Cathay Securities Corporation and Subsidiary
Consolidated Financial Statements
Together with
Review Report
As of June 30, 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 CONSOLIDATED FINANCIAL STATEMENTS

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 consolidated balance sheet of Cathay Securities Corporation (the "Company") and its subsidiary (the "Subsidiary") as of June 30, 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows from January 1 to June 30, 2006. These consolidated 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 review 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 consolidated 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 consolidated 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 ROC.

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

Ernst & Young
Taipei, Taiwan
Republic of China
July 26, 2006

Notice to Readers

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated balance sheet

As of June 30, 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

ASSETS	NOTES	June 30, 2006 NT$	June 30, 2006 US$
Current assets			
Cash and cash equivalents	2,4(1),5	$693,387	$21,447
Financial assets at fair value through profit and loss - current	2,4(2),5,10	750,520	23,214
Receivable amount for margin loans	2,4(3)	543,597	16,814
Securities refinancing margin deposits	2	499	15
Futures trading margin	2,4(4),5	1,193,986	36,931
Receivables for futures trading margin		717	22
Accounts receivable		278	9
Prepayments		2,121	66
Other receivables		13,755	426
Other receivables - related parties	5	3,401	105
Restricted assets - current	6	900,000	27,838
Deferred income tax assets - current	2	170	5
Other current assets		1,765	55
Total current assets		4,104,196	126,947
Funds and investments			
Available-for-sale financial assets - noncurrent	2,4(5)	30,518	944
Property and equipment	2,4(6)		
Land		290,205	8,976
Buildings and construction		24,639	762
Equipment		126,944	3,927
Prepayment for equipment		7,927	245
Leasehold improvement		39,161	1,211
Less: Accumulated depreciation		(56,650)	(1,752)
Net property and equipment		432,226	13,369
Intangible assets			
Deferred pension cost	2	1,928	60
Other assets			
Operating deposits	4(7)	295,098	9,128
Settlement and clearance funds	4(8)	113,335	3,505
Guarantee deposits paid	5	20,485	634
Deferred debits		30,520	944
Deferred income tax assets - noncurrent	2	9,596	297
Total other assets		469,034	14,508
Securities brokerage debit accounts - net	4(9)	18,815	582
Total assets		$5,056,717	$156,410

(The exchange rate of June 30, 2006 provided by the Federal Reserve Bank of New York was NT$32.33 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Cathay Securities Corporation and Subsidiary
Consolidated balance sheet
As of June 30, 2006
(Expressed in thousands of dollars)
(Reviewed, not audited)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	June 30, 2006 NT$	June 30, 2006 US$
Current liabilities			
Securities sold under agreements to repurchase	2,4(10)	$10,040	$311
Financial liabilities at fair value through profit and loss - current	2,10	4	-
Securities financing guarantee deposits-in	2	3,665	113
Deposit payable for securities financing		4,050	125
Futures dealer equity	4(4),5	889,864	27,525
Accounts payable		6,242	193
Receipts under custody		4,007	124
Other payables		16,980	525
Other payables - related parties	5	5,039	156
Other financial liabilities - current	2,10	75,282	2,329
Other current liabilities		37	1
Total current liabilities		1,015,210	31,402
Long-term liabilities			
Other long-term liabilities		211	6
Other liabilities			
Reserve for default losses	2	13,383	414
Reserve for trading losses	2	154	5
Guarantee deposits-in		630	19
Accrued pension liability - noncurrent	2	7,171	222
Total other liabilities		21,338	660
Total liabilities		1,036,759	32,068
Stockholders' equity attributable to equity holders of the parent			
Capital stock			
Common stock	4(11)	3,700,000	114,445
Capital surplus	4(12)	258,434	7,994
Retained earnings			
Legal reserve		5,690	176
Special reserve		11,380	352
Unappropriated retained earnings	4(13)	44,387	1,373
Total stockholders' equity attributable to equity holders of the parent		4,019,891	124,340
Minority interest		67	2
Total stockholders' equity		4,019,958	124,342
Total liabilities and stockholders' equity		$5,056,717	$156,410

(The exchange rate of June 30, 2006 provided by the Federal Reserve Bank of New York was NT$32.33 to US$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated statement of income

For the six months ended June 30, 2006

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

(Reviewed, not audited)

ITEMS	NOTES	For the six months ended June 30, 2006 NT$	US$
Revenue	2,5		
Brokerage commissions		$148,252	$4,586
Revenue from underwriting commissions		57	2
Profit from trading securities		12,830	397
Interest revenue		9,136	282
Gain from derivative financial instruments - futures	10	5,177	160
Other operating revenue		15,396	476
Non-operating revenue and profits		43,193	1,336
Total revenue		234,041	7,239
Expenses	2,5		
Brokerage securities transaction charges		(12,401)	(383)
Dealing securities transaction charges		(530)	(16)
Refinancing transaction fees		(3)	-
Interest expense		(621)	(19)
Loss on valuation of operating securities		(6,497)	(201)
Futures commission expense		(2,771)	(86)
Clearing and settlement fees		(2,836)	(88)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(6,480)	(200)
Operating expenses		(183,114)	(5,664)
Non-operating expense and losses		(9,271)	(287)
Total expenses		(224,524)	(6,944)
Income from continuing operations before income taxes		9,517	295
Income tax expense	2,4(14)	(5,290)	(164)
Consolidated income from continuing operations		4,227	131
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	332	10
Consolidated income		$4,559	$141
Attributable to:			
Parent company		$4,558	$141
Minority interest		1	-
Consolidated income		$4,559	$141
Earnings per share (in dollars)	4(16)		
Consolidated income from continuing operations		$0.01	$0.0003
Cumulative effect of changes in accounting principles		-	-
Consolidated income		$0.01	$0.0003

(The exchange rate of June 30, 2006 provided by the Federal Reserve Bank of New York was NT$32.33 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated statement of changes in stockholders' equity

For the six months ended June 30, 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

SUMMARY	Common stock		Capital surplus		Retained earnings: Legal reserve		Retained earnings: Special reserve		Retained earnings: Unappropriated retained earnings		Minority interest		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
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)	-	-	-	-
Consolidated income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	4,558	141	1	-	4,559	141
Effect of initial consolidation of minority interest	-	-	-	-	-	-	-	-	-	-	66	2	66	2
Balance on June 30, 2006	$3,700,000	$114,445	$258,434	$7,994	$5,690	$176	$11,380	$352	$44,387	$1,373	$67	$2	$4,019,958	$124,342

(The exchange rate of June 30, 2006 provided by the Federal Reserve Bank of New York was NT$32.33 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Cathay Securities Corporation and Subsidiary
Consolidated statement of cash flows
For the six months ended June 30, 2006
(Expressed in thousands of dollars)
(Reviewed, not audited)

ITEMS	For the six months ended June 30, 2006 NT$	US$
Cash flows from operating activities		
Consolidated income	$4,559	$141
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	16,775	519
Amortization	5,308	164
Loss on valuation of operating securities	6,497	201
Gain on valuation of open-end funds and currency market instruments	(3,736)	(116)
Recoveries on reserve for trading losses	(5,444)	(168)
Reserve for default losses	4,413	136
Cumulative effect of changes in accounting principles	(332)	(10)
Changes in assets and liabilities:		
Financial assets at fair value through profit and loss - current		
Decrease in operating securities - dealing	4,340	134
Increase in operating securities - hedging	(16,767)	(519)
Increase in call options - futures	(11)	-
Decrease in margin for futures trading - own funds	61,813	1,912
Increase in derivative financial instrument assets - GreTai (over-the-counter)	(5,596)	(173)
Increase in receivable amount for margin loans	(543,597)	(16,814)
Increase in securities refinancing margin deposits	(499)	(15)
Increase in futures trading margin	(1,193,986)	(36,931)
Increase in receivables for futures trading margin	(717)	(22)
Decrease in notes receivable	49	1
Decrease in accounts receivable	901	28
Decrease in accounts receivable - related parties	215	7
Increase in prepayments	(1,033)	(32)
Increase in other receivables	(9,274)	(287)
Increase in other receivables - related parties	(3,401)	(105)
Increase in other current assets	(1,590)	(49)
Increase in securities sold under agreements to repurchase	10,040	311
Financial liabilities at fair value through profit and loss - current		
Decrease in put options - futures	(129)	(4)
Increase in securities financing guarantee deposits-in	3,665	113
Increase in deposit payable for securities financing	4,050	125
Increase in futures dealer equity	889,864	27,525
Decrease in accounts payable	(669)	(21)
Decrease in accounts payable - related parties	(42)	(1)
Decrease in accounts collected in advance	(5,254)	(163)
Increase in receipts under custody	239	7
Increase in other payables	2,295	71
Decrease in other payables - related parties	(9,993)	(309)
Increase in other financial liabilities - current	14,120	437
Decrease in other current liabilities	(83)	(3)
Net change in deferred income tax assets/liabilities	(7,972)	(246)
Increase in long-term liabilities	211	7
Increase in accrued pension liability	4,055	125
Net change in securities brokerage debit accounts - net	(10,140)	(314)
Net cash used in operating activities	(786,856)	(24,338)

(The exchange rate of June 30, 2006 provided by the Federal Reserve Bank of New York was NT$32.33 to US$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

(Forward)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated statement of cash flows

For the six months ended June 30, 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	For the six months ended June 30, 2006 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	154,034	4,764
Decrease in restricted assets - current	400,000	12,372
Acquisition of property and equipment	(11,312)	(350)
Disposal of property and equipment	2,824	87
Increase in operating deposits	(80,000)	(2,474)
Increase in settlement and clearance funds	(70,300)	(2,174)
Increase in guarantee deposits paid	(1,260)	(39)
Increase in deferred debits	(7,117)	(220)
Net cash provided by investing activities	386,869	11,966
Cash flows from financing activities		
Decrease in guarantee deposits-in	(1,008)	(31)
Net cash used in financing activities	(1,008)	(31)
Effect of initial consolidation of subsidiary	(368,726)	(11,405)
Decrease in cash and cash equivalents	(769,721)	(23,808)
Cash and cash equivalents at the beginning of period	1,463,108	45,255
Cash and cash equivalents at the end of period	$693,387	$21,447
Supplemental disclosure of cash flows information		
Interest paid during the period	$360	$11
Interest paid (excluding capitalized interest)	$360	$11
Income tax paid	$18,140	$561

(The exchange rate of June 30, 2006 provided by the Federal Reserve Bank of New York was NT$32.33 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Notes to unaudited consolidated financial statements

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

As of June 30, 2006

1. Organization and business scope

These consolidated financial statements include the results of Cathay Securities Corporation and its subsidiary Cathay Futures Co., Ltd. The background of these companies is as follows:

(1) 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.

(2) Cathay Futures Co., Ltd. (the "Subsidiary"), formerly Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Law of the ROC and was renamed Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Co., Ltd. Cathay Futures mainly engages in the business of futures brokerage, dealing and consulting. On March 21, 2006, Cathay Futures terminated its futures dealing business.

The ultimate parent company of the Company and Subsidiary is Cathay Financial Holdings Co., Ltd. As of June 30, 2006, the Company and Subsidiary had 189 employees.

2. Summary of significant accounting policies

These consolidated 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) Principles of consolidation

A. The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 7 "Consolidated Financial Statements" for the six months ended June 30, 2006. The consolidated financial statements are required to include all companies in which an investor company holds 50% or more of the investee company's stock with voting rights or has effective control over the investee company. As of and for the six months ended June 30, 2006, the consolidated financial statements include the following:

Investor	Investee	Type of Business	Ownership Interest	Notes
Cathay Securities Corporation	Cathay Futures	Futures business	99.99%	Cathay Securities Corporation holds directly more than 50% of Cathay Futures' stock with voting rights and has effective control.

B. All material inter-company transactions were eliminated in the consolidated financial statements.

(2) 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.

(3) 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.

(4) Financial assets and financial liabilities

The Company and Subsidiary adopted ROC SFAS No. 34 "Accounting for Financial Instruments", "Criteria Governing the Preparation of Financial Reports by Securities Firms" and "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants" 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 and Subsidiary commit 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. 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 and Subsidiary have 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 and Subsidiary 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" and "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", 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 and Subsidiary use 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.

(5) 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.

(6) 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.

(7) 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 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".

(8) Futures trading margin

Futures trading margin includes trading margin deposited by futures brokerage customers and includes bank deposits, margin in futures clearing house and margin in other futures commission merchants.

(9) Property and equipment

Property and equipment are stated at cost. Renewals and leasehold improvements are capitalized and depreciated accordingly; repairs and maintenance are expensed when incurred. Except for land, depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets which are 3~40 years. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements.

(10) Accounting for asset impairment

Pursuant to ROC SFAS No. 35, the Company and Subsidiary assess 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 and Subsidiary 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 and Subsidiary 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 and Subsidiary 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 and Subsidiary 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).

(11) Accounting for impairment of financial assets

The Company and Subsidiary assess 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.

(12) Reserve for default losses

According to the Regulations Governing Securities Firms, 0.0028% of the value of securities traded for customer brokerage accounts must be provided for by the Company on a monthly basis as a reserve for default losses.

The reserve for default losses referred to in the preceding paragraph can only be used for offsetting actual losses resulting from customer defaults on securities transactions or other purposes 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.

According to the Regulations Governing Futures Commission Merchants, 2% of futures brokerage commission income must be provided for by the Subsidiary on an annual basis as a reserve for default losses. Such reserve can only be used for covering losses resulting from futures trading in customers' accounts or other purposes approved by the SFB.

(13) Reserve for trading losses

According to the Regulations Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided for by the Company 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.

According to the Regulations Governing Futures Commission Merchants, 10% of the net realized gain on trading futures contracts must be provided for by the Subsidiary as a reserve for trading losses on a monthly basis. When the accumulated reserve for trading losses reaches the minimum levels of paid-in capital, operating funds or working capital required by law, reserving will be suspended. Such reserve can only be used to offset net losses on trading futures contracts.

(14) Pension

The Company and Subsidiary have established a retirement plan and 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 Subsidiary. Therefore, they are not reflected in the accompanying consolidated financial statements.

The Company and Subsidiary 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 and Subsidiary 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 and Subsidiary 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.

(15) Income taxes

The Company and Subsidiary 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 (Cathay Financial Holdings Co., Ltd.) 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.

Effective from January 1, 2006, the Subsidiary adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate and file income basic tax.

(16) Recognition of revenue and expenses

The Company and Subsidiary'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/futures 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.

(17) Foreign currency transactions

Cathay Futures' transactions are based on NT dollars. Any foreign currency transactions are recorded in NT dollars at the rate of exchange in effect when the transaction occurs. Gains or losses resulting from adjustments or settlements of foreign currency denominated assets and liabilities are credited or charged to income in the period of actual receipt or settlement. As of the balance sheet date, the balances of foreign currency denominated assets and liabilities are restated at the prevailing balance sheet date exchange rate, and exchange gains or losses are credited or charged to current income.

If foreign currency denominated non-monetary assets and liabilities are measured at fair value with gains or losses recognized as a separate component of stockholders' equity at the balance sheet date, the exchange gains or losses are recognized as a separate component of stockholders' equity. Similarly, if they are measured at fair value with gains or losses recognized in current period earnings at the balance sheet, the exchange gains or losses are recognized in current period earnings. If they are measured at cost, they will be converted at the historical rate at the time of the transaction.

(18) Convenience translation into US dollars

These consolidated financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these consolidated financial statements solely for the convenience of the reader using the noon buying rate of NT$32.33 to US$1.00 effective on June 30, 2006 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.

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

3. Changes in accounting and their effects

The Company and Subsidiary 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 consolidated financial statements beginning on and after January 1, 2006 (the "Effective Date").

At the Effective Date, the Company and Subsidiary 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 and Subsidiary's current assets and current liabilities by NT$370 (US$11) and NT$38 (US$1) as of January 1, 2006, respectively, and increased consolidated income and earnings per share by NT$332 (US$10) and NT$0.0009 (US$0.00003) (dollars), respectively, for the six months ended June 30, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	June 30, 2006	
Item	NT$	US$
Cash on hand	$170	$5
Savings accounts	38,101	1,179
Checking accounts	2,274	70
Time deposits	652,842	20,193
Total	$693,387	$21,447
Annual interest rate of time deposits	1.09%-1.56%	

As of June 30, 2006, none of the cash and cash equivalents were pledged to other parties.

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

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

Item	June 30, 2006 NT$	June 30, 2006 US$
Open-end funds and currency market instruments	$609,762	$18,861
Operating securities – dealing	80,999	2,505
Operating securities – hedging	48,906	1,513
Call options – futures	11	-
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	335
Total	$750,520	$23,214

As of June 30, 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

Item	June 30, 2006 NT$	June 30, 2006 US$
Open-end funds	$605,966	$18,743
Add: Valuation adjustment	3,796	118
Net	$609,762	$18,861

B. Operating securities – dealing

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

C. Operating securities – hedging

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

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

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

See note 10.

(3) Receivable amount for margin loans

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

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

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

(4) Futures trading margin and futures dealer equity

	June 30, 2006 NT$	June 30, 2006 US$
Bank deposits	$761,910	$23,567
Margin in futures clearing house	425,755	13,169
Margin in other futures commission merchants	6,321	195
Futures trading margin	1,193,986	36,931
Add: Commission	36	2
Less: Service charges and interest revenue	(328)	(10)
Margin for futures trading-own funds of the Company	(303,830)	(9,398)
Futures dealer equity	$889,864	$27,525

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

Name of investee	June 30, 2006 NT$	US$	Percentage of ownership
Stock:			
Taiwan Futures Exchange Corporation	$30,518	$944	1.53%

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

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

(6) Property and equipment

	June 30, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Land	$290,205	$8,976	$-	$-	$290,205	$8,976
Building and construction	24,639	762	4,833	149	19,806	613
Equipment	126,944	3,927	45,450	1,406	81,494	2,521
Prepayment for equipment	7,927	245	-	-	7,927	245
Leasehold improvement	39,161	1,211	6,367	197	32,794	1,014
Total	$488,876	$15,121	$56,650	$1,752	$432,226	$13,369

As of June 30, 2006, none of the property and equipment were pledged to other parties.

(7) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, the Regulations Governing Futures Advisory Enterprises and the Rules Governing Futures Commission Merchants, the Company and Subsidiary provided time deposits as operating deposits amounting to NT$295,098 (US$9,128) as of June 30, 2006.

(8) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms, OTC regulations and the Taiwan Futures Exchange Corporation Exchange Fee Schedule, the Company and Subsidiary deposited NT$113,335 (US$3,505) in settlement and clearance funds as of June 30, 2006.

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

(9) Securities brokerage debit accounts – net

Item	June 30, 2006 NT$	US$
Debit balance:		
Cash and cash equivalents – settlement amount	$303	$9
Accounts receivable – brokering	701,827	21,708
Subtotal	702,130	21,717
Credit balance:		
Accounts payable – brokering	455,607	14,092
Clearance	227,708	7,043
Subtotal	683,315	21,135
Net	$18,815	$582

(10) Securities sold under agreements to repurchase

Item	June 30, 2006 NT$	US$
OTC corporate bonds	$10,040	$311

As of June 30, 2006, securities sold under agreements to repurchase were due within one year with an annual interest rate of 1.60%. These bonds were made available for repurchase at an agreed aggregate amount of NT$10,053 (US$311) due July 28, 2006.

(11) Capital Stock

A. As of June 30, 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.

(12) Capital surplus

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.

(13) Unappropriated retained earnings

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.

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".

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

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

(14) Income taxes

A. Income tax expense includes the following:

	For the six months ended June 30, 2006	
	NT$	US$
Expected income tax payable	$678	$21
Add: Tax on a separate basis	2,002	62
Extra 10% income tax on unappropriated retained earnings	3,983	123
Prior years' income tax adjustment	12	1
Less: Deferred tax benefit	(735)	(23)
Loss carryforwards	(650)	(20)
Total income tax expense	$5,290	$164

B. Income tax returns:

	Income tax returns assessed
The Company	-
The Subsidiary	Assessed through 2004

C. Information related to tax imputation

a. Balance of imputation credit account

	June 30, 2006	
	NT$	US$
The Company	$6,524	$202
The Subsidiary	12,282	380

b. Imputation credit account ratio

	2005
The Company	14.45%
The Subsidiary	-

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

D. Information related to undistributed earnings - the Company:

	June 30, 2006	
	NT$	US$
After 1998	$39,829	$1,232

Undistributed earnings after 1998 do not include the net income for the six months ended June 30, 2006.

(15) Personnel, depreciation, depletion and amortization expenses

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

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	$-	$79,078	$79,078	$-	$2,446	$2,446
Labor & health insurance expenses	-	5,068	5,068	-	157	157
Pension expenses	-	4,629	4,629	-	143	143
Other expenses	-	3,501	3,501	-	108	108
Depreciation	-	16,775	16,775	-	519	519
Depletion	-	-	-	-	-	-
Amortization	-	5,308	5,308	-	164	164

(16) Earnings per share

	For the six months ended June 30, 2006				
	Amount		Shares	EPS (in dollars)	
	NT$	US$		NT$	US$
Consolidated income from continuing operations	$4,227	$131	370,000,000	$0.01	$0.0003
Cumulative effect of changes in accounting principles	332	10	370,000,000	-	-
Consolidated income	$4,559	$141	370,000,000	$0.01	$0.0003

5. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent 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
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

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

(2) Transactions with related parties

A. Cash in bank

Name	Item	For the six months ended June 30, 2006 Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$37,374	0.01%-1.20%	$132
	Checking accounts	$2,274	-	$-
	Time deposits	$1,400,000	1.00%-1.57%	$11,350

Name	Item	For the six months ended June 30, 2006 Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$1,156	0.01%-1.20%	$4
	Checking accounts	$70	-	$-
	Time deposits	$43,303	1.00%-1.57%	$351

As of June 30, 2006, except for NT$900,000 (US$27,838) pledged as collateral for the over-loaning of settlement accounts and recognized under restricted assets, the remaining time deposits have not been pledged as collateral.

B. Open-end funds and currency market instruments

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

C. Operating securities

Name	Description	June 30, 2006 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. Futures trading margin

	June 30, 2006			
	Ending balance		Interest income	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$748,936	$23,165	$5,191	$161
Interest rate	0.01%-2.10%			

E. Other receivables

	June 30, 2006	
Name	NT$	US$
Cathay United Bank Co., Ltd.	$577	$18
Others	2,824	87
Total	$3,401	$105

F. Futures dealer equity

	June 30, 2006	
Name	NT$	US$
Cathay Life Insurance Co., Ltd.	$668,050	$20,663
Cathay United Bank Co., Ltd.	4,775	148
Cathay Century Insurance Co., Ltd.	6,158	191
Total	$678,983	$21,002

G. Other payables

	June 30, 2006	
Name	NT$	US$
Cathay Financial Holdings Co., Ltd. (see note)	$4,385	$136
Symphox Information Co., Ltd.	360	11
Others	294	9
Total	$5,039	$156

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

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

H. Brokerage commissions

Name	For the six months ended June 30, 2006 NT$	US$
Cathay United Bank Co., Ltd.	$5,526	$171
Cathay Life Insurance Co., Ltd.	46,153	1,428
Cathay Century Insurance Co., Ltd.	723	22
Total	$52,402	$1,621

I. Rental expenses and guarantee deposits paid

	For the six months ended June 30, 2006		For the six months ended June 30, 2006	
Name	Rental expenses NT$	Guarantee deposits paid NT$	Rental expenses US$	Guarantee deposits paid US$
Cathay United Bank Co., Ltd.	$2,517	$1,320	$78	$41
Cathay Life Insurance Co., Ltd.	8,221	3,907	254	121
Symphox Information Co., Ltd.	1,057	-	33	-
Total	$11,795	$5,227	$365	$162

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

J. Operating expenses

Name	Description	For the six months ended June 30, 2006 NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$991	$31
Cathay United Bank Co., Ltd.	Advertisement	461	14
	Other fees	1,513	47
Subtotal		1,974	61
Symphox Information Co., Ltd.	Cable service	537	16
	Other fees	319	10
Subtotal		856	26
Total		$3,821	$118

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

K. Non-operating revenue and profits

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

6. Pledged assets

Name	June 30, 2006 NT$	US$
Restricted assets – time deposits	$900,000	$27,838

(1) As of June 30, 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.

7. Other important matters and contingent liabilities

(1) 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:

Year	Amount 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

(2) The Subsidiary:

None.

8. Serious damages

None.

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

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

	June 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$693,387	$693,387	$21,447	$21,447
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	609,762	609,762	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
Futures trading margin	1,193,986	1,193,986	36,931	36,931
Receivables for futures trading margin	717	717	22	22
Receivables – net	17,434	17,434	540	540
Restricted assets – current	900,000	900,000	27,838	27,838
Available-for-sale financial assets – noncurrent	30,518	30,518	944	944
Operating deposits	295,098	295,098	9,128	9,128
Settlement and clearance funds	113,335	113,335	3,505	3,505
Guarantee deposits paid	20,485	20,485	634	634
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
Futures dealer equity	889,864	889,864	27,525	27,525

(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$)	(US$)
Payables	28,261	28,261	874	874
Derivative				
Assets:				
Financial assets at fair value through profit and loss – current				
Call options – futures	11	11	-	-
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	10,842	335	335
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, receivable amount for margin loans, securities refinancing margin deposits, futures trading margin, receivables for futures trading margin, 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, futures dealer equity and payables.

B. Available-for-sale financial assets – noncurrent are estimated based on market prices, if available. If available-for-sale financial assets – noncurrent are not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.

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

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 and the Subsidiary 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:

	June 30, 2006			
	Based on quoted market price	Based on valuation method	Based on quoted market price	Based on valuation method
Assets:	(NT$)	(NT$)	(US$)	(US$)
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	$609,762	$-	$18,861	$-
Operating securities – net	129,905	-	4,018	-
Call options – futures	11	-	-	-
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 - the Company

a. Nominal principal or contract amount and credit risk

	June 30, 2006	
Financial instruments	Nominal principal/ contract amount	Credit risk
For trading purposes		
Equity-linked notes	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.

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.

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

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. Consolidated financial statement presentation of derivative financial instruments

As of June 30, 2006, the disclosure of structured notes transactions on the consolidated balance sheet and consolidated statement of income are summarized as follows:

Consolidated 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

Consolidated 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 - the Company and Subsidiary

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

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

The Company and Subsidiary believe they have no significant credit risk exposure since they entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

b. Market risk

The Company and Subsidiary'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 and Subsidiary believe they can limit 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 and Subsidiary's trading in Taiwan stock index futures require an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, the Company and Subsidiary have sufficient working capital to meet their requirements, and hence the Company and Subsidiary believe funding risk and cash flow risk are low.

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

With respect to the Company and Subsidiary's trading in options, prior to any transaction the Company and Subsidiary pay or receive option premium. If the Company and Subsidiary sell call options and the counterparty exercises its option, the Company and Subsidiary have sufficient working capital to cover the exercise and hence the Company and Subsidiary believe 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 improve its capital efficiency.

e. Consolidated financial statement presentation of derivative financial instruments

For the six months ended June 30, 2006, the related gain (loss) of futures and options on the consolidated statement of income was as follows:

	For the six months ended June 30, 2006	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$739	$23
(Includes unrealized gain on futures contracts of NT$255 (US$8))		
Gain from options transactions	$4,438	$137
(Includes unrealized loss from options transactions of NT$128 (US$4))		