Cathay Securities Corporation

Financial Statements

Nine-Month Periods Ended September 30, 2005 and 2006

With Independent Auditors' Review Report

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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<u>English Translation of Review Report Originally Issued in Chinese</u>

Review report of independent accountants

To: Board of Directors
Cathay Securities Corporation

We have reviewed the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of September 30, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows from January 1 to September 30, 2005 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

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

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

Ernst & Young
Taipei, Taiwan
Republic of China
October 14, 2006

<u>Notice to Readers</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited balance sheets

As of September 30, 2005 and 2006

(Expressed in thousands of dollars)

ASSETS	NOTES	September 30, 2005 NT$	September 30, 2005 US$	September 30, 2006 NT$	September 30, 2006 US$
Current assets					
Cash and cash equivalents	2,4(1),5	$1,550,942	$46,743	$738,059	$22,298
Financial assets at fair value through profit or loss - current	2,4(2),5,10	1,052,989	31,736	1,116,742	33,738
Securities purchased under agreements to resell	2,4(3),5	532,067	16,036	-	-
Receivable amount for margin loans	2,4(4)	-	-	567,915	17,158
Accounts receivable		2,590	78	120	4
Accounts receivable - related parties	5	158,134	4,766	38,304	1,157
Prepayments		1,110	34	1,482	45
Other receivables		3,722	112	8,401	254
Restricted assets - current	6	1,300,000	39,180	600,000	18,127
Other current assets		1,427	43	1,898	57
Total current assets		4,602,981	138,728	3,072,921	92,838
Funds and investments					
Long-term investments under equity method	2,4(5)	-	-	722,374	21,824
Available-for-sale financial assets - noncurrent	2,4(6)	18	1	18	1
Total funds and investments		18	1	722,392	21,825
Property and equipment	2,4(7),5				
Equipment		78,724	2,372	91,823	2,774
Prepayment for equipment		9,283	280	88	2
Leasehold improvement		25,593	771	51,763	1,564
Less: Accumulated depreciation		(13,488)	(406)	(40,126)	(1,212)
Net property and equipment		100,112	3,017	103,548	3,128
Intangible assets					
Deferred pension cost	2	1,552	47	1,928	58
Other assets					
Operating deposits	4(8)	150,098	4,524	215,098	6,499
Settlement and clearance funds	4(9)	37,435	1,128	56,335	1,702
Guarantee deposits paid	5	21,560	650	29,239	883
Deferred debits	5	14,722	444	15,570	470
Deferred income tax assets - noncurrent	2,4(16)	1,347	40	3,482	105
Total other assets		225,162	6,786	319,724	9,659
Securities brokerage debit accounts - net	4(10)	3,427	103	-	-
Total assets		$4,933,252	$148,682	$4,220,513	$127,508

(The exchange rate of September 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$33.18 and NT$33.10 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
Unaudited balance sheets
As of September 30, 2005 and 2006
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	September 30, 2005 NT$	September 30, 2005 US$	September 30, 2006 NT$	September 30, 2006 US$
Current liabilities					
Securities sold under agreements to repurchase	2,4(11)	$796,707	$24,012	$-	$-
Financial liabilities at fair value through profit or loss - current	2,4(12),10	177	5	724	22
Securities financing guarantee deposits-in	2	-	-	11,434	346
Deposit payable for securities financing	2	-	-	12,642	382
Accounts payable		1,767	53	2,910	88
Accounts payable - related parties	5	23	1	108	3
Receipts under custody		3,469	105	5,076	153
Other payables		18,536	559	17,977	543
Other payables - related parties	5	19,437	586	7,367	223
Deferred income tax liability - current	2,4(16)	5	-	67	2
Other financial liabilities - current	10	51,105	1,540	42,408	1,281
Other current liabilities		105	3	52,101	1,574
Total current liabilities		891,331	26,864	152,814	4,617
Long-term liabilities					
Other long-term liabilities		-	-	371	11
Other liabilities					
Reserve for default losses	2	5,390	163	12,155	367
Reserve for trading losses	2	52	2	-	-
Guarantee deposits-in		1,638	49	299	9
Accrued pension liability - noncurrent	2	3,235	97	3,702	112
Total other liabilities		10,315	311	16,156	488
Securities brokerage credit accounts - net	4(10)	-	-	16,717	505
Total liabilities		901,646	27,175	186,058	5,621
Stockholders' equity					
Capital stock					
Common stock	4(13)	3,700,000	111,513	3,700,000	111,782
Capital surplus	4(14)	258,434	7,789	258,434	7,808
Retained earnings	4(15)				
Legal reserve		-	-	5,690	172
Special reserve		-	-	11,380	344
Unappropriated retained earnings		73,172	2,205	58,951	1,781
Total stockholders' equity		4,031,606	121,507	4,034,455	121,887
Total liabilities and stockholders' equity		$4,933,252	$148,682	$4,220,513	$127,508

(The exchange rate of September 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$33.18 and NT$33.10 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
Unaudited statements of income
For the nine months ended September 30, 2005 and 2006
(Expressed in thousands of dollars, except for earnings per share)

ITEMS	NOTES	For the nine months ended September 30, 2005 NT$	For the nine months ended September 30, 2005 US$	For the nine months ended September 30, 2006 NT$	For the nine months ended September 30, 2006 US$
Revenue	2,5				
Brokerage commissions		$116,572	$3,513	$155,223	$4,690
Revenue from underwriting commissions		158,761	4,785	38,523	1,164
Profit from trading securities		-	-	8,853	267
Interest revenue		10,493	316	17,738	536
Dividend revenue		423	13	1,679	51
Profit from issuing call (put) warrants	10	-	-	331	10
Brokerage commissions for introducing futures contracts		1,331	40	4,283	129
Gain from derivative financial instruments - futures	10	624	18	2,772	84
Gain from derivative financial instruments - GreTai (over-the-counter)	10	5,828	176	-	-
Other operating revenue		1,851	56	10,455	316
Non-operating revenue and profits		27,901	841	40,892	1,235
Total revenue		323,784	9,758	280,749	8,482
Expenses	2,5				
Brokerage securities transaction charges		(8,829)	(266)	(11,738)	(355)
Dealing securities transaction charges		(643)	(19)	(1,078)	(32)
Refinancing transaction fees		-	-	(4)	-
Underwriting transaction fees		(10)	-	-	-
Loss from trading securities		(3,209)	(97)	-	-
Interest expense		(6,570)	(198)	(824)	(25)
Loss on valuation of operating securities		(889)	(27)	(897)	(27)
Expenses for issuing call (put) warrants		-	-	(64)	(2)
Clearing and settlement fees		(48)	(2)	(383)	(12)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	-	-	(8,233)	(249)
Operating expenses		(195,797)	(5,901)	(227,379)	(6,869)
Non-operating expense and losses		(2,229)	(67)	-	-
Total expenses		(218,224)	(6,577)	(250,600)	(7,571)
Income from continuing operations before income taxes		105,560	3,181	30,149	911
Income tax expense	2,4(16)	(32,388)	(976)	(11,200)	(338)
Net income from continuing operations		73,172	2,205	18,949	573
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	-	-	173	5
Net income		$73,172	$2,205	$19,122	$578
Earnings per share (in dollars)	4(18)				
Net income from continuing operations		$0.20	$0.006	$0.05	$0.002
Cumulative effect of changes in accounting principles		-	-	-	-
Net income		$0.20	$0.006	$0.05	$0.002

(The exchange rate of September 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$33.18 and NT$33.10 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

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2005 and 2006

(Expressed in thousands of dollars)

SUMMARY	Common stock		Capital surplus		Retained earnings: Legal reserve		Retained earnings: Special reserve		Retained earnings: Unappropriated retained earnings		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance on January 1, 2005	$3,500,000	$105,485	$-	$-	$-	$-	$-	$-	$(41,566)	$(1,253)	$3,458,434	$104,232
Capital increase from cash contribution	200,000	6,028	300,000	9,042	-	-	-	-	-	-	500,000	15,070
Make up accumulated deficit using capital surplus	-	-	(41,566)	(1,253)	-	-	-	-	41,566	1,253	-	-
Net income for the nine months ended September 30, 2005	-	-	-	-	-	-	-	-	73,172	2,205	73,172	2,205
Balance on September 30, 2005	$3,700,000	$111,513	$258,434	$7,789	$-	$-	$-	$-	$73,172	$2,205	$4,031,606	$121,507
Balance on January 1, 2006	$3,700,000	$111,782	$258,434	$7,808	$-	$-	$-	$-	$56,899	$1,719	$4,015,333	$121,309
Appropriations and distributions of 2005:												
Legal reserve	-	-	-	-	5,690	172	-	-	(5,690)	(172)	-	-
Special reserve	-	-	-	-	-	-	11,380	344	(11,380)	(344)	-	-
Net income for the nine months ended September 30, 2006	-	-	-	-	-	-	-	-	19,122	578	19,122	578
Balance on September 30, 2006	$3,700,000	$111,782	$258,434	$7,808	$5,690	$172	$11,380	$344	$58,951	$1,781	$4,034,455	$121,887

(The exchange rate of September 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$33.18 and NT$33.10 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
Unaudited statements of cash flows
For the nine months ended September 30, 2005 and 2006
(Expressed in thousands of dollars)

ITEMS	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income	$73,172	$2,205	$19,122	$578
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	12,814	386	20,660	624
Amortization	4,332	131	6,974	211
Loss on valuation of operating securities	889	27	897	27
Gain on valuation of open-end funds and currency market instruments	-	-	(5,301)	(160)
Recoveries on reserve for trading losses	(71)	(2)	(420)	(13)
Reserve for default losses	3,805	115	5,060	153
Investment income recognized by equity method in excess of cash dividends received	-	-	(11,967)	(362)
Loss on disposal of property and equipment	1,779	54	-	-
Cumulative effect of changes in accounting principles	-	-	(173)	(5)
Changes in assets and liabilities:				
Decrease in securities purchased under agreements to resell	140,619	4,238	-	-
Financial assets at fair value through profit or loss - current				
Increase in operating securities - dealing	(133,734)	(4,031)	(107,920)	(3,260)
Decrease in operating securities - hedging	136,680	4,119	22,918	692
Increase in call options - futures	(25)	(1)	-	-
Increase in margin for futures trading - own funds	(31,100)	(937)	(242,742)	(7,333)
(Increase) decrease in derivative financial instrument assets - GreTai (over-the-counter)	(4,302)	(130)	2,136	65
(Increase) decrease in receivable amount for margin loans	189,445	5,710	(567,915)	(17,157)
Decrease in securities refinancing margin deposits	687	21	-	-
Decrease in notes receivable	-	-	49	1
Decrease in accounts receivable	6,248	188	1,059	32
Increase in accounts receivable - related parties	(157,990)	(4,761)	(38,089)	(1,151)
Increase in prepayments	(269)	(8)	(395)	(12)
(Increase) decrease in other receivables	6,505	196	(3,920)	(118)
Decrease in other receivables - related parties	2,569	77	-	-
Increase in other current assets	(626)	(19)	(1,723)	(52)
Increase in securities sold under agreements to repurchase	20,380	614	-	-
Financial liabilities at fair value through profit or loss - current				
Increase in liabilities for issuance of call (put) warrants	-	-	638	19
Increase (decrease) in put options - futures	177	5	(131)	(4)
Increase (decrease) in derivative financial instrument liabilities - GreTai (over-the-counter)	(12,440)	(375)	84	3
Increase (decrease) in securities financing guarantee deposits-in	(743)	(22)	11,434	346
Increase (decrease) in deposit payable for securities financing	(822)	(25)	12,642	382
Decrease in accounts payable	(2,063)	(62)	(4,001)	(121)
Increase in accounts payable - related parties	23	1	66	2
Decrease in accounts collected in advance	(175)	(5)	(5,254)	(159)
Increase in receipts under custody	1,535	46	1,309	40
Increase in other payables	10,501	316	3,292	99
Increase (decrease) in other payables - related parties	19,437	586	(7,664)	(232)
Decrease in other financial liabilities - current	(162,740)	(4,905)	(18,755)	(567)
Increase in other current liabilities	65	2	51,981	1,570
Net change in deferred income tax assets/liabilities	8,088	243	(1,620)	(49)
Increase in long-term liabilities	-	-	371	11
Increase in accrued pension liability	1,551	47	587	18
Net change in securities brokerage debit/credit accounts - net	68	2	25,392	767
Net cash provided by (used in) operating activities	134,269	4,046	(831,319)	(25,115)

(The exchange rate of September 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$33.18 and NT$33.10 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

Unaudited statements of cash flows

For the nine months ended September 30, 2005 and 2006

(Expressed in thousands of dollars)

ITEMS	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
	NT$	US$	NT$	US$
Cash flows from investing activities				
Financial assets at fair value through profit or loss - current				
(Increase) decrease in open-end funds and currency market instruments	(75,027)	(2,261)	164,365	4,966
(Increase) decrease in restricted assets - current	(800,000)	(24,111)	700,000	21,148
Acquisition of long-term investments under equity method	-	-	(710,407)	(21,462)
Acquisition of property and equipment	(79,684)	(2,402)	(18,429)	(557)
Disposal of property and equipment	852	26	-	-
(Increase) decrease in settlement and clearance funds	27,674	834	(13,300)	(402)
Increase in guarantee deposits paid	(1,631)	(49)	(10,014)	(303)
Increase in deferred debits	(14,609)	(440)	(4,606)	(139)
Net cash provided by (used in) investing activities	(942,425)	(28,403)	107,609	3,251
Cash flows from financing activities				
Increase (decrease) in guarantee deposits-in	1,475	44	(1,339)	(41)
Capital increase from cash contribution	500,000	15,070	-	-
Net cash provided by (used in) financing activities	501,475	15,114	(1,339)	(41)
Decrease in cash and cash equivalents	(306,681)	(9,243)	(725,049)	(21,905)
Cash and cash equivalents at the beginning of period	1,857,623	55,986	1,463,108	44,203
Cash and cash equivalents at the end of period	$1,550,942	$46,743	$738,059	$22,298
Supplemental disclosure of cash flows information				
Interest paid during the period	$6,432	$194	$187	$6
Interest paid (excluding capitalized interest)	$6,432	$194	$187	$6
Income tax paid	$4,496	$136	$20,800	$628

(The exchange rate of September 30, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$33.18 and NT$33.10 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to unaudited financial statements

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

As of September 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 September 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 September 30, 2005 and 2006, the Company had 148 and 174 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 or loss", "held-to-maturity financial assets", "derivative financial assets for hedging" "investments in debt securities with no active market" or "available-for-sale financial assets", and accordingly, are initially recognized at fair value. Financial liabilities are categorized as "financial liabilities at fair value through profit or loss", "derivative financial liabilities for hedging", or "financial liabilities carried at cost".

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

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as financial assets held for trading or financial assets at fair value through profit or loss. Gains or 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 or 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 at fair value through profit or loss

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

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

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

(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$6,042) 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$6,042). 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$33.18 and NT$33.10 to US$1.00 effective on September 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 or 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$6) 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 nine months ended September 30, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Cash on hand	$100	$3	$120	$4
Savings accounts	23,152	698	64,586	1,951
Checking accounts	1,346	40	3	-
Time deposits	1,526,344	46,002	673,350	20,343
Total	$1,550,942	$46,743	$738,059	$22,298
Annual interest rate of time deposits	0.95%~1.35%		1.20%~1.63%	

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

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

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Open-end funds and currency market instruments	$725,027	$21,851	$600,997	$18,157
Operating securities – dealing	259,725	7,828	193,074	5,833
Operating securities – hedging	31,607	953	15,007	453
Call options – futures	25	1	-	-
Margin for futures trading – own funds	31,100	937	304,555	9,201
Derivative financial instrument assets – GreTai (over-the-counter)	5,505	166	3,109	94
Total	$1,052,989	$31,736	$1,116,742	$33,738

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

A. Open-end funds and currency market instruments

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Open-end funds	$725,027	$21,851	$595,636	$17,995
Add: Valuation adjustment	-	-	5,361	162
Net	$725,027	$21,851	$600,997	$18,157

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

B. Operating securities – dealing

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Listed stocks	$-	-	$139	$4
Real Estate Investment Trusts (REITs)	-	-	142,758	4,313
Central government construction bonds	258,103	7,779	-	-
OTC corporate bonds	2,385	72	50,000	1,511
Subtotal	260,488	7,851	192,897	5,828
Add(Less): Valuation adjustment	(763)	(23)	177	5
Net	$259,725	$7,828	$193,074	$5,833

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

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

C. Operating securities – hedging

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Listed stocks	$29,990	$904	$8,526	$257
GreTai (Over-the-counter) (OTC) stocks	2,623	79	8,940	270
Subtotal	32,613	983	17,466	527
Less: Valuation adjustment	(1,006)	(30)	(2,459)	(74)
Net	$31,607	$953	$15,007	$453

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

D. Margin for futures trading – own funds

	September 30, 2005					
Futures trading company	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$31,107	$937	$(7)	$-	$31,100	$937

	September 30, 2006					
Futures trading company	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$304,656	$9,204	$(101)	$(3)	$304,555	$9,201

See note 10 for details of the Company's unexercised futures and options, and their values as of September 30, 2005 and 2006.

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

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Central government construction bonds	$532,067	$16,036	$-	$-

As of September 30, 2005, securities purchased under agreements to resell were due within one year with annual interest rates ranging between 1.25%-1.36%. These bonds were made available for resale at an agreed aggregate amount of NT$532,290(US$16,042) between October 4 – October 7, 2005.

(4) Receivable amount for margin loans

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Receivable amount for margin loans	$-	$-	$567,915	$17,158
Less: Allowance for bad debts	-	-	-	-
Net	$-	$-	$567,915	$17,158

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

B. As of September 30, 2006, the market value of securities used for collateral in connection with the Company's margin loan activity was NT$945,465 (US$28,564).

(5) Long-term investments under equity method

A.

	September 30, 2005			September 30, 2006		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Cathay Futures Co., Ltd.	$-	$-	-	$722,374	$21,824	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 September 30, 2005 and 2006 is listed below:

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
Name of investee	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$-	$-	$11,967	$362

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

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

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

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

(7) Property and equipment

	September 30, 2005					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$78,724	$2,372	$11,221	$338	$67,503	$2,034
Prepayment for equipment	9,283	280	-	-	9,283	280
Leasehold improvement	25,593	771	2,267	68	23,326	703
Total	$113,600	$3,423	$13,488	$406	$100,112	$3,017

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

	September 30, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$91,823	$2,774	$31,696	$957	$60,127	$1,817
Prepayment for equipment	88	2	-	-	88	2
Leasehold improvement	51,763	1,564	8,430	255	43,333	1,309
Total	$143,674	$4,340	$40,126	$1,212	$103,548	$3,128

As of September 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$4,524) and NT$215,098 (US$6,499) as of September 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$1,128) and NT$56,335 (US$1,702) in settlement and clearance funds as of September 30, 2005 and 2006, respectively.

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

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Debit balance:				
Cash and cash equivalents – settlement amount	$28	$1	$56	$2
Proceeds receivable from investors	341,244	10,285	-	-
Clearance	133,485	4,023	339,431	10,255
Accounts receivable – brokering	139,922	4,217	506,236	15,294
Debit transaction	23,677	713	-	-
Subtotal	638,356	19,239	845,723	25,551

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

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Credit balance:				
Proceeds payable to investors	314,269	9,472	1,190	36
Accounts payable – brokering	320,660	9,664	861,250	26,020
Subtotal	634,929	19,136	862,440	26,056
Net	$3,427	$103	$(16,717)	$(505)

(11) Securities sold under agreements to repurchase

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Central government construction bonds	$796,707	$24,012	$-	$-

As of September 30, 2005, securities sold under agreements to repurchase were due within one year with annual interest rates ranging between 1.25%-1.37%. These bonds were made available for repurchase at an agreed aggregate amount of NT$796,869 (US$24,017) between October 3 - October 7, 2005.

(12) Financial liabilities at fair value through profit or loss - current

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Liabilities for issuance of call (put) warrants	$-	$-	$2,400	$73
Repurchase of issued call (put) warrants	-	-	(1,762)	(53)
Put options - futures	177	5	2	-
Derivative financial instrument liabilities - Gre Tai (over-the-counter)	-	-	84	2
Total	$177	$5	$724	$22

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

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

a. Details of the liabilities for issuance of call (put) warrants are as follows:

September 30, 2006 (NT$)

Name	Underlying securities	Listing date	Units issued (thousands)	Issue price per unit (in dollars)	Exercise price per unit (in dollars)	Market price per unit (in dollars)	Leverage effect	Issuance amount	Market value
Cathay 01	AU Optronics Corp.	Aug. 24,2006	20,000	$0.258	$74.7	$0.12	193.02	$5,160	$2,400
Less: Gains from changes in value of call (put) warrants								(2,760)	
Net								$2,400	

September 30, 2006 (US$)

Name	Underlying securities	Listing date	Units issued (thousands)	Issue price per unit (in dollars)	Exercise price per unit (in dollars)	Market price per unit (in dollars)	Leverage effect	Issuance amount	Market value
Cathay 01	AU Optronics Corp.	Aug. 24,2006	20,000	$0.0078	$2.26	$0.0036	193.02	$156	$73
Less: Gains from changes in value of call (put) warrants								(83)	
Net								$73	

① The call (put) warrants issued by the Company expire within six months starting from the listing date.

② The call (put) warrants are settled by delivery of securities. However, the Company may elect to settle in cash.

③ For other information related to the issuance of call (put) warrants, please see note 10.

b. Details of the repurchase of issued call (put) warrants are as follows:

	September 30, 2006 (NT$)		
Name	Units repurchased (thousand)	Repurchase cost	Market value
Cathay 01	14,683	$3,760	$1,762
Less: Losses from changes in value of call (put) warrants		(1,998)	
Net		$1,762	

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

	September 30, 2006 (US$)		
Name	Units repurchased (thousand)	Repurchase cost	Market value
Cathay 01	14,683	$113	$53
Less: Losses from changes in value of call (put) warrants		(60)	
Net		$53	

B. Put options - futures and derivative financial instrument liabilities - Gre Tai (over-the-counter)

See note 10.

(13) Capital Stock

A. As of September 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$15,070) 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$111,513).

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

(14) 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$1,253) to offset its accumulated deficits.

(15) 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".

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

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

(16) 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 nine months ended September 30, 2005 and 2006, is as follows:

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
Item	NT$	US$	NT$	US$
Income before income taxes	$105,560	$3,181	$30,149	$911
Adjustments:				
Interest income taxed on a separate basis	(19,543)	(589)	(14,112)	(426)
Adjusted revenue and expense from dealing departments	27,929	842	19,280	582
Unrealized loss on valuation of operating securities – hedging	-	-	897	27
Unrealized gain from derivative financial instruments – GreTai (over-the-counter)	-	-	(1,334)	(40)
Investment income recognized on equity method investments	-	-	(11,967)	(362)
Option premium from issuance of call (put) warrants	-	-	903	27
Reserve for default losses	3,805	115	5,060	153
Provision for pensions	-	-	587	18
Loss carryforwards	(36,158)	(1,090)	-	-
Others	-	-	(7,328)	(221)
Taxable income	81,593	2,459	22,135	669
Times: tax rates	25%	25%	25%	25%
Subtotal	20,398	614	5,534	167
Add: Extra 10% income tax on unappropriated retained earnings	-	-	3,983	121
Add(Less): Tax effects under integrated income tax system	(10)	-	469	14
Subtotal	20,388	614	9,986	302
Tax on a separate basis	3,911	118	2,822	85
Deferred tax expense (benefit)	8,089	244	(1,620)	(49)
Prior years' income tax adjustment	-	-	12	-
Total income tax expense	$32,388	$976	$11,200	$338

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

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

	September 30, 2005		September 30, 2006	
	NT$	US$	NT$	US$
a. Total deferred income tax assets	$1,347	$40	$4,068	$123
b. Total deferred income tax liabilities	$5	$-	$653	$20
c. Temporary differences:				
Reserve for default losses	$5,390	$162	$12,155	$367
Provision for pensions	-	-	1,774	54
Unrealized gain from derivative financial instruments	(18)	(1)	(2,610)	(79)
Unrealized loss on valuation of operating securities – hedging	-	-	2,343	71
Total	$5,372	$161	$13,662	$413
d. Deferred income tax assets – current	$-	$-	$586	$18
Deferred income tax liabilities – current	(5)	-	(653)	(20)
Net deferred income tax liabilities – current	$(5)	$-	$(67)	$(2)
Deferred income tax assets – noncurrent	$1,347	$40	$3,482	$105
Net deferred income tax assets – noncurrent	$1,347	$40	$3,482	$105

C. Information related to tax imputation:

	September 30, 2005		September 30, 2006	
	NT$	US$	NT$	US$
Balance of imputation credit account	$4,839	$146	$7,447	$225

	2005	2006
Imputation credit account ratio	-	14.45%

D. Information related to undistributed earnings:

	September 30, 2005		September 30, 2006	
	NT$	US$	NT$	US$
After 1998	$-	$-	$39,829	$1,203

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

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

E. The Company's income tax returns have been examined by the tax authorities through 2004. The Company did not agree with the decision of the tax authorities and filed an application for a reexamination.

(17) Personnel, depreciation, depletion and amortization expenses

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

Item	For the nine months ended September 30, 2005 (NT$)			For the nine months ended September 30, 2005 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$95,250	$95,250	$-	$2,871	$2,871
Labor & health insurance expenses	-	5,407	5,407	-	163	163
Pension expenses	-	3,107	3,107	-	94	94
Other expenses	-	4,016	4,016	-	121	121
Depreciation	-	12,814	12,814	-	386	386
Depletion	-	-	-	-	-	-
Amortization	-	4,332	4,332	-	131	131

Item	For the nine months ended September 30, 2006 (NT$)			For the nine months ended September 30, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$100,493	$100,493	$-	$3,036	$3,036
Labor & health insurance expenses	-	6,408	6,408	-	194	194
Pension expenses	-	5,817	5,817	-	176	176
Other expenses	-	4,759	4,759	-	144	144
Depreciation	-	20,660	20,660	-	624	624
Depletion	-	-	-	-	-	-
Amortization	-	6,974	6,974	-	211	211

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

(18) Earnings per share

For the nine months ended September 30, 2005

	Amount				Outstanding 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	$105,560	$3,181	$73,172	$2,205	357,545,788	$0.30	$0.009	$0.20	$0.006

For the nine months ended September 30, 2006

	Amount				Outstanding 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	$30,149	$911	$18,949	$573	370,000,000	$0.08	$0.002	$0.05	$0.002
Cumulative effect of changes in accounting principles	211	6	173	5	370,000,000	-	-	-	-
Net income	$30,360	$917	$19,122	$578		$0.08	$0.002	$0.05	$0.002

(19) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2005 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 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
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

		For the nine months ended September 30, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Savings accounts	$22,045	0.1%	$58
Co., Ltd.	Checking accounts	$1,346	-	$-
	Negotiable certificates of deposit	$2,675,000	0.85%-1.32%	$19,574

		For the nine months ended September 30, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Savings accounts	$664	0.1%	$2
Co., Ltd.	Checking accounts	$41	-	$-
	Negotiable certificates of deposit	$80,621	0.85%-1.32%	$590

		For the nine months ended September 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Savings accounts	$62,965	0.1%	$63
Co., Ltd.	Checking accounts	$3	-	$-
	Negotiable certificates of deposit	$1,120,000	1.24%-1.45%	$14,110

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

		For the nine months ended September 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Savings accounts	$1,902	0.1%	$2
Co., Ltd.	Checking accounts	$-	-	$-
	Negotiable certificates of deposit	$33,837	1.24%-1.45%	$426

As of September 30, 2005 and 2006, except for NT$1,300,000 (US$39,180) and NT$600,000 (US$18,127) pledged as collateral for the overdraft 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

	September 30, 2005		September 30, 2006	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.				
- Cathay Bond Fund	$265,000	$7,987	$267,561	$8,083
- Cathay Soaring Eagle Bond Fund	-	-	20,014	605
Total	$265,000	$7,987	$287,575	$8,688

C. Operating securities

		September 30, 2005		September 30, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	REITs	$-	$-	$56,815	$1,716

(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 nine months ended September 30, 2005		For the nine months ended September 30, 2006	
	Ending Balance	Interest expense	Ending balance	Interest expense
Name	NT$	NT$	NT$	NT$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$46,000	$1,966	$-	$-

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
	Ending balance	Interest expense	Ending balance	Interest expense
Name	US$	US$	US$	US$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$1,386	$59	$-	$-

E. Accounts receivable

	September 30, 2005		September 30, 2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$158,000	$4,762	$37,800	$1,142
Cathay Futures Co., Ltd.	134	4	504	15
Total	$158,134	$4,766	$38,304	$1,157

F. Property transactions

		September 30, 2006	
Name	Item	NT$	US$
Cathay Futures Co., Ltd.	Office equipment	$255	$8
〃	Leasehold improvements	2,710	82
Symphox Information Co., Ltd.	Computer equipment	1,975	59
Total		$4,940	$149

The Company did not buy property and equipment from related parties for the nine months ended September 30, 2005.

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

G. Deferred debits

	September 30, 2005		September 30, 2006	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$-	$-	$986	$30

H. Other payables

	September 30, 2005		September 30, 2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holdings Co., Ltd.	$19,437	$586	$7,204	$218

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

I. Brokerage commissions

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$9,171	$276	$6,514	$197
Cathay Life Insurance Co., Ltd.	54,594	1,645	57,042	1,723
Cathay Century Insurance Co., Ltd.	690	21	888	27
Total	$64,455	$1,942	$64,444	$1,947

J. Revenue from underwriting commissions

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$158,000	$4,762	$37,800	$1,142

K. Brokerage commissions for introducing futures contracts

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
	Brokerage commissions for introducing futures contracts		Brokerage commissions for introducing futures contracts	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$1,331	$40	$4,283	$129

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

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

	For the nine months ended September 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.	$48	$2	$37	$1	$23	$1	$31,100	$937

	For the nine months ended September 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.	$383	$12	$423	$13	$108	$3	$304,555	$9,201

M. Rental expenses and guarantee deposits paid

	For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	NT$	NT$	NT$	NT$
Cathay United Bank Co., Ltd.	$5,882	$3,652	$3,771	$1,318
Cathay Life Insurance Co., Ltd.	11,722	3,647	11,928	3,785
Total	$17,604	$7,299	$15,699	$5,103

	For the six months ended September 30, 2005		For the six months ended September 30, 2006	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	US$	US$	US$	US$
Cathay United Bank Co., Ltd.	$177	$110	$114	$40
Cathay Life Insurance Co., Ltd.	353	110	360	114
Total	$530	$220	$474	$154

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

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

N. Operating expenses

		For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$1,034	$31	$1,254	$38
Cathay United Bank Co., Ltd.	Other fees	-	-	2,372	72
Cathay Century Insurance Co., Ltd.	Insurance	-	-	318	10
Cathay Securities Investment Co., Ltd.	Other fees	-	-	306	9
Seaward Leasing Ltd.	Service expenses	329	10	247	7
Symphox Information Co., Ltd.	Cable service	2,231	67	1,513	46
	Other fees	991	30	497	15
Subtotal		3,222	97	2,010	61
Total		$4,585	$138	$6,507	$197

O. Non-operating revenue and profits

		For the nine months ended September 30, 2005		For the nine months ended September 30, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$-	$-	$2,400	$73

6. Pledged assets

	September 30, 2005		September 30, 2006	
Item	NT$	US$	NT$	US$
Restricted assets – time deposits	$1,300,000	$39,180	$600,000	$18,127

(1) As of September 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 September 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$	Amount US$
October 1, 2006 – September 30, 2007	$19,102	$577
October 1, 2007 – September 30, 2008	4,940	149
October 1, 2008 – September 30, 2009	1,770	54
October 1, 2009 – September 30, 2010	1,770	54
October 1, 2010 – September 30, 2011	148	4
Total	$27,730	$838

8. Serious damages

None.

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

	September 30, 2005			
	Carrying amount (NT$)	Fair value (NT$)	Carrying amount (US$)	Fair value (US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$1,550,942	$1,550,942	$46,743	$46,743
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	725,027	727,078	21,851	21,913
Operating securities – net	291,332	291,332	8,781	8,781
Securities purchased under agreements to resell	532,067	532,067	16,036	16,036

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

	September 30, 2005			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Receivables – net	164,446	$164,446	$4,956	$4,956
Restricted assets – current	1,300,000	1,300,000	39,180	39,180
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	150,098	150,098	4,524	4,524
Settlement and clearance funds	37,435	37,435	1,128	1,128
Guarantee deposits paid	21,560	21,560	650	650
Liabilities:				
Securities sold under agreements to repurchase	796,707	796,707	24,012	24,012
Payables	39,763	39,763	1,199	1,199
Guarantee deposits-in	1,638	1,638	49	49
Derivative				
Assets:				
Financial assets at fair value through profit or loss – current				
Call options - futures	25	25	1	1
Margin for futures trading – own funds	31,100	31,100	937	937
Derivative financial instrument assets – GreTai (over-the-counter)	5,505	5,505	166	166
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	177	177	5	5
Other financial liabilities – current	51,105	51,105	1,540	1,540

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

	September 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$738,059	$738,059	$22,298	$22,298
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	600,997	600,997	18,157	18,157
Operating securities – net	208,081	208,081	6,286	6,286
Receivable amount for margin loans	567,915	567,915	17,158	17,158
Receivables – net	46,825	46,825	1,415	1,415
Restricted assets – current	600,000	600,000	18,127	18,127
Long-term investments under equity method	722,374	722,374	21,824	21,824
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,499	6,499
Settlement and clearance funds	56,335	56,335	1,702	1,702
Guarantee deposits paid	29,239	29,239	883	883
Liabilities:				
Securities financing guarantee deposits-in	11,434	11,434	346	346
Deposit payable for securities financing	12,642	12,642	382	382
Payables	28,362	28,362	857	857
Guarantee deposits-in	299	299	9	9
Derivative				
Assets:				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	304,555	304,555	9,201	9,201
Derivative financial instrument assets – GreTai (over-the-counter)	3,109	3,109	94	94

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

	September 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	2,400	2,400	73	73
Repurchase of issued call (put) warrants	(1,762)	(1,762)	(53)	(53)
Put options – futures	2	2	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	84	84	2	2
Other financial liabilities – current	42,408	42,408	1,281	1,281

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, 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, payables and guarantee deposits-in.

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.

(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 assesses fair value by using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair values of financial assets and liabilities as of September 30, 2006:

	September 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 or loss – current				
Open-end funds and currency market instruments	$600,997	$-	$18,157	$-
Operating securities – net	208,081	-	6,286	-
Margin for futures trading – own funds	304,555	-	9,201	-
Derivative financial instrument assets – GreTai (over-the-counter)	-	3,109	-	94
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	2,400	-	73	-
Repurchase of issued call (put) warrants	(1,762)	-	(53)	-
Put options – futures	2	-	-	-
Derivative financial instrument liabilities - GreTei (over-the-counter)	-	84	-	2
Other financial liabilities – current	-	42,408	-	1,281

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

(2) Financial risk information

A. Market risk

The Company invests in equity security financial instruments for which there are active market quotes. However, when adverse market conditions exist there is exposure to market risk. The Company has established stop-loss points and utilizes Value–at-Risk to control and evaluate the market risks of holding these financial instruments. Historical prices of the financial instruments are used to estimate and control the risk of the investment portfolio.

B. Credit risk

It is the Company's policy to conduct customer credit evaluations before credit transactions are processed. In order to control default risks, credit lines are provided based on a customer's credit rating and collateral levels are regularly evaluated.

The counterparties to the Company's other financial assets (including cash and cash equivalents and all other current and noncurrent investments) are all creditworthy and well-known financial institutions in the ROC. As a result, the Company believes counterparty credit risk is low.

C. Liquidity risk

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

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

D. Cash flow risk from interest rate fluctuations

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

(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

	September 30, 2005		September 30, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Issuance of call warrants	NT$- (US$-)	$-	NT$5,160 (US$156)	$-

The Company collects premium from investors when issuing call warrants. Therefore, the Company believes it does not have any credit risk with respect to investors.

b. Market price risk

Market risk for call warrants issued arises from changes in the prices of the underlying securities. Market risk can be avoided by adjusting the Company's outstanding warrant and hedging positions.

c. Liquidity risk, cash flow risk and future cash requirements

When issuing call warrants, the Company utilizes existing holdings of underlying securities and premiums received in advance to establish hedging positions. Further, because underlying securities must meet specific regulatory requirements with respect to market price and shareholder diversification, the Company believes they can be easily sold at reasonable prices and that liquidity risk is low. Risk may arise from the need for capital when adjusting hedging position in response to price changes of underlying securities. However, assuming strong market liquidity, the Company believes cash flow risk is low.

The call warrants issued by the Company typically have contract periods of six months starting from the date when the warrants are listed. Except for the flow of cash related to hedging transactions, there are no other cash requirements.

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

d. Types, purposes, and strategies for derivatives

The Company's hedging positions are not held for trading purposes but instead, are held to minimize the risk of investors exercising warrants. The Company's hedging strategy is focused on avoiding market price risks. The value of the underlying securities for hedging are highly correlated to the fair value of the issued call warrants. The Company's hedging positions are evaluated and adjusted periodically.

e. Financial statement presentation of derivative financial instruments

As of September 30, 2005 and 2006, the disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

Balance sheet

	September 30, 2006	
	Financial liabilities at fair value through profit or loss-current	
	NT$	US$
Liabilities for issuance of call (put) warrants	$2,400	$73
Repurchase of issued call (put) warrants	(1,762)	(53)
Total	$638	$20

Statement of income

	For the nine months ended September 30, 2006		
	Profit from issuing call (put) warrants		Comments
	NT$	US$	
Liabilities of call (put) warrants	$2,760	$83	Fair value method
Repurchase of issued call (put) warrants	(2,429)	(73)	〃
Total	$331	$10	

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

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	September 30, 2005		September 30, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Equity-linked notes	NT$48,200 (US$1,453)	$-	NT$15,000 (US$453)	$-
Principal guaranteed notes	$-	$-	NT$27,700 (US$837)	$-

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 future cash requirements

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.

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

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

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

e. Financial statement presentation of derivative financial instruments

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

Balance sheet	September 30, 2005			
	Financial assets at fair value through profit or loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit or loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	NT$	US$	NT$	US$
Equity – linked notes	$5,505	$166	$51,105	$1,540

Statement of income	For the nine months ended September 30, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Equity – linked notes	$1,917	$58	Fair value method
Principal guaranteed notes	3,911	118	〃
	$5,828	$176	

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

Balance sheet	September 30, 2006			
	Financial assets at fair value through profit or loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit or loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	NT$	US$	NT$	US$
Equity-linked notes	$3,109	$94	$14,974	$452
Principal guaranteed notes	$-	$-	$27,518	$831

Statement of income	For the nine months ended September 30, 2006		
	Loss from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Equity-linked notes	$8,230	$249	Fair value method
Principal guaranteed notes	3	-	〃
Total	$8,233	$249	

C. Futures and options transactions

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

September 30, 2005

Item	Nature of Transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Options	TXO-Call	Sell	375	$(144)	$(4)	$100	$3
Options	TXO-Put	Sell	372	$(170)	$(5)	$77	$2
Options	TXO-Call	Buy	3	$20	$1	$20	$1
Options	TXO-Put	Buy	3	$18	$1	$5	$-
Futures	TAIEX futures	Buy	5	$6,102	$184	$6,095	$184

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

September 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-call	Sell	2	$(3)	$-	$2	$-
Futures	TAIEX futures	Sell	28	$(41,153)	$(1,243)	$38,511	$1,163

a. Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2005 Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	NT$352 (US$11)	$-
TAIEX futures	NT$6,102 (US$184)	$-

Financial instruments	September 30, 2006 Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	$3 (US$-)	$-
TAIEX futures	$41,153 (US$1,243)	$-

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 arises 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 future cash requirements

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

The Company's trading in 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.

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current" and "margin for futures trading – own funds" on the balance sheet. For the nine months ended September 30, 2005 and 2006, the related gain (loss) of futures and options on the statements of income were as follows:

	For the nine months ended September 30, 2005	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$345	$10
(Includes unrealized loss on futures contracts of NT$7 (US$-))		
Loss from options transactions	$279	$8
(Includes unrealized gain from options transactions of NT$124 (US$3))		

	For the nine months ended September 30, 2006	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$1,329	$40
(Includes unrealized gain on futures contracts of NT$154 (US$5))		
Gain from options transactions	$1,443	$44
(Includes unrealized loss from options transactions of NT$89 (US$3))		