2012 | | Account | Comments |
|---------------------------|---|----------------|---|-------------------|
| | NT\$ | NT\$ | | |
| -Gain on disposal | 87,651 | 2,896 | Gains on the converging of securities borrowing and short sales of bonds with reverse repurchase agreements | |
| -Gain from valuation | 31,024 | 1,025 | Valuation gains on securities borrowing and short sales of bonds with reverse repurchase agreements | Fair value method |
| Trading futures – hedging | | | | |
| -Loss on disposal | (229) | (8) | Losses on derivative financial instruments- futures | |
| -Gain from valuation | 196 | 6 | Gains (losses) on derivative financial instruments- futures | Fair value method |
| Total | \$151,861 | \$5,017 | | |

B. Futures and options transactions

As of December 31, 2012, the open interest of the Company's futures and options transactions were as follows:

December 31, 2012

| Item | Nature of Transaction | Open Interest | | Contract amount/ payment (receipt) of premium | | Fair value | |
|---------|-----------------------|---------------|-------|---|------------|-------------|----------|
| | | Buy/Sell | Units | NT\$ | US\$ | NT\$ | US\$ |
| | | | | | | | |
| Futures | STW | Sell | 117 | \$(93,127) | \$(3,206) | \$93,745 | \$3,227 |
| Futures | FIxxF | Sell | 1,670 | \$(95,707) | \$(3,295) | \$93,105 | \$3,205 |
| Futures | FIxxF | Buy | 1,399 | \$170,620 | \$5,873 | \$170,611 | \$5,873 |
| Futures | FITF | Sell | 62 | \$(51,911) | \$(1,787) | \$52,068 | \$1,792 |
| Futures | FITX | Sell | 1,303 | \$(1,979,132) | \$(68,128) | \$1,999,994 | \$68,847 |
| Futures | FITE | Buy | 755 | \$863,685 | \$29,731 | \$870,351 | \$29,960 |

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As of December 31, 2012 and 2011

| | | | | | | | |
|---------|----------|------|-------|------------|---------|----------|-------|
| Futures | FIMTX | Sell | 32 | \$(12,150) | \$(418) | \$12,270 | \$422 |
| Futures | FIMTX | Buy | 2 | \$755 | \$26 | \$765 | \$26 |
| Futures | FIXI | Buy | 18 | \$18,764 | \$646 | \$18,966 | \$653 |
| Options | TXO-Put | Buy | 73 | \$363 | \$12 | \$318 | \$11 |
| Options | TXO-Call | Buy | 334 | \$1,806 | \$62 | \$4,243 | \$146 |
| Options | TXO-Put | Sell | 1,171 | \$(4,387) | \$(151) | \$3,143 | \$108 |
| Options | TXO-Call | Sell | 198 | \$(788) | \$(27) | \$834 | \$29 |

December 31, 2011

| Item | Nature of Transaction | Open Interest | | Contract amount/ payment (receipt) of premium | | Fair value | |
|---------|-----------------------|---------------|-------|---|------------|------------|----------|
| | | Buy/Sell | Units | NT\$ | US\$ | NT\$ | US\$ |
| | | | | | | | |
| Futures | STW | Sell | 41 | \$(31,660) | \$(1,046) | \$31,503 | \$1,041 |
| Futures | FIMTX | Sell | 111 | \$(39,254) | \$(1297) | \$39,066 | \$1,291 |
| Futures | FITE | Buy | 520 | \$540,745 | \$17,864 | \$539,858 | \$17,835 |
| Futures | FITF | Sell | 1 | \$(749) | \$(25) | \$778 | \$26 |
| Futures | FITF | Buy | 145 | \$112,514 | \$3,717 | \$113,441 | \$3,748 |
| Futures | FITX | Sell | 579 | \$(818,178) | \$(27,029) | \$815,083 | \$26,927 |
| Futures | FIXI | Buy | 43 | \$42,157 | \$1,393 | \$42,402 | \$1,401 |
| Futures | FIXI | Sell | 15 | \$(14,907) | \$(492) | \$14,883 | \$492 |
| Options | TXO-Call | Buy | 132 | \$966 | \$32 | \$603 | \$20 |
| Options | TXO-Put | Sell | 153 | \$(647) | \$(21) | \$302 | \$10 |

a. Nominal principal or contract amount and credit risk

| Financial instruments | December 31, 2012 | |
|-----------------------------|------------------------------------|---------------|
| | Nominal principal/ contract amount | Credit risk |
| <u>For trading purposes</u> | | |
| STW | NT\$93,127(US\$3,206) | NT\$- (US\$-) |
| FIxxF | NT \$266,327(US\$9,168) | NT\$- (US\$-) |
| FITF | NT \$51,911(US\$1,787) | NT\$- (US\$-) |
| FITX | NT \$1,979,132(US\$68,128) | NT\$- (US\$-) |
| FITE | NT \$863,685(US\$29,731) | NT\$- (US\$-) |
| FIMTX | NT \$12,905(US\$444) | NT\$- (US\$-) |
| FIXI | NT \$18,764(US\$646) | NT\$- (US\$-) |
| TXO | NT \$7,344(US\$252) | NT\$- (US\$-) |

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| Financial instruments | December 31, 2011 | |
|-----------------------------|------------------------------------|---------------|
| | Nominal principal/ contract amount | Credit risk |
| <u>For trading purposes</u> | | |
| STW | NT \$31,660(US\$1,046) | NT\$- (US\$-) |
| FIMTX | NT \$39,254(US\$1,297) | NT\$- (US\$-) |
| FITE | NT \$540,745(US\$17,864) | NT\$- (US\$-) |
| FITF | NT \$113,263(US\$3,742) | NT\$- (US\$-) |
| FITX | NT \$818,178(US\$27,029) | NT\$- (US\$-) |
| FIXI | NT \$57,064(US\$1,885) | NT\$- (US\$-) |
| TXO | NT \$1,613(US\$53) | NT\$- (US\$-) |

The Company 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

The Company's 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, the Company believes it can limit its losses to within an expected range. However, market risk still exists.

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

The Company's open interest options could all be liquidated at reasonable prices in the market. As a result, the Company believes liquidity risk is low.

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

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d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current ("margin for futures trading – proprietary funds") on the balance sheet. For the years ended December 31, 2012 and 2011, the related gain (loss) of futures and options on the statements of income were as follows:

| | For the year ended | | For the year ended | |
|--|--------------------|-----------------|--------------------|----------------|
| | December 31, 2012 | | December 31, 2011 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Gain from derivative financial instruments – | | | | |
| futures | | | | |
| Non - hedging | | | | |
| Gain on futures contracts - realized | \$167,622 | \$5,770 | \$166,174 | \$5,490 |
| Gain on futures contracts - unrealized | 99,125 | 3,412 | 35,340 | 1,167 |
| Gain from options transactions - realized | 13,734 | 473 | 32,649 | 1,079 |
| Gain from options transactions - unrealized | 14,507 | 499 | 25,185 | 832 |
| Subtotal | <u>294,988</u> | <u>10,154</u> | <u>259,348</u> | <u>8,568</u> |
| Hedging | | | | |
| Gain on futures contracts - realized | 2,261 | 78 | 1,901 | 63 |
| Gain on futures contracts - unrealized | 1,676 | 58 | 2,663 | 88 |
| Subtotal | <u>3,937</u> | <u>136</u> | <u>4,564</u> | <u>151</u> |
| Total | <u>\$298,925</u> | <u>\$10,290</u> | <u>\$263,912</u> | <u>\$8,719</u> |

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| | For the year ended | | For the year ended | |
|--|--------------------|----------------|--------------------|----------------|
| | December 31, 2012 | | December 31, 2011 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Loss from derivative financial instruments – | | | | |
| futures | | | | |
| Non - hedging | | | | |
| Loss on futures contracts - realized | \$69,140 | \$2,380 | \$37,894 | \$1,252 |
| Loss on futures contracts - unrealized | 113,243 | 3,899 | 26,646 | 880 |
| Loss from options transactions - realized | 15,606 | 537 | 8,063 | 266 |
| Loss from options transactions - unrealized | 10,900 | 375 | 16,897 | 558 |
| Subtotal | <u>208,889</u> | <u>7,191</u> | <u>89,500</u> | <u>2,956</u> |
| Hedging | | | | |
| Loss on futures contracts - realized | 2,884 | 99 | 2,130 | 70 |
| Loss on futures contracts - unrealized | 1,676 | 58 | 2,467 | 82 |
| Subtotal | <u>4,560</u> | <u>157</u> | <u>4,597</u> | <u>152</u> |
| Total | <u>\$213,449</u> | <u>\$7,348</u> | <u>\$94,097</u> | <u>\$3,108</u> |