Cathay Securities Corporation
Financial Statements
Together with
Independent Auditors' Report
As of June 30, 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.

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INDEX TO FINANCIAL STATEMENTS

English Translation of Report Originally Issued in Chinese

Independent auditors' report

To: Board of Directors
Cathay Securities Corporation

We have audited the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of June 30, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows from January 1 to June 30, 2005 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Corporation as of June 30, 2005 and 2006, and the results of its operations and their cash flows from January 1 to June 30, 2005 and 2006 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 ROC.

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".

In addition, we have also reviewed the consolidated financial statements of the Company as of and for the six months ended June 30, 2006 and expressed a modified unqualified review report.

Ernst & Young
Taipei, Taiwan
Republic of China
July 26, 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 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 Corporation

Balance sheets

As of June 30, 2005 and 2006

(Expressed in thousands of dollars)

ASSETS	NOTES	June 30, 2005 NT$	June 30, 2005 US$	June 30, 2006 NT$	June 30, 2006 US$
Current assets					
Cash and cash equivalents	2,4(1),5	$1,693,843	$53,535	$493,652	$15,269
Financial assets at fair value through profit and loss - current	2,4(2),5,10	632,525	19,991	1,054,351	32,612
Securities purchased under agreements to resell	2,4(3)	540,465	17,082	-	-
Receivable amount for margin loans	2,4(4)	5,759	182	543,597	16,814
Securities refinancing margin deposits	2	-	-	499	15
Accounts receivable		2,385	75	278	9
Accounts receivable - related parties	5	151	5	651	20
Prepayments		872	28	1,693	52
Other receivables		3,917	124	5,649	175
Other receivables - related parties	5	4,191	132	-	-
Restricted assets - current	6	1,300,000	41,087	900,000	27,838
Deferred income tax assets - current	2,4(15)	9,035	286	170	5
Other current assets		326	10	1,765	55
Total current assets		4,193,469	132,537	3,002,305	92,864
Funds and investments					
Long-term investments under equity method	2,4(5)	-	-	721,851	22,327
Available-for-sale financial assets - noncurrent	2,4(6)	18	1	18	1
Total funds and investments		18	1	721,869	22,328
Property and equipment	2,4(7)				
Equipment		67,682	2,139	85,328	2,640
Prepayment for equipment		15,087	477	7,927	245
Leasehold improvement		18,803	594	38,570	1,193
Less: Accumulated depreciation		(9,140)	(289)	(32,749)	(1,013)
Net property and equipment		92,432	2,921	99,076	3,065
Intangible assets					
Deferred pension cost	2	1,552	49	1,928	60
Other assets					
Operating deposits	4(8)	150,098	4,744	215,098	6,653
Settlement and clearance funds	4(9)	37,435	1,183	56,335	1,742
Guarantee deposits paid	5	21,127	668	19,238	595
Deferred debits		13,851	437	17,415	539
Deferred income tax assets - noncurrent	2,4(15)	1,032	33	3,027	94
Total other assets		223,543	7,065	311,113	9,623
Securities brokerage debit accounts - net	4(10)	2,784	88	18,815	582
Total assets		$4,513,798	$142,661	$4,155,106	$128,522

(The exchange rate of June 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.64 and NT$32.33 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 June 30, 2005 and 2006

(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	June 30, 2005		June 30, 2006	
		NT$	US$	NT$	US$
Current liabilities					
Securities sold under agreements to repurchase	2,4(11),5	$541,181	$17,104	$10,040	$311
Financial liabilities at fair value through profit and loss - current	2,10	14	1	4	-
Securities financing guarantee deposits-in	2	-	-	3,665	113
Deposit payable for securities financing	2	-	-	4,050	125
Accounts payable		2,399	76	4,961	153
Accounts payable - related parties	5	22	1	63	2
Accounts collected in advance		64	2	-	-
Receipts under custody		1,913	60	3,747	116
Other payables		9,905	313	14,097	436
Other payables - related parties	5	-	-	4,385	136
Other financial liabilities - current	2,10	10,515	332	75,282	2,329
Other current liabilities		122	4	37	1
Total current liabilities		566,135	17,893	120,331	3,722
Long-term liabilities					
Other long-term liabilities		-	-	211	6
Other liabilities					
Reserve for default losses	2	4,127	131	10,831	335
Reserve for trading losses	2	-	-	154	5
Guarantee deposits-in		1,958	62	484	15
Accrued pension liability - noncurrent	2	2,919	92	3,204	99
Total other liabilities		9,004	285	14,673	454
Total liabilities		575,139	18,178	135,215	4,182
Stockholders' equity					
Capital stock					
Common stock	4(12)	3,700,000	116,940	3,700,000	114,445
Capital surplus	4(13)	300,000	9,482	258,434	7,994
Retained earnings					
Legal reserve		-	-	5,690	176
Special reserve		-	-	11,380	352
Unappropriated retained earnings (Accumulated deficit)	4(14)	(61,341)	(1,939)	44,387	1,373
Total stockholders' equity		3,938,659	124,483	4,019,891	124,340
Total liabilities and stockholders' equity		$4,513,798	$142,661	$4,155,106	$128,522

(The exchange rate of June 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.64 and NT$32.33 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

For the six months ended June 30, 2005 and 2006

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

ITEMS	NOTES	For the six months ended June 30, 2005 NT$	For the six months ended June 30, 2005 US$	For the six months ended June 30, 2006 NT$	For the six months ended June 30, 2006 US$
Revenue	2,5				
Brokerage commissions		$77,515	$2,450	$114,438	$3,540
Revenue from underwriting commissions		-	-	57	2
Profit from trading securities		-	-	12,830	397
Interest revenue		7,695	243	9,136	282
Dividend revenue		39	1	-	-
Gain on valuation of operating securities		798	25	-	-
Brokerage commissions for introducing futures contracts		854	27	2,862	89
Gain from derivative financial instruments - futures	10	114	4	2,158	67
Gain from derivative financial instruments - GreTai (over-the-counter)	10	4,115	130	-	-
Other operating revenue		899	28	9,809	303
Non-operating revenue and profits		18,128	573	31,595	977
Total revenue		110,157	3,481	182,885	5,657
Expenses	2,5				
Brokerage securities transaction charges		(5,897)	(186)	(8,668)	(268)
Dealing securities transaction charges		(404)	(13)	(709)	(22)
Refinancing transaction fees		-	-	(3)	-
Loss from trading securities		(246)	(7)	-	-
Interest expense		(4,097)	(130)	(621)	(19)
Loss on valuation of operating securities		-	-	(6,497)	(201)
Clearing and settlement fees		(24)	(1)	(251)	(8)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	-	-	(6,480)	(200)
Operating expenses		(120,764)	(3,817)	(149,998)	(4,640)
Non-operating expense and losses		(900)	(28)	-	-
Total expenses		(132,332)	(4,182)	(173,227)	(5,358)
Income (loss) from continuing operations before income taxes		(22,175)	(701)	9,658	299
Income tax (expense) benefit	2,4(15)	2,400	76	(5,273)	(163)
Net income (loss) from continuing operations		(19,775)	(625)	4,385	136
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1)	3	-	-	173	5
Net income (loss)		$(19,775)	$(625)	$4,558	$141
Earnings per share (in dollars)	4(17)				
Net income (loss) from continuing operations		$(0.06)	$(0.0019)	$0.01	$0.0003
Cumulative effect of changes in accounting principles		-	-	-	-
Net income (loss)		$(0.06)	$(0.0019)	$0.01	$0.0003

(The exchange rate of June 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.64 and NT$32.33 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

For the six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

					Retained earnings							
SUMMARY	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings (Accumulated deficit)		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance on January 1, 2005	$3,500,000	$110,619	$-	$-	$-	$-	$-	$-	$(41,566)	$(1,314)	$3,458,434	$109,305
Capital increase from cash contribution	200,000	6,321	300,000	9,482	-	-	-	-	-	-	500,000	15,803
Net loss for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	(19,775)	(625)	(19,775)	(625)
Balance on June 30, 2005	$3,700,000	$116,940	$300,000	$9,482	$-	$-	$-	$-	$(61,341)	$(1,939)	$3,938,659	$124,483
Balance on January 1, 2006	$3,700,000	$114,445	$258,434	$7,994	$-	$-	$-	$-	$56,899	$1,760	$4,015,333	$124,199
Appropriations and distributions of 2005:												
Legal reserve	-	-	-	-	5,690	176	-	-	(5,690)	(176)	-	-
Special reserve	-	-	-	-	-	-	11,380	352	(11,380)	(352)	-	-
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	4,558	141	4,558	141
Balance on June 30, 2006	$3,700,000	$114,445	$258,434	$7,994	$5,690	$176	$11,380	$352	$44,387	$1,373	$4,019,891	$124,340

(The exchange rate of June 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.64 and NT$32.33 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 cash flows

For the six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

ITEMS	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income (loss)	$(19,775)	$(625)	$4,558	$141
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	7,540	238	13,285	411
Amortization	2,203	70	4,143	128
(Gain) loss on valuation of operating securities	(798)	(25)	6,497	201
Gain on valuation of open-end funds and currency market instruments	-	-	(3,736)	(116)
Recoveries on reserve for trading losses	(123)	(4)	(266)	(8)
Reserve for default losses	2,542	80	3,736	116
Investment income recognized by equity method in excess of cash dividends received	-	-	(11,444)	(354)
Loss on disposal of property and equipment	529	17	-	-
Cumulative effect of changes in accounting principles	-	-	(173)	(5)
Changes in assets and liabilities:				
Decrease in securities purchased under agreements to resell	132,221	4,179	-	-
Financial assets at fair value through profit and loss - current				
Decrease in operating securities - dealing	103,334	3,266	4,340	134
(Increase) decrease in operating securities - hedging	163,053	5,153	(16,766)	(519)
Increase in call options - futures	-	-	(11)	-
Increase in margin for futures trading - own funds	(2,127)	(67)	(242,018)	(7,486)
(Increase) decrease in derivative financial instrument assets - GreTai (over-the-counter)	383	12	(5,596)	(173)
(Increase) decrease in receivable amount for margin loans	183,686	5,806	(543,597)	(16,814)
(Increase) decrease in securities refinancing margin deposits	687	22	(499)	(15)
Decrease in notes receivable	-	-	49	1
Decrease in accounts receivable	6,453	204	901	28
Increase in accounts receivable - related parties	(7)	-	(436)	(14)
Increase in prepayments	(32)	(1)	(605)	(19)
(Increase) decrease in other receivables	6,309	199	(1,168)	(36)
Increase in other receivables - related parties	(1,622)	(51)	-	-
(Increase) decrease in other current assets	476	15	(1,590)	(49)
Increase (decrease) in securities sold under agreements to repurchase	(235,146)	(7,432)	10,040	311
Financial liabilities at fair value through profit and loss - current				
Increase (decrease) in put options - futures	14	-	(129)	(4)
Decrease in derivative financial instrument liabilities - GreTai (over-the-counter)	(12,440)	(393)	-	-
Increase (decrease) in securities financing guarantee deposits-in	(743)	(23)	3,665	113
Increase (decrease) in deposit payable for securities financing	(822)	(26)	4,050	125
Decrease in accounts payable	(1,431)	(46)	(1,950)	(60)
Increase in accounts payable - related parties	22	1	20	1
Decrease in accounts collected in advance	(111)	(4)	(5,254)	(163)
Decrease in receipts under custody	(20)	(1)	(20)	(1)
Increase (decrease) in other payables	1,870	59	(589)	(18)
Decrease in other payables - related parties	-	-	(10,647)	(329)
Increase (decrease) in other financial liabilities - current	(203,330)	(6,427)	14,120	437
Increase (decrease) in other current liabilities	82	3	(83)	(3)
Net change in deferred income tax assets/liabilities	(635)	(20)	(1,402)	(43)
Increase in long-term liabilities	-	-	211	7
Increase in accrued pension liability	1,235	39	89	3
Net change in securities brokerage debit accounts - net	711	23	(10,140)	(314)
Net cash provided by (used in) operating activities	134,188	4,241	(788,415)	(24,386)

(The exchange rate of June 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.64 and NT$32.33 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

For the six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

ITEMS	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
	NT$	US$	NT$	US$
Cash flows from investing activities				
Financial assets at fair value through profit and loss - current				
Decrease in open-end funds and currency market instruments	50,000	1,580	154,034	4,764
(Increase) decrease in restricted assets - current	(800,000)	(25,284)	400,000	12,372
Acquisition of long-term investments under equity method	-	-	(710,407)	(21,974)
Acquisition of property and equipment	(64,724)	(2,046)	(6,581)	(203)
Disposal of property and equipment	94	3	-	-
(Increase) decrease in settlement and clearance funds	27,674	875	(13,300)	(411)
Increase in guarantee deposits paid	(1,198)	(38)	(13)	-
Increase in deferred debits	(11,609)	(367)	(3,620)	(112)
Net cash used in investing activities	(799,763)	(25,277)	(179,887)	(5,564)
Cash flows from financing activities				
Increase (decrease) in guarantee deposits-in	1,795	57	(1,154)	(36)
Capital increase from cash contribution	500,000	15,803	-	-
Net cash provided by (used in) financing activities	501,795	15,860	(1,154)	(36)
Decrease in cash and cash equivalents	(163,780)	(5,176)	(969,456)	(29,986)
Cash and cash equivalents at the beginning of period	1,857,623	58,711	1,463,108	45,255
Cash and cash equivalents at the end of period	$1,693,843	$53,535	$493,652	$15,269
Supplemental disclosure of cash flows information				
Interest paid during the period	$4,097	$129	$163	$5
Interest paid (excluding capitalized interest)	$4,097	$129	$163	$5
Income tax paid	$2,090	$66	$17,447	$540

(The exchange rate of June 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$31.64 and NT$32.33 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 financial statements

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

As of June 30, 2005 and 2006

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 June 30, 2006, the Company had 3 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of June 30, 2005 and 2006, the Company had 142 and 167 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 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. 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" which 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 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. 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.

With respect to investments over which the Company has significant influence, the Company must prepare semi-annual and annual consolidated financial statements.

(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$6,186) 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$6,186). 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" and "Enforcement Rules of Income Basic Tax Act" to estimate and file joint 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.

C. The Company brokers futures transactions and collects commissions from futures agencies. Commissions are recognized as "brokerage commissions for introducing futures contracts" on an accrued basis.

(16) 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.

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

(17) 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$31.64 and NT$32.33 to US$1.00 effective on June 30, 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.

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 six months ended June 30, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Cash on hand	$100	$3	$120	$4
Savings accounts	43,497	1,375	20,690	640
Checking accounts	1,350	43	-	-
Time deposits	1,648,896	52,114	472,842	14,625
Total	$1,693,843	$53,535	$493,652	$15,269
Annual interest rate of time deposits	0.95%-1.28%		1.20%-1.56%	

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

As of June 30, 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

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Open-end funds and currency market instruments	$600,000	$18,963	$609,763	$18,861
Operating securities – dealing	23,420	740	80,999	2,505
Operating securities – hedging	6,158	195	48,906	1,513
Call options – futures	-	-	11	-
Margin for futures trading – own funds	2,127	67	303,830	9,398
Derivative financial instrument assets – GreTai (over-the-counter)	820	26	10,842	335
Total	$632,525	$19,991	$1,054,351	$32,612

As of June 30, 2005 and 2006, none of the financial assets at fair value through profit and loss – current were pledged to other parties.

A. Open-end funds and currency market instruments

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Open-end funds	$600,000	$18,963	$605,967	$18,743
Add: Valuation adjustment	-	-	3,796	118
Net	$600,000	$18,963	$609,763	$18,861

As of June 30, 2005, open-end funds and currency market instruments were valued at the lower of cost or market value.

B. Operating securities – dealing

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Real Estate Investment Trusts (REITs)	$-	$-	$30,637	$948
OTC corporate bonds	23,420	740	50,000	1,546
Subtotal	23,420	740	80,637	2,494
Add: Valuation adjustment	-	-	362	11
Net	$23,420	$740	$80,999	$2,505

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

As of June 30, 2005, operating securities – dealing were valued at the lower of cost or market value.

C. Operating securities – hedging

Item	June 30, 2005 NT$	June 30, 2005 US$	June 30, 2006 NT$	June 30, 2006 US$
Listed stocks	$6,240	$197	$38,306	$1,185
GreTai (Over-the-counter) (OTC) stocks	-	-	18,844	583
Subtotal	6,240	197	57,150	1,768
Less: Valuation adjustment	(82)	(2)	(8,244)	(255)
Net	$6,158	$195	$48,906	$1,513

As of June 30, 2005, operating securities – hedging were valued at the lower of cost or market value.

D. Margin for futures trading – own funds

June 30, 2005

Futures trading company	Account balance NT$	Account balance US$	Gain (loss) on outstanding futures contracts NT$	Gain (loss) on outstanding futures contracts US$	Net account value NT$	Net account value US$
Cathay Futures Co., Ltd.	$2,127	$67	$-	$-	$2,127	$67

June 30, 2006

Futures trading company	Account balance NT$	Account balance US$	Gain (loss) on outstanding futures contracts NT$	Gain (loss) on outstanding futures contracts US$	Net account value NT$	Net account value US$
Cathay Futures Co., Ltd.	$303,830	$9,398	$-	$-	$303,830	$9,398

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

See note 10.

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

(3) Securities purchased under agreements to resell

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Central government construction bonds	$540,465	$17,082	$-	$-

As of June 30, 2005, securities purchased under agreements to resell were due within one year with annual interest rates ranging between 1.210%-1.235%. These bonds were made available for resale at an agreed aggregate amount of NT$540,646(US$17,087) between July 4 - July 13, 2005.

(4) Receivable amount for margin loans

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Receivable amount for margin loans	$5,759	$182	$543,597	$16,814
Less: Allowance for bad debts	-	-	-	-
Net	$5,759	$182	$543,597	$16,814

A. For the six months ended June 30, 2005 and 2006, receivable amount for margin loans had an annual interest rate of 6.25%.

B. As of June 30, 2005 and 2006, the market value of securities used for collateral in connection with the Company's margin loan activity were NT$10,081 (US$319) and NT$879,272 (US$27,197), respectively.

(5) Long-term investments under equity method

A.

	June 30, 2005			June 30, 2006		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Cathay Futures Co., Ltd.	$-	$-	-	$721,851	$22,327	99.99%

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

B. The investment income recognized by the equity method as of June 30, 2005 and 2006 are listed below:

Name of investee	For the six months ended June 30, 2005 NT$	For the six months ended June 30, 2005 US$	For the six months ended June 30, 2006 NT$	For the six months ended June 30, 2006 US$
Cathay Futures Co., Ltd.	$-	$-	$11,444	$354

C. The investment income of the subsidiary was determinated based on the audited financial statements of the investee for the same period as the Company.

D. As of June 30, 2005 and 2006, none of the long-term investments under equity method were pledged to other parties.

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

	June 30, 2005			June 30, 2006		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Stock:						
Taiwan International Mercantile Exchange Corporation	$18	$1	-	$18	$1	-

As of June 30, 2005 and 2006, none of the available-for-sale financial assets – noncurrent were pledged to other parties.

(7) Property and equipment

	June 30, 2005					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$67,682	$2,139	$7,318	$231	$60,364	$1,908
Prepayment for equipment	15,087	477	-	-	15,087	477
Leasehold improvement	18,803	594	1,822	58	16,981	536
Total	$101,572	$3,210	$9,140	$289	$92,432	$2,921

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

	June 30, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$85,328	$2,640	$26,391	$816	$58,937	$1,824
Prepayment for equipment	7,927	245	-	-	7,927	245
Leasehold improvement	38,570	1,193	6,358	197	32,212	996
Total	$131,825	$4,078	$32,749	$1,013	$99,076	$3,065

As of June 30, 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$4,744) and NT$215,098 (US$6,653) as of June 30, 2005 and 2006, respectively.

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT$37,435 (US$1,183) and NT$56,335 (US$1,742) in settlement and clearance funds as of June 30, 2005 and 2006, respectively.

(10) Securities brokerage debit accounts – net

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Debit balance:				
Cash and cash equivalents – settlement amount	$147	$5	$303	$9
Proceeds receivable from investors	342,945	10,839	-	-
Clearance	202,843	6,411	-	-
Accounts receivable – brokering	120,601	3,812	701,827	21,708

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

Debit transaction	1,149	36	-	-
Subtotal	667,685	21,103	702,130	21,717
Credit balance:				
Proceeds payable to investors	474,853	15,008	-	-
Accounts payable – brokering	190,048	6,007	455,607	14,092
Clearance	-	-	227,708	7,043
Subtotal	664,901	21,015	683,315	21,135
Net	$2,784	$88	$18,815	$582

(11) Securities sold under agreements to repurchase

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Central government construction bonds	$541,181	$17,104	$-	$-
OTC corporate bonds	-	-	10,040	311
Total	$541,181	$17,104	$10,040	$311

As of June 30, 2005 and 2006, securities sold under agreements to repurchase were due within one year with annual interest rates ranging between 1.025-1.210% and 1.60%, respectively. These bonds were made available for repurchase at an agreed aggregate amount of NT$541,301 (US$17,108) and NT$10,053(US$311) between July 4 – July 13, 2005 and July 28, 2006, respectively.

(12) Capital Stock

A. As of June 30, 2005 and 2006, the Company's total authorized shares and the number of shares outstanding were both 370,000,000 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$15,803) 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$116,940).

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$1,314) 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. As stipulated in the Regulations Governing Securities Firms, the Company shall set aside a 20% special reserve from the annual after-tax profit. However, if the accumulated amount reaches the paid-in capital amount, no further fund needs to be set aside.

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

The special reserve shall not be used for purposes other than covering the losses of the company or, when the special reserve reaches 50% of the amount of paid-in capital, half of it may be used for capitalization.

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".

E. The Company must pay an extra 10% income tax on all unappropriated retained earnings generated during the year.

(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 for the six months ended June 30, 2005 and 2006, are as follows:

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
Item	NT$	US$	NT$	US$
Income (loss) before income taxes	$(22,175)	$(701)	$9,658	$299
Adjustments:				
Interest income taxed on a separate basis	(11,162)	(353)	(10,010)	(310)
Adjusted revenue and expense from dealing departments	14,805	467	14,284	442
Unrealized loss on valuation of operating securities – hedging	-	-	8,069	249
Unrealized gain from derivative financial instruments – GreTai (over-the-counter)	-	-	(6,287)	(194)
Investment income recognized on equity method investments	-	-	(11,444)	(354)
Reserve for default losses	2,542	80	3,736	116
Provision for pensions	-	-	89	3
Others	-	-	(5,385)	(167)
Taxable income	(15,990)	(507)	2,710	84

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

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
Times: tax rates	25%	25%	25%	25%
Subtotal	-	-	678	21
Add: Extra 10% income tax on unappropriated retained earnings	-	-	3,983	123
Less: Tax effects under integrated income tax system	(3,997)	(127)	-	-
Subtotal	(3,997)	(127)	4,661	144
Tax on a separate basis	2,233	71	2,002	62
Deferred tax benefit	(636)	(20)	(1,402)	(43)
Prior years' income tax adjustment	-	-	12	-
Total income tax expense (benefit)	$(2,400)	$(76)	$5,273	$163

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

	June 30, 2005		June 30, 2006	
	NT$	US$	NT$	US$
a. Total deferred income tax assets	$10,072	$319	$5,088	$158
b. Total deferred income tax liabilities	$5	$-	$1,891	$59
c. Temporary differences:				
Reserve for default losses	$4,127	$131	$10,831	$335
Provision for pensions	-	-	1,275	39
Unrealized gain from derivative financial instruments	(18)	(1)	(7,563)	(234)
Unrealized loss on valuation of operating securities – hedging	-	-	8,244	255
Total	$4,109	$130	$12,787	$395
d. Loss carryforwards	$36,158	$1,143	$-	$-
e. Deferred income tax assets – current	$9,040	$286	$2,061	$64
Deferred income tax liabilities – current	(5)	-	(1,891)	(59)
Net deferred income tax assets – current	$9,035	$286	$170	$5
Deferred income tax assets – noncurrent	$1,032	$33	$3,027	$94
Net deferred income tax assets – noncurrent	$1,032	$33	$3,027	$94

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

C. Information related to tax imputation:

	June 30, 2005		June 30, 2006	
	NT$	US$	NT$	US$
Balance of imputation credit account	$3,106	$98	$6,524	$202

	2004	2005
Imputation credit account ratio	-	14.45%

D. Information related to undistributed earnings:

	June 30, 2005		June 30, 2006	
	NT$	US$	NT$	US$
After 1998	$(41,566)	$(1,314)	$39,829	$1,232

Undistributed earnings after 1998 do not include the net income (loss) for the six months ended June 30, 2005 and 2006.

E. The Company's income tax returns of 2004 and 2005 have not been cleared yet.

(16) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the six months ended June 30, 2005 and 2006 are summarized as follows:

Item	For the six months ended June 30, 2005 (NT$)			For the six months ended June 30, 2005 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$62,536	$62,536	$-	$1,976	$1,976
Labor & health insurance expenses	-	3,228	3,228	-	102	102
Pension expenses	-	2,069	2,069	-	65	65
Other expenses	-	2,722	2,722	-	86	86
Depreciation	-	7,540	7,540	-	238	238
Depletion	-	-	-	-	-	-
Amortization	-	2,203	2,203	-	70	70

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2005 and 2006

Item	For the six months ended June 30, 2006 (NT$)			For the six months ended June 30, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$67,853	$67,853	$-	$2,099	$2,099
Labor & health insurance expenses	-	4,201	4,201	-	130	130
Pension expenses	-	3,886	3,886	-	120	120
Other expenses	-	2,659	2,659	-	82	82
Depreciation	-	13,285	13,285	-	411	411
Depletion	-	-	-	-	-	-
Amortization	-	4,143	4,143	-	128	128

(17) Earnings per share

For the six months ended June 30, 2005

	Amount				Shares	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT$	US$	NT$	US$		NT$	US$	NT$	US$
Net loss	$(22,175)	$(701)	$(19,775)	$(625)	351,215,470	$(0.06)	$(0.0019)	$(0.06)	$(0.0019)

For the six months ended June 30, 2006

	Amount				Shares	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT$	US$	NT$	US$		NT$	US$	NT$	US$
Net income from continuing operations	$9,658	$299	$4,385	$136	370,000,000	$0.03	$0.0009	$0.01	$0.0003
Cumulative effect of changes in accounting principles	211	7	173	5	370,000,000	-	-	-	-
Net income	$9,869	$306	$4,558	$141	370,000,000	$0.03	$0.0009	$0.01	$0.0003

(18) Presentation of financial statements

Certain accounts in the financial statements for the six months ended June 30, 2005 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 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
China England Company Ltd.	Affiliated

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

Name	Relationship
Pao Shin Securities Co., Ltd.	Affiliated
Cathay General Hospital	Affiliated
Culture and Charity Foundation of the CUB	Affiliated
Cathay Life Charity Foundation	Affiliated
San-Ching Engineering Co., Ltd.	Affiliated
Cathay Real Estate Development Co., Ltd.	Affiliated

(2) Transactions with related parties

A. Cash in bank

		For the six months ended June 30, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$42,656	0.1%	$58
	Checking accounts	$1,350	-	$-
	Time deposits	$19,000	0.950%-1.285%	$165
	Negotiable certificates of deposit	$2,779,000	0.85%-1.20%	$11,193

		For the six months ended June 30, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$1,348	0.1%	$2
	Checking accounts	$43	-	$-
	Time deposits	$601	0.950%-1.285%	$5
	Negotiable certificates of deposit	$87,832	0.85%-1.20%	$354

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

		For the six months ended June 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$19,964	0.1%	$63
	Negotiable certificates of deposit	$1,220,000	1.43%-1.57%	$10,010

		For the six months ended June 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$618	0.1%	$2
	Negotiable certificates of deposit	$37,736	1.43%-1.57%	$310

As of June 30, 2005 and 2006, except for NT$1,300,000 (US$41,087) and NT$900,000 (US$27,838) 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

	June 30, 2005		June 30, 2006	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$250,000	$7,901	$287,243	$8,885

C. Operating securities

		June 30, 2005		June 30, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	REITs	$-	$-	$18,476	$571

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

D. Securities sold under agreements to repurchase

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
	Ending Balance	Interest expense	Ending balance	Interest expense
Name	NT$	NT$	NT$	NT$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$127,436	$1,263	$-	$-

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
	Ending balance	Interest expense	Ending balance	Interest expense
Name	US$	US$	US$	US$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$4,028	$40	$-	$-

E. Other receivables / (Other payables)

	June 30, 2005		June 30, 2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holdings Co., Ltd.	$4,191	$132	$(4,385)	$(136)

Receivable/payable due to the adoption of the Integrated Income Tax System.

F. Brokerage commissions

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$5,946	$188	$5,418	$168
Cathay Life Insurance Co., Ltd.	40,170	1,270	42,332	1,309
Cathay Century Insurance Co., Ltd.	430	14	684	21
Total	$46,546	$1,472	$48,434	$1,498

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

G. Brokerage commissions for introducing futures contracts

	For the six months ended June 30, 2005				For the six months ended June 30, 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.	$854	$27	$151	$5	$2,862	$89	$651	$20

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

	For the six months ended June 30, 2005							
	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.	$24	$1	$26	$1	$22	$1	$2,127	$67

	For the six months ended June 30, 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.	$251	$8	$270	$8	$63	$2	$303,830	$9,398

I. Rental expenses and guarantee deposits paid

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	NT$	NT$	NT$	NT$
Cathay United Bank Co., Ltd.	$4,785	$3,209	$2,514	$1,318
Cathay Life Insurance Co., Ltd.	7,702	3,647	7,901	3,785
Total	$12,487	$6,856	$10,415	$5,103

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

	For the six months ended June 30, 2005		For the six months ended June 30, 2006	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	US$	US$	US$	US$
Cathay United Bank Co., Ltd.	$151	$101	$78	$41
Cathay Life Insurance Co., Ltd.	243	115	244	117
Total	$394	$216	$322	$158

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

J. Operating expenses

		For the six months ended June 30, 2005		For the six months ended June 30, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$638	$20	$671	$21
Cathay United Bank Co., Ltd.	Other fees	-	-	1,513	47
Symphox Information Co., Ltd.	Cable service	974	31	537	16
	Other fees	250	8	319	10
Subtotal		1,224	39	856	26
Total		$1,862	$59	$3,040	$94

K. Non-operating revenue and profits

		For the six months ended June 30, 2005		For the six months ended June 30, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$-	$-	$1,800	$56

6. Pledged assets

	June 30, 2005		June 30, 2006	
Item	NT$	US$	NT$	US$
Restricted assets – time deposits	$1,300,000	$41,087	$900,000	$27,838

(1) As of June 30, 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.

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

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

7. Other important matters and contingent liabilities

As of June 30, 2006, 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$
July 1, 2006 – June 30, 2007	$21,493	$665
July 1, 2007 – June 30, 2008	7,452	230
July 1, 2008 – June 30, 2009	1,770	55
July 1, 2009 – June 30, 2010	1,770	55
July 1, 2010 – June 30, 2011	590	18
Total	$33,075	$1,023

8. Serious damages

None.

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

	June 30, 2005			
	Carrying amount (NT$)	Fair value (NT$)	Carrying amount (US$)	Fair value (US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$1,693,843	$1,693,843	$53,535	$53,535
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	600,000	600,000	18,963	18,963
Operating securities – net	29,578	29,949	935	947
Securities purchased under agreements to resell	540,465	540,465	17,082	17,082
Receivable amount for margin loans	5,759	5,759	182	182

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

	June 30, 2005			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Receivables – net	10,644	10,644	336	336
Restricted assets – current	1,300,000	1,300,000	41,087	41,087
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	150,098	150,098	4,744	4,744
Settlement and clearance funds	37,435	37,435	1,183	1,183
Guarantee deposits paid	21,127	21,127	668	668
Liabilities:				
Securities sold under agreements to repurchase	541,181	541,181	17,104	17,104
Payables	12,326	12,326	390	390
Derivative				
Assets:				
Financial assets at fair value through profit and loss – current				
Margin for futures trading – own funds	2,127	2,127	67	67
Derivative financial instrument assets – GreTai (over-the-counter)	820	820	26	26
Liabilities:				
Financial liabilities at fair value through profit and loss – current				
Put options – futures	14	14	1	1
Other financial liabilities – current	10,515	10,515	332	332

	June 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$493,652	$493,652	$15,269	$15,269

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

	June 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	609,763	609,763	18,861	18,861
Operating securities – net	129,905	129,905	4,018	4,018
Receivable amount for margin loans	543,597	543,597	16,814	16,814
Securities refinancing margin deposits	499	499	15	15
Receivables – net	6,578	6,578	204	204
Restricted assets – current	900,000	900,000	27,838	27,838
Long-term investments under equity method	721,851	721,851	22,327	22,327
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,653	6,653
Settlement and clearance funds	56,335	56,335	1,742	1,742
Guarantee deposits paid	19,238	19,238	595	595
Liabilities:				
Securities sold under agreements to repurchase	10,040	10,040	311	311
Securities financing guarantee deposits-in	3,665	3,665	113	113
Deposit payable for securities financing	4,050	4,050	125	125
Payables	23,506	23,506	727	727
Derivative				
Assets:				
Financial assets at fair value through profit and loss – current				
Call options – futures	11	11	-	-
Margin for futures trading – own funds	303,830	303,830	9,398	9,398
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	10,842	335	335

	June 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Liabilities:				
Financial liabilities at fair value through profit and loss – current				
Put options – futures	4	4	-	-
Other financial liabilities – current	75,282	75,282	2,329	2,329

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 purchased under agreements to resell, receivable amount for margin loans, securities refinancing margin deposits, 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. Long-term investments under equity method and available-for-sale financial assets – noncurrent are estimated based on market prices, if available. If long-term investments under equity method and available-for-sale financial assets – noncurrent of the Company are not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.

C. 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.

As of June 30, 2006, the following table summarizes the fair value information of financial assets and liabilities:

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

	June 30, 2006			
	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 and loss – current				
Open-end funds and currency market instruments	$609,763	$-	$18,861	$-
Operating securities – net	129,905	-	4,018	-
Call options – futures	11	-	-	-
Margin for futures trading – own funds	303,830	-	9,398	-
Derivative financial instrument assets – GreTai (over-the-counter)	-	10,842	-	335
Liabilities:				
Financial liabilities at fair value through profit and loss – current				
Put options – futures	4	-	-	-
Other financial liabilities – current	-	75,282	-	2,329

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

(2) Financial derivatives

A. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	June 30, 2005		June 30, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Equity-linked notes	NT$10,000 (US$316)	$-	NT$73,200 (US$2,264)	$-

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 hedging positions for derivative instruments and stop-loss points are established, the Company believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

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

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

d. Types, purposes, and strategies for financial derivatives

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

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

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

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

e. Financial statement presentation of derivative financial instruments

As of June 30, 2005 and 2006, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

Balance sheet	June 30, 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$
Equity – linked notes	$820	$26	$10,515	$332

Statement of income	For the six months ended June 30, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Principal guaranteed notes	$3,911	$124	Fair value method
Equity – linked notes	204	6	〃
	$4,115	$130	

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

Balance sheet	June 30, 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	$10,842	$335	$75,282	$2,329

Statement of income	For the six months ended June 30, 2006		
	Loss from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Equity-linked notes	$6,480	$200	Fair value method

B. Futures and options transactions

As of June 30, 2005 and 2006, the Company's unexercised options were as follows:

June 30, 2005

Item	Nature of transaction	Unexercised options		Contract amount/ payment(receipt) of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Options	TXO-Call	Sell	30	$(10)	$-	$4	$-
Options	TXO-Put	Sell	70	$(24)	$(1)	$10	$1

June 30, 2006

Item	Nature of transaction	Unexercised options		Contract amount/ payment(receipt) of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Options	TXO-Put	Sell	1	$(9)	$-	$4	$-
Options	TXO-Put	Buy	30	$54	$2	$11	$-

a. Nominal principal or contract amount and credit risk

	June 30, 2005	
Financial instruments	Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	NT$34 (US$1)	$-

	June 30, 2006	
Financial instruments	Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	NT$63 (US$2)	$-

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 and that, as a result, there is no significant market risk.

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 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.

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

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 and loss – current" and "margin for futures trading – own funds" on the balance sheet. For the six months ended June 30, 2005 and 2006, the related gain (loss) of futures and options on the statements of income were as follows:

	For the six months ended June 30, 2005	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$122	$4
Loss from options transactions	$8	$-
(Includes unrealized gain from options transactions of NT$20 (US$1))		

	For the six months ended June 30, 2006	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$515	$16
(Includes unrealized gain on futures contracts of NT$255(US$8))		
Gain from options transactions	$1,643	$51
(Includes unrealized loss from options transactions of NT$128(US$4))		