Cathay Securities Corporation
Financial Statements
Together with
Review Report
As of March 31, 2005 and 2006

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English Translation of Review Report Originally Issued in Chinese

Review report of independent accountants

To: Board of Directors
Cathay Securities Corporation

We have reviewed the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of March 31, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows from January 1 to March 31, 2005 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our reviews in accordance with generally accepted auditing standards No.36 "Review of Financial Statements" in the Republic of China ("ROC"). A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 to the financial statements, effective from January 1, 2006, the Company adopted the ROC Statements of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments".

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China
April 15, 2006

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 review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Balance sheets
As of March 31, 2005 and 2006
(Expressed in thousands of dollars)
(Reviewed, not audited)

ASSETS	NOTES	March 31, 2005 NT$	March 31, 2005 US$	March 31, 2006 NT$	March 31, 2006 US$
Current assets					
Cash and cash equivalents	2,4(1),5	$1,353,564	$43,025	$896,630	$27,657
Financial assets at fair value through profit and loss - current	2,4(2),5,10	728,258	23,148	1,237,639	38,175
Securities purchased under agreements to resell	2,4(3),5	836,860	26,601	-	-
Receivable amount for margin loans	2,4(4)	91,239	2,900	299,232	9,230
Accounts receivable		2,985	95	2,236	69
Accounts receivable - related parties	5	128	4	414	13
Prepayments		1,091	35	1,547	48
Other receivables		7,368	234	3,165	97
Prepayments		1,616	51	-	-
Restricted assets - current	6	1,000,000	31,786	700,000	21,592
Deferred income tax assets - current	2,4(15)	8,950	285	174	5
Other current assets		96	3	1,111	34
Total current assets		4,032,155	128,167	3,142,148	96,920
Funds and investments					
Long-term investments under equity method	2,4(5)	-	-	714,872	22,050
Available-for-sale financial assets - noncurrent	2,4(6)	18	1	18	1
Total funds and investments		18	1	714,890	22,051
Property and equipment	2,4(7)				
Equipment		43,530	1,384	83,799	2,585
Prepayment for equipment		-	-	8,276	255
Leasehold improvement		18,804	598	38,335	1,182
Less: Accumulated depreciation		(4,915)	(156)	(25,972)	(801)
Net property and equipment		57,419	1,826	104,438	3,221
Intangible assets					
Deferred pension cost	2	1,552	49	1,934	60
Total intangible assets		1,552	49	1,934	60
Other assets					
Operating deposits	4(8)	150,098	4,771	215,097	6,635
Settlement and clearance funds	4(9)	56,435	1,794	47,535	1,466
Guarantee deposits paid	5	20,253	644	19,225	593
Deferred debits		6,811	216	16,520	510
Deferred income tax assets - noncurrent	2,4(15)	692	22	2,435	75
Total other assets		234,289	7,447	300,812	9,279
Securities brokerage debit accounts - net	4(10)	3,297	105	-	-
Total assets		$4,328,730	$137,595	$4,264,222	$131,531

(The exchange rate of March 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.46 and NT$32.42 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Balance sheets

As of March 31, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	March 31, 2005 NT$	March 31, 2005 US$	March 31, 2006 NT$	March 31, 2006 US$
Current liabilities					
Securities sold under agreements to repurchase	2,4(11)	$837,897	$26,634	$50,000	$1,542
Financial liabilities at fair value through profit and loss - current	2,10	48	1	1,432	44
Securities financing guarantee deposits-in	2	-	-	3,173	98
Deposit payable for securities financing	2	-	-	3,503	108
Accounts payable		22,290	709	5,308	164
Accounts payable - related parties	5	-	-	99	3
Receipts under custody		1,133	36	3,576	110
Other payables		6,112	194	9,683	299
Prepayments	5	-	-	15,088	465
Other financial liabilities - current	2,10	9,215	293	115,750	3,570
Other current liabilities		54	2	348	11
Total current liabilities		876,749	27,869	207,960	6,414
Long-term liabilities					
Other long-term liabilities		-	-	77	2
Total long-term liabilities		-	-	77	2
Other liabilities					
Reserve for default losses	2	2,771	88	8,932	276
Reserve for trading losses	2	-	-	250	8
Guarantee deposits-in		163	5	484	15
Accrued pension liability - noncurrent	2	2,303	74	2,740	85
Total other liabilities		5,237	167	12,406	384
Securities brokerage credit accounts - net	4(10)	-	-	23,022	710
Total liabilities		881,986	28,036	243,465	7,510
Stockholders' equity					
Capital stock					
Common stock	4(12)	3,500,000	111,252	3,700,000	114,127
Capital surplus	4(13)	-	-	258,434	7,972
Retained earnings					
Unappropriated retained earnings (Accumulated deficit)	4(14)	(53,256)	(1,693)	62,323	1,922
Total stockholders' equity		3,446,744	109,559	4,020,757	124,021
Total liabilities and stockholders' equity		$4,328,730	$137,595	$4,264,222	$131,531

(The exchange rate of March 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.46 and NT$32.42 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Statements of income
From January 1 to March 31, 2005 and 2006
(Expressed in thousands of dollars, except for earnings per share)
(Reviewed, not audited)

ITEMS	NOTES	January 1 - March 31, 2005 NT$	January 1 - March 31, 2005 US$	January 1 - March 31, 2006 NT$	January 1 - March 31, 2006 US$
Revenue	2,5				
Brokerage commissions		$36,247	$1,152	$55,621	$1,716
Revenue from underwriting commissions		-	-	29	1
Profit from trading securities		-	-	6,265	193
Interest revenue		4,460	142	1,942	60
Gain on valuation of operating securities		801	25	2,082	64
Brokerage commissions for introducing futures contracts		451	14	957	29
Gain from derivative financial instruments - futures	10	-	-	2,464	76
Gain from derivative financial instruments - GreTai (over-the-counter)	10	3,863	123	-	-
Prepayments		259	8	6,729	208
Non-operating revenue and profits		6,171	196	15,874	490
Total revenue		52,252	1,660	91,963	2,837
Expenses	2,5				
Brokerage securities transaction charges		(2,754)	(87)	(4,260)	(131)
Dealing securities transaction charges		(164)	(5)	(286)	(9)
Loss from trading securities		(30)	(1)	-	-
Interest expense		(1,842)	(59)	(249)	(8)
Clearing and settlement fees		-	-	(101)	(3)
Loss from derivative financial instruments - GreTai (over the counter)	10	-	-	(8,842)	(273)
Operating expenses		(59,910)	(1,904)	(71,964)	(2,220)
Total expenses		(64,700)	(2,056)	(85,702)	(2,644)
Income (loss) from continuing operations before income taxes		(12,448)	(396)	6,261	193
Income tax (expense) benefit	2,4(15)	758	24	(1,010)	(31)
Net income (loss) from continuing operations		(11,690)	(372)	5,251	162
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	-	-	173	5
Net income (loss)		$(11,690)	$(372)	$5,424	$167
Earnings per share (in dollars)	4(17)				
Net income (loss) from continuing operations		$(0.03)	$(0.001)	$0.01	$0.0003
Cumulative effect of changes in accounting principles		-	-	-	-
Net income (loss)		$(0.03)	$(0.001)	$0.01	$0.0003

(The exchange rate of March 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.46 and NT$32.42 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of changes in stockholders' equity

From January 1 to March 31, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

SUMMARY	Common stock		Capital surplus		Unappropriated retained earnings		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance on January 1, 2005	$3,500,000	$111,252	$-	$-	$(41,566)	$(1,321)	$3,458,434	$109,931
Net loss from January 1 to March 31, 2005	-	-	-	-	(11,690)	(372)	(11,690)	(372)
Balance on March 31, 2005	$3,500,000	$111,252	$-	$-	$(53,256)	$(1,693)	$3,446,744	$109,559
Balance on January 1, 2006	$3,700,000	$114,127	$258,434	$7,972	$56,899	$1,755	$4,015,333	$123,854
Net income from January 1 to March 31, 2006	-	-	-	-	5,424	167	5,424	167
Balance on March 31, 2006	$3,700,000	$114,127	$258,434	$7,972	$62,323	$1,922	$4,020,757	$124,021

(The exchange rate of March 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.46 and NT$32.42 to US$1.00, respectively)

ompanying notes are an integral part of these financial stat

Prepayments

Cathay Securities Corporation
Statements of cash flows
From January 1 to March 31, 2005 and 2006
(Expressed in thousands of dollars)
(Reviewed, not audited)

ITEMS	January 1 - March 31, 2005		January 1 - March 31, 2006	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income (loss)	$(11,690)	$(372)	$5,424	$167
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,177	101	6,507	201
Amortization	515	16	2,039	63
Gain on valuation of operating securities	(801)	(25)	(2,082)	(64)
Gain on disposal of investments	(299)	(10)	(713)	(22)
Recoveries on reserve for trading losses	(123)	(4)	(170)	(5)
Reserve for default losses	1,186	38	1,837	57
Prepayments	-	-	(4,465)	(138)
Cumulative effect of changes in accounting principles	-	-	(173)	(5)
Changes in assets and liabilities:				
Increase in securities purchased under agreements to resell	(164,174)	(5,218)	-	-
Financial assets at fair value through profit and loss - current				
Decrease in operating securities - dealing	121,334	3,856	34,917	1,077
(Increase) decrease in operating securities - hedging	166,375	5,288	(15,368)	(474)
Increase in call options - futures	-	-	(2,449)	(76)
Increase in margin for futures trading - own funds	-	-	(241,315)	(7,443)
Decrease in derivative financial instrument assets - GreTai (over-the-counter)	-	-	2,216	68
(Increase) decrease in receivable amount for margin loans	98,206	3,122	(299,232)	(9,230)
Decrease in securities refinancing margin deposits	687	22	-	-
Decrease in notes receivable	-	-	49	2
(Increase) decrease in accounts receivable	5,853	186	(1,057)	(33)
(Increase) decrease in accounts receivable - related parties	16	1	(200)	(6)
Increase in prepayments	(251)	(8)	(460)	(14)
Decrease in other receivables	2,859	91	1,316	40
Decrease in other receivables - related parties	953	30	-	-
(Increase) decrease in other current assets	705	22	(935)	(29)
Increase in securities sold under agreements to repurchase	61,571	1,957	50,000	1,542
Financial liabilities at fair value through profit and loss - current				
Increase in put options - futures	-	-	1,299	40
Decrease in derivative financial instrument liabilities - GreTai (over-the-counter)	(11,189)	(356)	-	-
Increase (decrease) in securities financing guarantee deposits-in	(744)	(24)	3,173	98
Increase (decrease) in deposit payable for securities financing	(822)	(26)	3,503	108
Increase (decrease) in accounts payable	18,460	587	(1,603)	(50)
Increase in accounts payable - related parties	-	-	57	2
Decrease in accounts collected in advance	(175)	(6)	(5,254)	(162)
Decrease in receipts under custody	(800)	(25)	(191)	(6)
Decrease in other payables	(1,923)	(61)	(5,002)	(154)
Increase in other payables - related parties	-	-	56	2
Increase (decrease) in other financial instrument liabilities - current	(204,630)	(6,504)	54,588	1,684
Increase in other current liabilities	14	1	227	7
Net change in deferred income tax assets/liabilities	(211)	(6)	(813)	(25)
Increase in total long-term liabilities	-	-	77	2
Increase (decrease) in accrued pension liability	619	20	(380)	(12)
Net change in securities brokerage debit (credit) accounts - net	198	6	31,697	978
Net cash provided by (used in) operating activities	84,896	2,699	(382,880)	(11,810)

(The exchange rate of March 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.46 and NT$32.42 to US$1.00, respectively)

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

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of cash flows

From January 1 to March 31, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	January 1 - March 31, 2005 NT$	January 1 - March 31, 2005 US$	January 1 - March 31, 2006 NT$	January 1 - March 31, 2006 US$
Cash flows from investing activities				
Financial assets at fair value through profit and loss - current				
Increase in open-end funds and currency market instruments	(69,701)	(2,216)	(61,753)	(1,905)
(Increase) decrease in restricted assets - current	(500,000)	(15,893)	600,000	18,507
Acquisition of long-term investments under equity method	-	-	(710,406)	(21,912)
Acquisition of property and equipment	(24,725)	(786)	(5,165)	(159)
(Increase) decrease in settlement and clearance funds	8,675	276	(4,500)	(139)
Increase in guarantee deposits paid	(324)	(10)	-	-
Prepayments	(2,880)	(92)	(620)	(19)
Net cash used in investing activities	(588,955)	(18,721)	(182,444)	(5,627)
Cash flows from financing activities				
Decrease in guarantee deposits-in	-	-	(1,154)	(36)
Net cash used in financing activities	-	-	(1,154)	(36)
Decrease in cash and cash equivalents	(504,059)	(16,022)	(566,478)	(17,473)
Cash and cash equivalents at the beginning of period	1,857,623	59,047	1,463,108	45,130
Cash and cash equivalents at the end of period	$1,353,564	$43,025	$896,630	$27,657
Supplemental disclosure of cash flows information				
Interest paid during the period	$1,824	$58	$29	$1
Interest paid (excluding capitalized interest)	$1,824	$58	$29	$1
Income tax paid	$982	$31	$1,815	$56

(The exchange rate of March 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.46 and NT$32.42 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to unaudited financial statements

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

As of March 31, 2005 and 2006

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 "Criteria Governing the Preparation of Financial Reports by Securities Firms", and the "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants". 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.

1. Organization and business scope

Cathay Securities Corporation (the "Company") was incorporated in Taipei on May 12, 2004, under the provisions of the Company Law (the "Company Law") 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 March 31, 2006 the Company had 3 branch offices.

The parent company of the Company is Cathay Financial Holdings Co., Ltd. As of March 31, 2005 and 2006, the Company had 122 and 161 employees, respectively.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with the "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants" and generally accepted accounting principles in the ROC. A summary of significant accounting policies is as follows:

(1) Current and noncurrent assets and liabilities

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

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

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

(3) Financial assets and financial liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 34 "Accounting for Financial Instruments" and "Criteria Governing the Preparation of Financial Reports by Securities Firms" whereby financial assets are categorized as "financial assets at fair value through profit and 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", and accordingly, are initially recognized at fair value. Financial liabilities are categorized as "financial liabilities at fair value through profit and loss", "derivative financial liabilities for hedging", or "financial liabilities carried at cost".

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

A. Financial assets at fair value through profit and loss

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

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 market 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. Operating securities

Securities purchased for resale by the dealing department are accounted for as "operating securities – dealing", and consist of bonds, stock warrants, listed stocks, and over-the-counter (OTC) stocks.

Operating securities are valued at market value. Cost is determined using the weighted-average method. Market value is the closing market price as of the balance sheet date.

c. Call options and put options

Call options and put options are recorded based on option premium. Changes in market values are reflected in "call options – futures", "put options – futures" and "gain (loss) from derivative financial instruments – futures".

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

d. Margin for futures trading – own funds

The margin and premium resulting from trading futures and options are recorded as "margin for futures trading – own funds". The profit or loss from the trading or valuation of futures and options is recorded as "gain (loss) on futures contracts" or "gain (loss) from options transactions", and the amount of "margin for futures trading – own funds" is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is divided into realized and unrealized.

e. Derivative financial instrument assets/liabilities – GreTai (over-the-counter) and other financial liabilities – current

Structured notes transactions
Structured notes transactions can be divided into equity-linked notes and principal guaranteed notes based on the terms of the contracts.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as "liabilities for equity-linked notes – fixed-income products" and "liabilities for equity-linked notes – option premium". Any options purchased are recognized as "assets for equity-linked notes – options", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) on valuation for equity-linked notes".

Principal guaranteed notes transactions involve receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as "liabilities for principal guaranteed notes – fixed-income products" and "liabilities for principal guaranteed notes – options". The latter is valued at fair value with any resulting gains or losses recognized as "gains (losses) on valuation for principal guaranteed notes".

The options of the Company were valued using "Monte Carlo Simulations".

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Derivative financial assets for hedging

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

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

F. Financial liabilities

The Company uses amortized cost for subsequent valuation of financial liabilities, except for "financial liabilities at fair value through profit and loss" and "derivative financial liabilities for hedging" are measured at fair value.

(4) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized when control over the asset (or a portion) is surrendered. The transfer of a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the asset.

If a transfer of financial assets does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under a liability agreement is discharged, cancelled or matures.

When an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized in the current period income statement.

(5) Securities purchased under agreements to resell/Securities sold under agreements to repurchase

Securities purchased under agreements to resell/Securities sold under agreements to repurchase are recorded at the amount of cash received or paid at the transaction. The difference between the recorded cost and the amount which was reacquired or resold as specified in the respective agreements is accrued as interest revenue or interest expense.

(6) Margin trading of securities

A. Margin loans extended to stock investors are recorded as "receivable amount for margin loans" and the stocks purchased by the investors are held by the Company as collateral. The collateral is recorded in a memorandum and is returned to the investors when the loans are repaid.

B. Guarantee deposits received from stock investors on short sales are recorded as "securities financing guarantee deposits-in". The proceeds from short sales (less the securities transaction tax and processing fees) are held by the Company as guarantee deposits and recorded as "deposit payable for securities financing". The stocks lent to the investors are recorded in a memorandum. When the stocks are returned to the Company, the guarantee deposits and proceeds from the short sales are returned to the investors accordingly.

C. Loans borrowed by the Company from other securities lenders when the Company has insufficient funds to conduct margin trading are recoded as "margin loans from other securities lenders". When the Company has insufficient stocks to conduct securities lending, the Company borrows stocks from other securities lenders and the guarantee deposits paid are recorded as "deposits paid to other securities lenders". The proceeds from short sales are then paid to the securities lenders as additional guarantee deposits and are recorded as "securities refinancing margin deposits".

(7) Long-term investments under equity method

Long-term investments are accounted for under the equity mothed if the Company has more than 20% of the investee's voting shares or has significant influence over the operating and financial policies of the investee. Cost is determined by the weighted-average method when long-term investments are disposed.

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

(8) Property and equipment

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

(9) Accounting for asset impairment

Pursuant to ROC SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of ROC SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair value less cost to sell and the value in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company will recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the asset, the Company shall reverse the impairment loss but only to the extent that the carrying amount after the reversal does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

In addition, goodwill allocated to a CGU or group of CGUs is tested for impairment at the same time each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized by reducing the carrying amount of any goodwill allocated to a CGU or group of CGUs. If the allocated goodwill has been written off, then the impairment loss is recognized by reducing the other assets of the CGU or group of CGUs on a pro rata basis according to their carrying amount.

The write-down of goodwill cannot be reversed under any circumstances in subsequent periods.

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

(10) Accounting for impairment of financial assets

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

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

(11) Reserve for default losses

According to the Regulations Governing Securities Firms, a securities firm trading securities for customer accounts shall allocate 0.0028% of the transaction price of the traded securities on a monthly basis as a reserve for default losses.

The reserve for default losses referred to in the preceding paragraph shall only be used for offsetting actual losses resulting from customer defaults on securities transactions or other losses approved by the Financial Supervisory Commission, Securities and Futures Bureau ("SFB").

When the accumulated reserve for default losses reaches NT$200,000 (US$6,169) reserving will be suspended.

(12) Reserve for trading losses

According to the Regulations Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT$200,000 (US$6,169). Such reserve can only be used to offset the excess of securities trading losses over gains.

(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.

According to ROC SFAS No. 23, "Interim Financial Reporting and Disclosures", certain pension information is not required to be disclosed in the Company's interim financial statements.

(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, beginning in 2005, the Company and its parent company file joint corporate income tax returns and 10% surcharge on unappropriated retained earnings returns under the Integrated Income Tax System. If there are any tax effects due to the adoption of the Integrated Income Tax System, the parent company can proportionately allocate the effects to the deferred income tax, taxes payable and other receivables of the Company and the parent company.

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

Effective from January 1, 2006, the Company adopted "Income Basic Tax Act" to estimate income basic tax.

(15) Recognition of revenue and expenses

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

A. Brokerage commissions, profit or loss from disposal of operating securities, and relevant brokerage securities transaction charges are recognized at the transaction date.

B. Interest revenue or expense from margin loans, securities purchased under agreements to resell and securities sold under agreements to repurchase are recognized on an accrued basis.

(16) Futures transactions

The Company brokers futures transactions and collects commissions from futures agencies. Commissions are recognized as "brokerage commissions for introducing futures contracts" in the statements of income.

(17) For the year ended December 31, 2005, a summary of significant accounting policies is as follows:

A. Short-term investments

Short-term investments represent investments in open-end funds and are valued at the lower of cost or market value. Cost is determined using the weighted-average method. Market value represents the net asset value per share announced by the investment fund.

B. Securities purchased under agreements to resell/Securities sold under agreements to repurchase/Securities purchased under agreements to resell – securities financing

Securities purchased under agreements to resell/Securities sold under agreements to repurchase are recorded at the amount of cash received or paid at the transaction. The difference between the recorded cost and the amount which was reacquired or resold as specified in the respective agreements is accrued as interest revenue or interest expense.

According to an explanatory letter of the SFB, securities purchased under agreements to resell – securities financing, in conjunction with operating securities – dealing, are valued at the lower of aggregate cost or market value at the balance sheet date. Gains or losses should be recognized at the date the securities were repurchased.

C. Operating securities

Securities purchased for resale by the dealing department are accounted for as "operating securities – dealing", and consist of bonds, stock warrants, listed stocks, and over-the-counter (OTC) stocks.

Operating securities are valued at the lower of cost or market value. Cost is determined using the weighted-average method. Market value is the closing market price on the balance sheet date.

D. Long-term investments in stocks

Long-term investments represent investments in unlisted common stocks and are valued at cost if the Company has less than 20% of the investee's voting shares and the Company does not have significant influence over the operating and financial policies of the investee. However, when there is evidence indicating that a decline in the value of such investments is not temporary, the investments are devalued to reflect such decline and the resulting losses are recognized in the period of such devaluation. Cost is determined by the weighted-average method when long-term investments are disposed.

Long-term investments are accounted for by the equity method when the Company owns 20% or more of an investee's voting stock or the Company is able to exercise significant influence over the investee's operating and financial policies. Cost is determined using the weighted-average method.

E. Derivative financial instrument assets/liabilities – GreTai (over-the-counter)

a. Interest rate swaps

Interest rate swaps do not involve the exchange of nominal principal and are recorded by memorandum entries at the contract dates. The difference between interest received and paid at the settlement date and balance sheet date is recognized as "gain (loss) from derivative financial instruments".

Interest rate swaps for trading purposes are valued at fair value on the balance sheet date. The Company uses market value as the basis for fair value.

b. Structured notes transactions

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

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as "liabilities for equity-linked notes – fixed-income products" and "liabilities for equity-linked notes – option premium". The former amortizes its interest expense over the contract period using the straight-line method or interest method with the amount recognized as "losses on equity-linked notes". Any options purchased are recognized as "assets for equity-linked notes – options", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) on valuation for equity-linked notes". To the extent the losses do not exceed the unrealized gains of the hedging position based on market prices, the total amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss in current period earnings.

Principal guaranteed notes transactions involve receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as "liabilities for principal guaranteed notes – fixed-income products" and "liabilities for principal guaranteed notes – options". The former amortizes its interest expense over the contract period using the straight-line method or interest method with the amount recognized as "losses on principal guaranteed notes". The latter is valued at fair value with any resulting gains or losses recognized as "gains (losses) on valuation for principal guaranteed notes". To the extent the losses do not exceed the unrealized gains of the hedging position based on market prices, the total amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss in current period earnings.

(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$31.46 and NT$32.42 to US$1.00 effective on March 31, 2005 and 2006, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at these rates or any other rates of exchange.

3. Changes in accounting and their effects

The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments" to account for financial instruments for its financial statements beginning on and after January 1, 2006 (the "Effective Date").

At the Effective Date, the Company remeasured and reclassified financial assets and liabilities that should be measured at fair value according to ROC SFAS No. 34 and recognized the resulting adjustments. Changes in "financial assets/liabilities at fair value through profit and loss" are recognized as cumulative effect of changes in accounting principles.

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

The above changes in accounting principles increased the Company's current assets and current liabilities by NT$211 (US$7) and NT$38 (US$1) as of January 1, 2006, respectively, and increased the Company's net income and earnings per share by NT$173 (US$5) and NT$0.0005 (US$0.00002) (dollars), respectively, for the three months ended March 31, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Cash on hand	$100	$3	$120	$4
Savings accounts	72,743	2,312	118,864	3,666
Checking accounts	246	8	328	10
Time deposits	1,280,475	40,702	777,318	23,977
Total	$1,353,564	$43,025	$896,630	$27,657
Annual interest rate of time deposits	0.750%-1.285%		1.15%-1.84%	

As of March 31, 2005 and 2006, none of the cash and cash equivalents were pledged to other parties.

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

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Open-end funds and currency market instruments	$720,000	$22,886	$822,526	$25,371
Operating securities – dealing	5,419	172	50,046	1,544
Operating securities – hedging	2,839	90	56,462	1,741
Call options – futures	-	-	2,449	76
Margin for futures trading – own funds	-	-	303,127	9,350
Derivative financial instrument assets – GreTai (over-the-counter)	-	-	3,029	93
Total	$728,258	$23,148	$1,237,639	$38,175

As of March 31, 2005 and 2006, none of the financial assets at fair value through profit and loss – current, were pledged to other parties.

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

As of March 31, 2005, the above financial assets were valued at the lower of cost or market value.

A. Open-end funds and currency market instruments

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Open-end funds	$720,000	$22,886	$820,256	$25,301
Add (less): Valuation adjustment	-	-	2,270	70
Net	$720,000	$22,886	$822,526	$25,371

B. Operating securities – dealing

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
GreTai (Over-the-counter) (OTC) stocks	$-	$-	$61	$2
OTC corporate bonds	5,420	172	50,000	1,542
Subtotal	5,420	172	50,061	1,544
Add (less): Valuation adjustment	(1)	-	(15)	-
Net	$5,419	$172	$50,046	$1,544

C. Operating securities – hedging

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Listed stocks	$2,918	$93	$24,942	$769
GreTai (Over-the-counter) (OTC) stocks	-	-	30,809	950
Subtotal	2,918	93	55,751	1,719
Add (less): Valuation adjustment	(79)	(3)	711	22
Net	$2,839	$90	$56,462	$1,741

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

D. Margin for futures trading – own funds

	January 1 to March 31, 2006					
Futures trading company	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$302,955	$9,345	$172	$5	$303,127	$9,350

From January 1 to March 31, 2005, there were no transactions.

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

See note 10.

(3) Securities purchased under agreements to resell

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Central government construction bonds	$836,860	$26,601	$-	$-

As of March 31, 2005, securities purchased under agreements to resell were due within one year with annual interest rates ranging between 1.015%-1.050%. These bonds were made available for resale at an agreed aggregate amount of NT$837,198 (US$26,612) between April 7 – April 14, 2005.

(4) Receivable amount for margin loans

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Receivable amount for margin loans	$91,239	$2,900	$299,232	$9,230
Less: Allowance for bad debts	-	-	-	-
Net	$91,239	$2,900	$299,232	$9,230

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

A. From January 1 to March 31, 2005 and 2006, receivable amount for margin loans had an annual interest rate of 6.25%.

B. As of March 31, 2005 and 2006, the market value of securities used for collateral in connection with the Company's margin loan activity were NT$140,311 (US$4,460) and NT$530,355 (US$16,359), respectively.

(5) Long-term investments under equity method

	March 31, 2005			March 31, 2006		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Cathay Futures Co., Ltd.	$-	$-	-	$714,872	$22,050	99.99%

The investment income recognized by the equity method as of March 31, 2005 and 2006 are listed below:

	January 1 to March 31, 2005		January 1 to March 31, 2006	
Name of investee	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$-	$-	$4,465	$138

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

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

	March 31, 2005			March 31, 2006		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Stock:						
Taiwan International Mercantile Exchange Corporation	$18	$1	-	$18	$1	-

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

As of March 31, 2005 and 2006, none of the available-for-sale financial assets – noncurrent were pledged to other parties.

(7) Property and equipment

	March 31, 2005					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$43,530	$1,384	$3,957	$126	$39,573	$1,258
Leasehold improvement	18,804	598	958	30	17,846	568
Total	$62,334	$1,982	$4,915	$156	$57,419	$1,826

	March 31, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$83,799	$2,585	$21,219	$654	$62,580	$1,931
Prepayment for equipment	8,276	255	-	-	8,276	255
Leasehold improvement	38,335	1,182	4,753	147	33,582	1,035
Total	$130,410	$4,022	$25,972	$801	$104,438	$3,221

As of March 31, 2005 and 2006, none of the property and equipment were pledged to other parties.

(8) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, and the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT$150,098 (US$4,771) and NT$215,097 (US$6,635) as of March 31, 2005 and 2006, respectively.

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

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT$56,435 (US$1,794) and NT$47,535 (US$1,466) in settlement and clearance funds as of March 31, 2005 and 2006, respectively.

(10) Securities brokerage debit (credit) accounts – net

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Debit balance:				
Cash and cash equivalents – settlement amount	$-	$-	$66	$2
Proceeds receivable from investors	394,862	12,551	-	-
Clearance	-	-	57,782	1,782
Accounts receivable – brokering	424,500	13,493	397,578	12,264
Debit transaction	9,135	291	-	-
Subtotal	828,497	26,335	455,426	14,048
Credit balance:				
Proceeds payable to investors	103,833	3,300	-	-
Accounts payable – brokering	36,965	1,175	478,448	14,758
Clearance	684,402	21,755	-	-
Subtotal	825,200	26,230	478,448	14,758
Net	$3,297	$105	$(23,022)	$(710)

(11) Securities sold under agreements to repurchase

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Central government construction bonds	$837,897	$26,634	$-	$-
OTC corporate bonds	-	-	50,000	1,542
Total	$837,897	$26,634	$50,000	1,542

As of March 31, 2005 and 2006, securities sold under agreements to repurchase were due within one year with annual interest rates ranging between 0.950%-1.025% and 1.60%, respectively. These bonds were made available for repurchase at an agreed aggregate amount of NT$838,126 (US$26,641) and NT$50,068 (US$1,544) between April 6 – April 14, 2005 and April 28 – May 2, 2006, respectively.

(12) Capital Stock

A. As of March 31, 2005 and 2006, the Company's total authorized shares and the number of shares outstanding were 350,000,000 and 370,000,000, respectively with a par value of NT$10 per share.

B. On February 2, 2005, the Company's board of directors resolved to increase its capital by NT$500,000 (US$15,423) by issuing 20,000,000 common shares at NT$25 per share. After this capital increase, the Company's total capital increased to NT$3,700,000 (US$114,127).

The Company's aforementioned increase in capital was approved by the relevant governmental regulatory authority.

(13) Capital surplus

A. According to the Company Law in the ROC, capital surplus can be used to increase share capital when the Company has no accumulated deficit. However, the amount capitalized cannot exceed a specific percentage of paid in capital. Any remaining amounts can only be used to make up losses. The Company shall not use capital surplus to make up losses unless the legal reserve is insufficient to offset such losses.

B. On August 3, 2005, the Company's board of directors resolved to use capital surplus of NT$41,566 (US$1,282) to offset its accumulated deficits.

(14) Unappropriated retained earnings (accumulated deficit)

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, should first be added to the legal reserve. In addition to distributing stock interest and 1% as a bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

B. Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be appropriated as a legal reserve until the total reserve equals the amount of issued capital stock. This legal reserve can be used only to cover accumulated losses and not for distributing cash dividends. However, if the total accumulated legal reserve is greater than 50% of paid-in capital, and a resolution of a stockholders' meeting so approves, it can be capitalized for not more than 50% of its balance.

C. The Company has to pay an extra 10% income tax on all unappropriated retained earnings generated during the year.

D. According to an explanatory letter of the SFB, commencing on January 1, 2007, in addition to the legal reserve, the Company will be required to provision for a special reserve in an amount equal to "unrealized loss from financial instruments".

(15) Income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income before income tax in the statements of income from January 1 to March 31, 2005 and 2006, are as follows:

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

Item	January 1 to March 31, 2005		January 1 to March 31, 2006	
	NT$	US$	NT$	US$
Income (loss) before income taxes	$(12,448)	$(396)	$6,261	$193
Adjustments:				
Interest income taxed on a separate basis	(4,879)	(155)	(5,775)	(178)
Adjusted revenue and expense from dealing departments	10,285	326	3,398	105
Realized gain from derivative financial instruments	18	1	-	-
Unrealized gain on valuation of operating securities – hedging	-	-	(886)	(27)
Unrealized loss (gain) from derivative financial instruments	(358)	(11)	2,683	83
Investment income recognized on equity method investments	-	-	(4,465)	(138)
Reserve for default losses	1,186	38	1,837	57
Provision for pensions	-	-	(380)	(12)
Others	103	3	-	-
Taxable income	(6,093)	(194)	2,673	83
Times: tax rates	25%	25%	25%	25%
Subtotal	-	-	668	20
Add: Extra 10% income tax on unappropriated retained earnings	-	-	-	-
Less: Tax effects under integrated income tax system	(1,523)	(48)	-	-
Subtotal	(1,523)	(48)	668	20
Tax on a separate basis	976	31	1,155	36
Deferred tax benefit	(211)	(7)	(813)	(25)
Total income tax expense (benefit)	$(758)	$(24)	$1,010	$31

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

	March 31, 2005		March 31, 2006	
	NT$	US$	NT$	US$
a. Total deferred income tax assets	$9,732	$309	$2,787	$86
b. Total deferred income tax liabilities	$90	$2	$178	$6

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

c. Temporary differences:				
Reserve for default losses	$2,771	$88	$8,932	$276
Provision for pensions	-	-	806	25
Unrealized loss (gain) from derivative financial instruments	(358)	(11)	1,408	43
Unrealized loss on valuation of operating securities – hedging	-	-	(711)	(22)
Total	$2,413	$77	$10,435	$322
d. Loss carryforwards	$36,158	$1,149	$-	$-
e. Deferred income tax assets – current	$9,040	$287	$352	$11
Deferred income tax liabilities – current	(90)	(2)	(178)	(6)
Net deferred income tax assets (liabilities) – current	$8,950	$285	$174	$5
Deferred income tax assets – noncurrent	$692	$22	$2,435	$75
Deferred income tax liabilities – noncurrent	-	-	-	-
Net deferred income tax assets (liabilities) – noncurrent	$692	$22	$2,435	$75

C. Information related to tax imputation:

	March 31, 2005		March 31, 2006	
	NT$	US$	NT$	US$
Balance of imputation credit account	$2,107	$67	$8,085	$249

	March 31, 2005	March 31, 2006 (Estimated)
Imputation credit account ratio	-	12.97%

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

D. Information related to undistributed earnings:

	March 31, 2005		March 31, 2006	
	NT$	US$	NT$	US$
After 1998	$ (41,566)	$(1,321)	$56,899	$1,755

Undistributed earnings after 1998 do not include the net income (loss) from January 1 to March 31, 2005 and 2006.

E. The Company's income tax returns of 2004 have not been cleared yet.

(16) Personnel, depreciation, depletion and amortization

The Company's personnel, depreciation, depletion and amortization expenses from January 1 to March 31, 2005 and 2006 are summarized as follows:

Item	January 1 to March 31, 2005 (NT$)			January 1 to March 31, 2005 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$33,540	$33,540	$-	$1,066	$1,066
Labor & health insurance expenses	-	1,512	1,512	-	48	48
Pension expenses	-	1,031	1,031	-	33	33
Other expenses	-	1,080	1,080	-	34	34
Depreciation	-	3,177	3,177	-	101	101
Depletion	-	-	-	-	-	-
Amortization	-	515	515	-	16	16

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

Item	January 1 to March 31, 2006 (NT$)			January 1 to March 31, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$33,226	$33,226	$-	$1,025	$1,025
Labor & health insurance expenses	-	2,042	2,042	-	63	63
Pension expenses	-	1,884	1,884	-	58	58
Other expenses	-	1,342	1,342	-	41	41
Depreciation	-	6,507	6,507	-	201	201
Depletion	-	-	-	-	-	-
Amortization	-	2,039	2,039	-	63	63

(17) Earnings per share

	January 1 to March 31, 2005		January 1 to March 31, 2006	
	NT$	US$	NT$	US$
Net income (loss) from continuing operations (A)	$(11,690)	$(372)	$5,251	$162
Cumulative effect of changes in accounting principles(B)	-	-	173	5
Net income (loss) (C)	$(11,690)	$(372)	$5,424	$167
Outstanding number of shares at end of period	350,000,000	350,000,000	370,000,000	370,000,000
Weighted average outstanding number of shares(D)	350,000,000	350,000,000	370,000,000	370,000,000
Earnings per share of net income (loss) from continuing operations (A)/(D) (dollars)	$(0.03)	$(0.001)	$0.01	$0.0003
Earnings per share of cumulative effect of changes in accounting principles(B)/(D) (dollars)	-	-	-	-
Earnings per share of net income (loss) (C)/(D) (dollars)	$(0.03)	$(0.001)	$0.01	$0.0003

(18) Presentation of financial statements

Certain accounts in the financial statements from January 1 to March 31, 2005 have been reclassified in order to be comparable with those in the financial statements from January 1 to March 31, 2006.

5. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Futures Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Co., Ltd.	Affiliated
Cathay United Bank Co., Ltd.	Affiliated
Cathay Century Insurance Co., Ltd.	Affiliated
Cathay Securities Investment Trust Co., Ltd.	Affiliated
Seaward Leasing Ltd.	Affiliated
Symphox Information Co., Ltd	Affiliated
Seaward Card Co., Ltd.	Affiliated
Lin Yuan Investment Co., Ltd.	Affiliated
Lucky Bank	Affiliated
Cathay Pacific Venture Capital Co., Ltd.	Affiliated
Cathay II Venture Capital Corp.	Affiliated
Cathay Capital Management Inc.	Affiliated
Cathay Venture Capital Corp.	Affiliated
Cathay Pacific Partners Co., Ltd.	Affiliated
Cathay Securities Investment Co., Ltd.	Affiliated
Cathay Insurance (Bermuda) Co., Ltd.	Affiliated
Lin Yuan Property Management Co., Ltd.	Affiliated
Cathay Life Insurance Co., Ltd. (Shanghai)	Affiliated
Cathay Bank Life Insurance Agency of Association	Affiliated
Cathay Bank Property Agency of Association	Affiliated
Indovina Bank Limited	Affiliated

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

China England Company Ltd.	Affiliated
Pao Shin Securities Co., Ltd.	Affiliated
Cathay General Hospital	Affiliated
Culture and Charity Foundation of the CUB	Affiliated
Cathay Life Charity Foundation	Affiliated

(2) Transactions with related parties

A. Cash in bank

		January 1 to March 31, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$72,195	0.10%	$40
	Checking accounts	$246	-	$-
	Negotiable certificates of deposit	$2,130,000	0.850%-1.125%	$4,922

		January 1 to March 31, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$2,295	0.10%	$1
	Checking accounts	$8	-	$-
	Negotiable certificates of deposit	$67,705	0.850%-1.125%	$156

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

		January 1 to March 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Savings accounts	$124,929	0.10%	$-
Co., Ltd.	Checking accounts	$328	-	$-
	Negotiable certificates of deposit	$1,325,000	1.24%-1.37%	$5,775

		January 1 to March 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Savings accounts	$3,853	0.10%	$-
Co., Ltd.	Checking accounts	$10	-	$-
	Negotiable certificates of deposit	$40,870	1.24%-1.37%	$178

As of March 31, 2005 and 2006, except for NT$1,000,000 (US$31,786) and NT$700,000 (US$21,592) pledged as collateral for the over-loaning of settlement accounts and recognized under restricted assets, the remaining negotiable certificates of deposit have not been pledged as collateral.

B. Open-end funds and currency market instruments

	March 31, 2005		March 31, 2006	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$350,000	$11,125	$310,270	$9,570

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

C. Securities sold under agreements to repurchase

	January 1 to March 31, 2005		January 1 to March 31, 2006	
	Ending balance	Interest expense	Ending balance	Interest expense
Name	NT$	NT$	NT$	NT$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$251,961	$449	$-	$-

	January 1 to March 31, 2005		January 1 to March 31, 2006	
	Ending balance	Interest expense	Ending balance	Interest expense
Name	US$	US$	US$	US$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$8,009	$14	$-	$-

D. Other payables

	March 31, 2005		March 31, 2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holdings Co., Ltd.	$-	$-	$15,088	$465

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

E. Brokerage commissions

	January 1 to March 31, 2005		January 1 to March 31, 2006	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$2,140	$68	$2,475	$76
Cathay Life Insurance Co., Ltd.	18,819	598	22,361	690

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

Cathay Century Insurance Co., Ltd.	168	6	333	10
Total	$21,127	$672	$25,169	$776

F. Brokerage commissions for introducing futures contracts

	January 1 to March 31, 2005				January 1 to March 31, 2006			
	Brokerage commissions for introducing futures contracts		Accounts receivable		Brokerage commissions for introducing futures contracts		Accounts receivable	
Name	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$451	$14	$128	$4	$957	$29	$414	$13

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

	January 1 to March 31, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
Name	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$101	$3	$98	$3	$99	$3	$303,127	$9,350

From January 1 to March 31, 2005, there were no transactions.

H. Rental expenses and guarantee deposits paid

	January 1 to March 31, 2005		January 1 to March 31, 2006	
Name	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT$	NT$	NT$	NT$
Cathay United Bank Co., Ltd.	$2,360	$2,334	$1,257	$1,318
Cathay Life Insurance Co., Ltd.	3,667	3,647	3,982	3,647
Total	$6,027	$5,981	$5,239	$4,965

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

	January 1 to March 31, 2005		January 1 to March 31, 2006	
Name	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US$	US$	US$	US$
Cathay United Bank Co., Ltd.	$75	$74	$39	$41
Cathay Life Insurance Co., Ltd.	117	116	123	112
Total	$192	$190	$162	$153

I. Operating expenses

		January 1 to March 31, 2005		January 1 to March 31, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$294	$9	$398	$12
Symphox Information Co., Ltd	Cable service	745	24	366	11
	Other fees	208	7	143	5
Subtotal		953	31	509	16
Total		$1,247	$40	$907	$28

J. Non-operating revenue and profits

		January 1 to March 31, 2005		January 1 to March 31, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$-	$-	$1,200	$37

6. Pledged assets

	March 31, 2005		March 31, 2006	
Item	NT$	US$	NT$	US$
Restricted assets – time deposits	$1,000,000	$31,786	$700,000	$21,592

(1) As of March 31, 2005 and 2006, the Company pledged its restricted assets – time deposits to Cathay United Bank Co., Ltd. as collateral for the over-loaning of settlement accounts.

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

(2) Restricted assets – time deposits is disclosed at its net carrying amount.

7. Other important matters and contingent liabilities

The Company has entered into several operating lease agreements and the future payments over the next five years are as follows:

	Amount	
Year	NT$	US$
April 1 , 2006~March 31 , 2007	$20,888	$644
April 1 , 2007~March 31 , 2008	11,696	361
April 1 , 2008~March 31 , 2009	2,313	71
April 1 , 2009~March 31 , 2010	1,770	55
April 1 , 2010~March 31 , 2011	1,033	32
Total	$37,700	$1,163

8. Serious damages

None.

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

	March 31, 2005			
	Carrying amount (NT$)	Fair value (NT$)	Carrying amount (US$)	Fair value (US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$1,353,564	$1,353,564	$43,025	$43,025
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	720,000	722,136	22,886	22,954
Operating securities – net	8,258	8,258	262	262
Securities purchased under agreements to resell	836,860	836,860	26,601	26,601

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

Receivable amount for margin loans	91,239	91,239	2,900	2,900
Receivables – net	12,097	12,097	384	384
Restricted assets – current	1,000,000	1,000,000	31,786	31,786
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	150,098	150,098	4,771	4,771
Settlement and clearance funds	56,435	56,435	1,794	1,794
Guarantee deposits paid	20,253	20,253	644	644
Liabilities:				
Securities sold under agreements to repurchase	837,897	837,897	26,634	26,634
Payables	28,402	28,402	903	903
Derivative				
Liabilities:				
Financial liabilities at fair value through profit and loss – current				
Derivative financial instrument liabilities – GreTai(over-the-counter)	48	48	1	1
Other financial liabilities – current	9,215	9,215	293	293

	March 31, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$896,630	$896,630	$27,657	$27,657
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	822,526	822,526	25,371	25,371
Operating securities – net	106,508	106,508	3,285	3,285
Receivable amount for margin loans	299,232	299,232	9,230	9,230
Receivables – net	5,815	5,815	179	179
Restricted assets – current	700,000	700,000	21,592	21,592
Long-term investments under equity method	714,872	714,872	22,050	22,050

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

Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,097	215,097	6,635	6,635
Settlement and clearance funds	47,535	47,535	1,466	1,466
Guarantee deposits paid	19,225	19,225	593	593
Liabilities:				
Securities sold under agreements to repurchase	50,000	50,000	1,542	1,542
Securities financing guarantee deposits-in	3,173	3,173	98	98
Deposit payable for securities financing	3,503	3,503	108	108
Payables	30,178	30,178	931	931
Derivative				
Assets:				
Financial assets at fair value through profit and loss – current				
Call options – futures	$2,449	$2,449	$76	$76
Margin for futures trading – own funds	303,127	303,127	9,350	9,350
Derivative financial instrument assets – GreTai (over-the-counter)	3,029	3,029	93	93
Liabilities:				
Financial liabilities at fair value through profit and loss – current				
Put options – futures	1,432	1,432	44	44
Other financial liabilities – current	115,750	115,750	3,570	3,570

Methods and assumptions for estimating the fair value of non-derivative 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 purchased under agreements to resell, receivable amount for margin loans, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities sold under agreements to repurchase, securities financing guarantee deposits-in, deposit payable for securities financing and payables.

B. The fair value of open-end funds and currency market instruments, operating securities, long-term investments under equity method and available-for-sale financial assets – noncurrent are estimated based on market prices or net asset values, if available. If the investment is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.

(2) Financial derivatives

A. Financial assets/liabilities at fair value through profit and loss are recognized in earnings – current (derivative financial instrument assets/liabilities – GreTai (over-the-counter)) and other financial liabilities – current

a. Structured notes transactions

(a) Nominal principal or contract amount and credit risk

	March 31, 2005		March 31, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Equity-linked notes	$-	$-	NT$113,200 (US$3,492)	$-
Principal guaranteed notes	NT$9,700 (US$308)	$-	$-	$-

The Company's credit risk derives from a breach of contract by a counterparty. The Company believes it is not exposed to credit risk because contract amounts are collected in advance of structured notes being issued.

(b) Market risk

In structured notes transactions, the Company receives proceeds from investors on the contract date and makes its investments pursuant to the contract. The Company invests in linked and fixed income assets that are subject to regulations and open market pricing. Since the hedging positions for derivative instruments and stop-loss points are established, the Company believes it can limit its losses to within an expected range.

(c) Risk from liquidity, cash flow, and other uncertainties

The Company receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. The Company has anticipated the risk from liquidity of rescission in advance of investing in fixed income securities. Therefore, no significant cash requirements are expected at expiration of the contract.

(d) Types, purposes, and strategies for financial derivatives

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

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

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

b. Financial statement presentation of derivative financial instruments

As of March 31, 2005 and 2006, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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

Balance sheet	March 31, 2005			
	Financial assets at fair value through profit and loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit and loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	NT$	US$	NT$	US$
Principal guaranteed notes	$-	$-	$9,263	$294

Statement of income	January 1 to March 31, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Principal guaranteed notes	$3,863	$123	Market value method

Balance sheet	March 31, 2006			
	Financial assets at fair value through profit and loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit and loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	NT$	US$	NT$	US$
Equity-linked notes	$3,029	$93	$115,750	$3,570

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

Statement of income	January 1 to March 31, 2006		
	Gain (loss) from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Equity-linked notes	$(8,842)	$(273)	Market value method

B. Futures and options transactions

As of March 31, 2006, the Company's unexercised futures and options were as follows:

Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Options	TXO-Call	Sell	150	$757	$23	$1,432	$44
Options	TXO-Call	Buy	450	$1,229	$38	$2,220	$69
Options	TXO-Put	Buy	150	$301	$9	$229	$7
Futures	TAIEX futures	Buy	30	$39,194	$1,209	$39,366	$1,214

a. Nominal principal or contract amount and credit risk

	March 31, 2006	
Financial instruments	Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	NT$2,287 (US$70)	$-
TAIEX futures	NT$39,194 (US$1,209)	$-

The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

b. Market risk

The Company's market risk from futures and options transactions arise from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, the Company believes it can limit its losses to within an expected range. Hence, no significant market risk is expected.

c. Risk from liquidity, cash flow, and other uncertainties

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

The Company's trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, the Company has sufficient working capital to meet its requirements, and hence 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 funding risk and cash flow risk are low.

d. Types, purposes, and strategies for financial derivatives

The Company's purpose in trading futures and options is to increase the scope of its investment activities and 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 and loss – current" and "margin for futures trading – own funds" on the balance sheet. From January 1 to March 31, 2006, the related gain (loss) of futures and options on the statement of income was as follows:

	January 1 to March 31, 2006	
	(NT$)	(US$)
Gain from derivative financial instruments – futures		
Gain on futures contracts	$1,300	$40
(Includes unrealized gain on futures contracts of NT$427 (US$13))		
Gain from options transactions	$1,164	$36
(Includes unrealized gain from options transactions of NT$153 (US$5))		