Cathay Securities Corporation and Subsidiary
Consolidated Financial Statements
Together with
Independent Auditors' Report
As of December 31, 2006

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

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

English Translation of Report Originally Issued in Chinese

Independent auditors' report

To: Board of Directors
Cathay Securities Corporation

We have audited the accompanying consolidated balance sheet of Cathay Securities Corporation (the "Company") and its subsidiary (the "Subsidiary") as of December 31, 2006, and the related consolidated statement of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Corporation and Subsidiary as of December 31, 2006, and the results of its operations and their cash flows for the year ended December 31, 2006 in conformity with " Business Entity Accounting Act", "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC.

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

Ernst & Young
Taipei, Taiwan
Republic of China
January 19, 2007

Notice to Readers

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Cathay Securities Corporation and Subsidiary
Consolidated balance sheet
As of December 31, 2006
(Expressed in thousands of dollars)

ASSETS	NOTES	December 31,2006 NT$	US$
Current assets			
Cash and cash equivalents	2,4(1),5	$986,763	$30,278
Financial assets at fair value through profit or loss - current	2,4(2),5,10	993,976	30,499
Receivable amount for margin loans	2,4(3)	752,429	23,088
Securities refinancing margin deposits	2	443	14
Futures trading margin	2,4(4),5	663,932	20,372
Receivables for futures trading margin		628	19
Accounts receivable		97	3
Accounts receivable - related parties	5	200	6
Prepayments		1,303	40
Other receivables		12,294	377
Other receivables - related parties	5	1,073	33
Restricted assets - current	6	650,000	19,945
Deferred income tax assets - current	2	713	22
Other current assets		87	3
Total current assets		4,063,938	124,699
Funds and investments			
Available-for-sale financial assets - noncurrent	2,4(5)	30,518	936
Property and equipment	2,4(6),5		
Land		290,205	8,905
Buildings and construction		26,084	800
Equipment		124,322	3,815
Prepayment for equipment		88	3
Leasehold improvement		52,820	1,621
Less: Accumulated depreciation		(65,429)	(2,008)
Net property and equipment		428,090	13,136
Intangible assets			
Deferred pension cost	2,4(11)	2,190	67
Other assets			
Operating deposits	4(7)	275,098	8,441
Settlement and clearance funds	4(8)	103,735	3,183
Guarantee deposits paid	5	39,485	1,212
Deferred debits	5	24,514	752
Deferred income tax assets - noncurrent	2	10,682	328
Total other assets		453,514	13,916
Securities brokerage debit accounts - net	4(9)	7,297	224
Total assets		$4,985,547	$152,978

(The exchange rate of December 31, 2006 provided by the Federal Reserve Bank of New York was NT$32.59 to US$1.00)
The accompanying notes are an integral part of these financial statements.

(Forward)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated balance sheet

As of December 31, 2006

(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	December 31,2006 NT$	US$
Current liabilities			
Financial liabilities at fair value through profit or loss - current	2,4(10),10	$6,232	$191
Securities financing guarantee deposits-in	2	11,707	359
Deposit payable for securities financing	2	12,875	395
Futures dealer equity	4(4),5	663,734	20,366
Accounts payable		18,176	558
Accounts collected in advance		88	3
Receipts under custody		6,602	203
Other payables		13,794	424
Other payables - related parties	5	7,185	220
Other financial liabilities - current	2,10	175,703	5,392
Other current liabilities		11	-
Total current liabilities		916,107	28,111
Long-term liabilities			
Other long-term liabilities		469	14
Other liabilities			
Reserve for default losses	2	17,129	526
Reserve for trading losses	2	1,573	48
Guarantee deposits-in		141	4
Accrued pension liability - noncurrent	2,4(11)	8,531	262
Total other liabilities		27,374	840
Total liabilities		943,950	28,965
Stockholders' equity attributable to equity holders of the parent			
Capital stock			
Common stock	4(12)	3,700,000	113,532
Capital surplus	4(13)	258,434	7,930
Retained earnings	4(14)		
Legal reserve		5,690	174
Special reserve		11,380	349
Unappropriated retained earnings		66,026	2,026
Total stockholders' equity attributable to equity holders of the parent		4,041,530	124,011
Minority interest		67	2
Total stockholders' equity		4,041,597	124,013
Total liabilities and stockholders' equity		$4,985,547	$152,978

(The exchange rate of December 31, 2006 provided by the Federal Reserve Bank of New York was NT$32.59 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated statement of income

For the year ended December 31, 2006

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

ITEMS	NOTES	For the year ended December 31, 2006 NT$	US$
Revenue	2,5		
Brokerage commissions		$273,671	$8,397
Revenue from underwriting commissions		38,590	1,184
Profit from trading securities		19,437	596
Interest revenue		27,898	856
Dividend revenue		1,678	52
Gain on valuation of operating securities		7,666	235
Profit from issuing call (put) warrants	10	1,550	48
Gain from derivative financial instruments - futures	10	9,671	297
Revenue from futures consulting		2	-
Other operating revenue		16,720	513
Non-operating revenue and profits		69,648	2,137
Total revenue		466,531	14,315
Expenses	2,5		
Brokerage securities transaction charges		(23,190)	(712)
Dealing securities transaction charges		(939)	(29)
Refinancing transaction fees		(11)	-
Interest expense		(1,219)	(37)
Expenses for issuing call (put) warrants		(114)	(3)
Futures commission expense		(3,595)	(110)
Clearing and settlement fees		(5,452)	(167)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(12,345)	(379)
Operating expenses		(373,956)	(11,475)
Non-operating expense and losses		(9,552)	(293)
Total expenses		(430,373)	(13,205)
Income from continuing operations before income taxes		36,158	1,110
Income tax expense	2,4(15)	(10,292)	(316)
Consolidated income from continuing operations		25,866	794
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	332	10
Consolidated income		$26,198	$804
Attributable to:			
Parent company		$26,197	$804
Minority interest		1	-
Consolidated income		$26,198	$804
Earnings per share (in dollars)	4(17)		
Consolidated income from continuing operations		$0.07	$0.002
Cumulative effect of changes in accounting principles		-	-
Consolidated income		$0.07	$0.002

(The exchange rate of December 31, 2006 provided by the Federal Reserve Bank of New York was NT$32.59 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated statement of changes in stockholders' equity

For the year ended December 31, 2006

(Expressed in thousands of dollars)

					Retained earnings									
SUMMARY	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Minority interest		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance on January 1, 2006	$3,700,000	$113,532	$258,434	$7,930	$-	$-	$-	$-	$56,899	$1,745	$-	$-	$4,015,333	$123,207
Appropriations and distributions of 2005:														
Legal reserve	-	-	-	-	5,690	174	-	-	(5,690)	(174)	-	-	-	-
Special reserve	-	-	-	-	-	-	11,380	349	(11,380)	(349)	-	-	-	-
Consolidated income for the year ended December 31, 2006	-	-	-	-	-	-	-	-	26,197	804	1	-	26,198	804
Effect of initial consolidation of minority interest	-	-	-	-	-	-	-	-	-	-	66	2	66	2
Balance on December 31, 2006	$3,700,000	$113,532	$258,434	$7,930	$5,690	$174	$11,380	$349	$66,026	$2,026	$67	$2	$4,041,597	$124,013

(The exchange rate of December 31, 2006 provided by the Federal Reserve Bank of New York was NT$32.59 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Cathay Securities Corporation and Subsidiary
Consolidated statement of cash flows
For the year ended December 31, 2006
(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2006 NT$	US$
Cash flows from operating activities		
Consolidated income	$26,198	$804
Adjustments to reconcile consolidated income to net cash provided by (used in) operating activities:		
Depreciation	34,619	1,062
Amortization	13,102	402
Loss on valuation of operating securities	(7,666)	(235)
Gain on valuation of open-end funds and currency market instruments	(4,908)	(151)
Recoveries on reserve for trading losses	(6,858)	(210)
Reserve for trading losses	2,833	87
Reserve for default losses	8,159	250
Loss on disposal of property and equipment	47	1
Cumulative effect of changes in accounting principles	(333)	(10)
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss - current		
Increase in operating securities - dealing	(243,406)	(7,469)
Decrease in operating securities - hedging	3,850	118
Decrease in margin for futures trading - own funds	61,813	1,897
Decrease in derivative financial instrument assets - GreTai (over-the-counter)	5,245	161
Increase in receivable amount for margin loans	(752,429)	(23,088)
Increase in securities refinancing margin deposits	(443)	(14)
Increase in futures trading margin	(663,931)	(20,372)
Increase in receivables for futures trading margin	(628)	(19)
Decrease in notes receivable	49	2
Decrease in accounts receivable	1,082	33
Decrease in accounts receivable - related parties	15	-
Increase in prepayments	(216)	(7)
Increase in other receivables	(7,813)	(240)
Increase in other receivables - related parties	(1,074)	(33)
Decrease in other current assets	89	3
Financial liabilities at fair value through profit or loss - current		
Increase in liabilities for issuance of call (put) warrants	1,286	40
Decrease in put options - futures	(133)	(4)
Increase in derivative financial instrument liabilities - GreTai (over-the-counter)	4,946	152
Increase in securities financing guarantee deposits-in	11,707	359
Increase in deposit payable for securities financing	12,875	395
Increase in futures dealer equity	663,734	20,366
Increase in accounts payable	11,265	346
Decrease in accounts payable - related parties	(42)	(1)
Decrease in accounts collected in advance	(5,165)	(158)
Increase in receipts under custody	2,835	87
Decrease in other payables	(891)	(27)
Decrease in other payables - related parties	(7,847)	(241)
Increase in other financial liabilities - current	114,541	3,515
Decrease in other current liabilities	(109)	(3)
Net change in deferred income tax assets/liabilities	(9,601)	(295)
Increase in other long-term liabilities	469	14
Increase in accrued pension liability	5,154	158
Net change in securities brokerage debit/credit accounts - net	1,378	42
Net cash used in operating activities	(726,202)	(22,283)

(The exchange rate of December 31, 2006 provided by the Federal Reserve Bank of New York was NT$32.59 to US$1.00)
The accompanying notes are an integral part of these financial statements.

(Forward)

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Consolidated statement of cash flows

For the year ended December 31, 2006

(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2006 NT$	US$
Cash flows from investing activities		
Financial assets at fair value through profit or loss - current		
Decrease in open-end funds and currency market instruments	142,190	4,363
Decrease in restricted assets - current	650,000	19,945
Acquisition of property and equipment	(25,174)	(772)
Disposal of property and equipment	2,930	90
Increase in operating deposits	(60,000)	(1,841)
Increase in settlement and clearance funds	(60,700)	(1,863)
Increase in guarantee deposits paid	(20,260)	(622)
Increase in deferred debits	(8,906)	(273)
Net cash provided by investing activities	620,080	19,027
Cash flows from financing activities		
Decrease in guarantee deposits-in	(1,497)	(46)
Net cash used in financing activities	(1,497)	(46)
Effect of initial consolidation of subsidiary	(368,726)	(11,314)
Decrease in cash and cash equivalents	(476,345)	(14,616)
Cash and cash equivalents at the beginning of period	1,463,108	44,894
Cash and cash equivalents at the end of period	$986,763	$30,278
Supplemental disclosure of cash flows information		
Interest paid during the period	$2,723	$84
Interest paid (excluding capitalized interest)	$2,723	$84
Income tax paid	$23,519	$722

(The exchange rate of December 31, 2006 provided by the Federal Reserve Bank of New York was NT$32.59 to US$1.00)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Securities Corporation and Subsidiary

Notes to consolidated financial statements

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

As of December 31, 2006

1. Organization and business scope

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

(1) Cathay Securities Corporation (the "Company") was incorporated in Taipei on May 12, 2004, under the provisions of the Company Act (the "Company Act") of the Republic of China ("ROC"). The Company mainly engages in the business of securities dealing, brokerage and underwriting, margin lending and securities lending, dealing and brokerage services related to futures, and other operations approved by the authorities. As of December 31, 2006, the Company had 3 branch offices.

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

The ultimate parent company of the Company and Subsidiary is Cathay Financial Holdings Co., Ltd. As of December 31, 2006, the Company and Subsidiary had 189 employees.

2. Summary of significant accounting policies

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

(1) Principles of consolidation

A. The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 7 "Consolidated Financial Statements" for the year ended December 31, 2006. The consolidated financial statements are required to include all companies in which an investor company holds 50% or more of the investee company's stock with voting rights or has effective control over the investee company. As of and for the year ended December 31, 2006, the consolidated financial statements include the following:

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

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

(2) Current and noncurrent assets and liabilities

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

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

(3) Cash and cash equivalents

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

(4) Financial assets and financial liabilities

The Company and Subsidiary adopted ROC SFAS No. 34 "Accounting for Financial Instruments", "Criteria Governing the Preparation of Financial Reports by Securities Firms" and "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants" whereby financial assets are categorized as "financial assets at fair value through profit 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 and Subsidiary commit to purchase or sell the asset). "Regular way" purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit 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 and losses from changes in fair values of such assets are reflected in the income statement.

a. Open-end funds and currency market instruments

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

b. Operating securities

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

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

c. Call options and put options

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

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

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

Structured notes transactions

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

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

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

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Derivative financial assets for hedging

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

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

F. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are categorized as financial liabilities hold for trading or financial liabilities at fair value through profit or loss. Gains and losses from changes in fair values 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".

(5) Derecognition of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

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

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

(7) Margin trading of securities

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

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

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

(8) Futures trading margin

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

(9) Property and equipment

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

(10) Accounting for asset impairment

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

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

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

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

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

(11) Accounting for impairment of financial assets

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

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

(12) Reserve for default losses

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

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

When the accumulated reserve for default losses reaches NT$200,000 (US$6,137) reserving will be suspended.

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

(13) Reserve for trading losses

According to the Regulations Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided for by the Company as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT$200,000 (US$6,137). Such reserve can only be used to offset the excess of securities trading losses over gains.

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

(14) Pension

The Company and Subsidiary have established a retirement plan and made contributions to the retirement fund, which is administered by the Employees' Retirement Fund Committee and deposited in the Committee's name in the Central Trust of China under the Labor Standards Law. The activities of the retirement fund are separated from those of the Company and Subsidiary. Therefore, they are not reflected in the accompanying consolidated financial statements.

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

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

(15) Income taxes

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

In accordance with Article 49 of the Financial Holding Company Act, beginning in 2005, the Company and its parent company (Cathay Financial Holdings Co., Ltd.) file joint corporate income tax returns and 10% surcharge on unappropriated retained earnings returns under the Integrated Income Tax System. If there are any tax effects due to the adoption of the Integrated Income Tax System, the parent company can proportionately allocate the effects to the deferred income tax, taxes payable and other receivables of the Company and the parent company.

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

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

(16) Recognition of revenue and expenses

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

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

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

(17) Foreign currency transactions

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

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

(18) Convenience translation into US dollars

These consolidated financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these consolidated financial statements solely for the convenience of the reader using the noon buying rate of NT$32.59 to US$1.00 effective on December 31, 2006 as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at these rates or any other rates of exchange.

3. Changes in accounting and their effects

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

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

The above changes in accounting principles increased the Company and Subsidiary's current assets and current liabilities by NT$370 (US$11) and NT$38 (US$1) as of January 1, 2006, respectively, and increased consolidated income and earnings per share by NT$332 (US$10) and NT$0.0009 (US$0.00003) (dollars), respectively, for the year ended December 31, 2006.

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

4. Breakdown of significant accounts

(1) Cash and cash equivalents

Item	December 31, 2006 NT$	December 31, 2006 US$
Cash on hand	$170	$5
Savings accounts	342,848	10,520
Checking accounts	307	9
Time deposits	643,438	19,744
Total	$986,763	$30,278
Annual interest rate of time deposits	1.09%~1.71%	

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

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

Item	December 31, 2006 NT$	December 31, 2006 US$
Open-end funds and currency market instruments	$622,779	$19,109
Operating securities – dealing	334,075	10,251
Operating securities – hedging	37,122	1,139
Total	$993,976	$30,499

As of December 31, 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

Item	December 31, 2006 NT$	December 31, 2006 US$
Open-end funds	$617,811	$18,957
Add: Valuation adjustment	4,968	152
Net	$622,779	$19,109

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

B. Operating securities – dealing

Item	December 31, 2006 NT$	US$
Listed stocks	$19,986	$613
Real Estate Investment Trusts (REITs)	258,397	7,929
OTC corporate bonds	50,000	1,534
Subtotal	328,383	10,076
Add: Valuation adjustment	5,692	175
Net	$334,075	$10,251

C. Operating securities – hedging

Item	December 31, 2006 NT$	US$
Listed stocks	$36,533	$1,121
Add: Valuation adjustment	589	18
Net	$37,122	$1,139

(3) Receivable amount for margin loans

Item	December 31, 2006 NT$	US$
Receivable amount for margin loans	$752,429	$23,088
Less: Allowance for bad debts	-	-
Net	$752,429	$23,088

A. As of December 31, 2006, receivable amount for margin loans had an annual interest rate of 6.25%.

B. As of December 31, 2006, the market value of securities used for collateral in connection with the Company's margin loan activity were NT$1,311,703(US$40,249).

(4) Futures trading margin and futures dealer equity

	December 31, 2006 NT$	US$
Bank deposits	$482,624	$14,809
Margin in futures clearing house	178,067	5,464
Margin in other futures commission merchants	3,241	99
Futures trading margin	663,932	20,372
Add: Commission	29	1
Less: Service charges and interest revenue	(227)	(7)
Futures dealer equity	$663,734	$20,366

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

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

Name of investee	December 31, 2006 NT$	US$	Percentage of ownership
Stock:			
Taiwan Futures Exchange Corporation	$30,518	$936	1.525%

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

(6) Property and equipment

	December 31, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Land	$290,205	$8,905	$-	$-	$290,205	$8,905
Buildings and construction	26,084	800	5,140	158	20,944	642
Equipment	124,322	3,815	49,618	1,523	74,704	2,292
Prepayment for equipment	88	3	-	-	88	3
Leasehold improvement	52,820	1,621	10,671	327	42,149	1,294
Total	$493,519	$15,144	$65,429	$2,008	$428,090	$13,136

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

(7) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, the Regulations Governing Futures Advisory Enterprises and the Rules Governing Futures Commission Merchants, the Company and Subsidiary provided time deposits as operating deposits amounting to NT$275,098 (US$8,441) as of December 31, 2006.

(8) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms, OTC regulations and the Taiwan Futures Exchange Corporation Exchange Fee Schedule, the Company and Subsidiary deposited NT$103,735 (US$3,183) in settlement and clearance funds as of December 31, 2006.

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

(9) Securities brokerage debit accounts – net

Item	December 31, 2006 NT$	December 31, 2006 US$
Debit balance:		
Cash and cash equivalents – settlement amount	$129	$4
Clearance	483,599	14,839
Accounts receivable – brokering	320,656	9,839
Subtotal	804,384	24,682
Credit balance:		
Accounts payable – brokering	797,087	24,458
Net	$7,297	$224

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

Item	December 31, 2006 NT$	December 31, 2006 US$
Liabilities for issuance of call (put) warrants	$4,200	$129
Repurchase of issued call (put) warrants	(2,914)	(90)
Derivative financial instrument liabilities - Gre Tai (over-the-counter)	4,946	152
Total	$6,232	$191

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

a. Liabilities for issuance of call (put) warrants are as follows:

December 31, 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.	95.08.24	20,000	0.258	59.84	0.03	193.02	$5,160	$600
Cathay 02	ACER Incorporated	95.11.30	20,000	0.298	84.20	0.18	20.64	5,960	3,600
Subtotal								11,120	$4,200
Less: Gains from changes in value of call (put) warrants								(6,920)	
Net								$4,200	

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

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
		December 31, 2006 (US$)							
Cathay 01	AU Optronics Corp.	95.08.24	20,000	0.0079	1.84	0.0009	193.02	$158	$19
Cathay 02	ACER Incorporated	95.11.30	20,000	0.0091	2.58	0.0055	20.64	183	110
Subtotal								341	$129
Less: Gains from changes in value of call (put) warrants								(212)	
Net								$129	

① The call (put) warrants issued by the Company have contract periods of six months commencing from the date the warrants are listed.

② The call (put) warrants can be settled by delivery of securities or, at the election of the Company, in cash.

③ The exercise price per unit was recalculated using the exercise price reset terms.

④ For other information related to the issuance of call (put) warrants, see note 10.

b. Repurchases of issued call (put) warrants are as follows:

Name	Unit repurchased (thousands)	Repurchase cost	Market value
	December 31, 2006 (NT$)		
Cathay 01	8,057	$1,995	$242
Cathay 02	14,848	4,424	2,672
Subtotal		6,419	$2,914
Less: Losses from changes in value of call (put) warrants		(3,505)	
Net		$2,914	

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

Name	December 31, 2006 (US$) Unit repurchased (thousands)	Repurchase cost	Market value
Cathay 01	8,057	$61	$8
Cathay 02	14,848	136	82
Subtotal		197	$90
Less: Losses from changes in value of call (put) warrants		(107)	
Net		$90	

B. Derivative financial instrument liabilities-Gre Tai (over-the-counter)

See note 10.

(11) Pension/Accrued pension liability

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

A. Pension funding status

	December 31, 2006 NT$	December 31, 2006 US$
1) Vested benefit obligation (VBO)	$762	$23
2) Non-vested benefit obligation	7,166	220
3) Accumulated benefit obligation (ABO)	7,928	243
4) Additional benefits based on future salaries	5,047	155
5) Projected benefit obligation (PBO)	12,975	398
6) Fair value of pension fund assets	(6,571)	(201)
7) Pension funding status	6,404	197
8) Unrecognized transitional net benefit obligation	(2,731)	(84)
9) Unrecognized pension gain	4,858	149
10) Additional accrued pension liability	-	-
11) Accrued pension liability = 7)+8)+9)+10)	$8,531	$262

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

B. Actuarial assumptions

	For the year ended December 31, 2006
Discount rate	3.0%~3.5%
Rate of increase in future salaries	3.0%
Expected long-term rate of return on pension assets	3.0%~3.5%

(12) Capital Stock

As of December 31, 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.

(13) Capital surplus

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

B. On August 3, 2005, the Company's board of directors resolved to use capital surplus of NT$41,566 (US$1,275) to offset its accumulated deficits.

(14) Unappropriated retained earnings

A. According to the Company Act 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. The appropriation of the 2006 retained earnings has not yet been resolved by the board of directors as of the issuance date of the Independent Auditors' Report. For related information please referred to the "Market Observation Post System "on the website of the Taiwan Stock Exchange Corporation.

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

C. Pursuant to the Company Act, 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.

D. 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.

E. 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".

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

(15) Income taxes

A. Income tax expense includes the following:

	For the year ended December 31, 2006	
	NT$	US$
Expected income tax payable	$5,274	$162
Add: Tax on a separate basis	3,568	110
Extra 10% income tax on unappropriated retained earnings	3,983	122
Prior years' income tax adjustment	35	1
Tax effects under integrated income tax system	445	14
Less: Deferred tax benefit	(2,363)	(73)
Loss carryforwards	(650)	(20)
Total income tax expense	$10,292	$316

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

B. Income tax returns:

	Income tax returns assessed
The Company	Assessed through 2004 (see note)
The Subsidiary	Assessed through 2004

Note: The Company disagreed with the assessment and has filed a dispute.

C. Information related to tax imputation

a. Balance of imputation credit account

	December 31, 2006	
	NT$	US$
The Company	$8,236	$253
The Subsidiary	$14,480	$444

b. Imputation credit account ratio

	2006 (Estimated)	2005 (Actual)
The Company	12.47%	14.45%
The Subsidiary	33.33%	-

D. Information related to undistributed earnings - the Company:

	December 31, 2006	
	NT$	US$
After 1998	$66,026	$2,026

(16) Personnel, depreciation, depletion and amortization expenses

The Company and Subsidiary's personnel, depreciation, depletion and amortization expenses for the year ended December 31, 2006 are summarized as follows:

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

Item	For the year ended December 31, 2006 (NT$)			For the year ended December 31, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$153,782	$153,782	$-	$4,719	$4,719
Labor & health insurance expenses	-	10,777	10,777	-	331	331
Pension expenses	-	9,238	9,238	-	283	283
Other expenses	-	7,317	7,317	-	225	225
Depreciation	-	34,619	34,619	-	1,062	1,062
Depletion	-	-	-	-	-	-
Amortization	-	13,102	13,102	-	402	402

(17) Earnings per share

	For the year ended December 31, 2006				
	Amount		Outstanding shares (thousands)	EPS (in dollars)	
	NT$	US$		NT$	US$
Consolidated income from continuing operations	$25,866	$794	370,000	$0.07	$0.002
Cumulative effect of changes in accounting principles	332	10	370,000	-	-
Consolidated income	$26,198	$804		$0.07	$0.002

5. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Affiliated
Cathay United Bank Co., Ltd.	Affiliated
Cathay Century Insurance Co., Ltd.	Affiliated
Cathay Securities Investment Trust Co., Ltd.	Affiliated

As of December 31, 2006

Name	Relationship
Seaward Leasing Co., 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
Yi Ru Corporation	Affiliated
Wan Pao Development Co., Ltd.	Affiliated
Taipei Smart Card Corp.	Affiliated
Taiwan Asset Management Corporation	Affiliated
Industrial and Commercial Bank of Vietnam	Affiliated
Shanghai China Eastern Media Co., Ltd.	Affiliated
CEA Futures Brokerage Co., Ltd.	Affiliated
CEA Finance Holding Co., Ltd.	Affiliated
CEA Finance Co., Ltd.	Affiliated
China Eastern Airlines 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
Cathay Real Estate Management Corp.	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 year ended December 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$339,930	0.01%~1.20%	$177
	Checking accounts	$307	-	$-
	Time deposits	$1,130,000	1.00%~1.71%	$21,049

		For the year ended December 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$10,431	0.01%~1.20%	$5
	Checking accounts	$9	-	$-
	Time deposits	$34,673	1.00%~1.71%	$646

As of December 31, 2006, except for NT$650,000 (US$19,945) pledged as collateral for the over-draft of settlement accounts and recognized under restricted assets, the remaining time deposits have not been pledged as collateral.

B. Open-end funds and currency market instruments

	December 31, 2006	
Name	NT$	US$
Cathay Securities Investment Trust Co., Ltd.		
– Cathay Bond Fund	$203,358	$6,240
– Cathay Soaring Eagle Bond Fund	20,082	616
Total	$223,440	$6,856

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

C. Operating securities

		December 31, 2006	
Name	Description	NT$	US$
Cathay Life Insurance Co., Ltd.	Cathay No.1 REITs	$263,402	$8,082

D. Futures trading margin

	December 31, 2006			
	Ending balance		Interest income	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$468,874	$14,387	$11,643	$357
Interest rate	0.01%~1.71%			

E. Accounts receivable

	December 31, 2006	
Name	NT$	US$
Cathay United Bank Co., Ltd.	$200	$6

F. Other receivables

	December 31, 2006	
Name	NT$	US$
Cathay United Bank Co., Ltd.	$1,073	$33

G. Futures dealer equity

	December 31, 2006	
Name	NT$	US$
Cathay Life Insurance Co., Ltd.	$377,481	$11,583
Cathay United Bank Co., Ltd.	39,292	1,205
Cathay Century Insurance Co., Ltd.	5,249	161
Total	$422,022	$12,949

H. Property transactions

		December 31, 2006	
Name	Item	NT$	US$
Symphox Information Co., Ltd.	Computer equipment	1,975	$61
〃	Leasehold improvements	224	7
Lin Yuan Property Management Co., Ltd.	Buildings	1,445	44
Total		$3,644	$112

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

I. Deferred debits

Name	December 31, 2006 NT$	December 31, 2006 US$
Symphox Information Co., Ltd.	$986	$30

J. Other payables

Name	December 31, 2006 NT$	December 31, 2006 US$
Cathay Financial Holdings Co., Ltd. (Note)	$6,582	$202
Cathay Life Insurance Co., Ltd.	343	10
Others	260	8
Total	$7,185	$220

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

K. Brokerage commissions

Name	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cathay United Bank Co., Ltd.	$9,062	$278
Cathay Life Insurance Co., Ltd.	85,264	2,616
Cathay Century Insurance Co., Ltd.	1,389	43
Total	$95,715	$2,937

L. Revenue from underwriting commissions

Name	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cathay Life Insurance Co., Ltd.	$37,800	$1,160

M. Rental expenses and guarantee deposits paid

	For the year ended December 31, 2006			
	Rental expenses		Guarantee deposits paid	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$5,031	$154	$1,320	$40
Cathay Life Insurance Co., Ltd.	16,651	511	3,907	120
Symphox Information Co., Ltd.	2,069	63	-	-
Seaward Leasing Co., Ltd.	618	19	-	-
Total	$24,369	$747	$5,227	$160

(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

Name	Description	For the year ended December 31, 2006 NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$1,990	$61
	Interese expenses	442	14
Subtotal		2,432	75
Cathay United Bank Co., Ltd.	Advertisement	412	13
	Others	3,130	96
Subtotal		3,542	109
Cathay Century Insurance Co., Ltd.	Insurance	503	15
Cathay Securities Investment Co., Ltd.	Others	438	13
Seaward Card Co., Ltd.	Service expenses	809	25
Lin Yuan Property Management Co., Ltd.	Maintenance expenses	1,692	52
Symphox Information Co., Ltd.	Cable service	2,003	61
	Advertisement	449	14
	Others	920	28
Subtotal		3,372	103
Total		$12,788	$392

O. Non-operating revenue and profits

Name	Description	For the year ended December 31, 2006 NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$3,200	$98

6. Pledged assets

Name	December 31, 2006 NT$	US$
Restricted assets – time deposits	$650,000	$19,945

(1) As of December 31, 2006, the Company pledged its restricted assets – time deposits to

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

Cathay United Bank Co., Ltd. as collateral for the over-loaning of settlement accounts.

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

7. Other important matters and contingent liabilities

(1) As of December 31, 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$
January 1, 2007 – December 31, 2007	$15,500	$476
January 1, 2008 – December 31, 2008	3,626	111
January 1, 2009 – December 31, 2009	1,770	54
January 1, 2010 – December 31, 2010	1,475	45
January 1, 2011 – December 31, 2011	-	-
Total	$22,371	$686

(2) The Subsidiary:

None.

8. Serious damages

None.

9. Subsequent events

None.

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

10.Other important events

(1) Information related to financial instruments

	December 31, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$986,763	$986,763	$30,278	$30,278
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	622,779	622,779	19,109	19,109
Operating securities – net	371,197	371,197	11,390	11,390
Receivable amount for margin loans	752,429	752,429	23,088	23,088
Securities refinancing margin deposits	443	443	14	14
Futures trading margin	663,932	663,932	20,372	20,372
Receivables for futures trading margin	628	628	19	19
Receivables – net	13,664	13,664	419	419
Restricted assets – current	650,000	650,000	19,945	19,945
Available-for-sale financial assets – noncurrent	30,518	30,518	936	936
Operating deposits	275,098	275,098	8,441	8,441
Settlement and clearance funds	103,735	103,735	3,183	3,183
Guarantee deposits paid	39,485	39,485	1,212	1,212
Liabilities:				
Securities financing guarantee deposits-in	11,707	11,707	359	359
Deposit payable for securities financing	12,875	12,875	395	395
Futures dealer equity	663,734	663,734	20,366	20,366
Payables	39,155	39,155	1,202	1,202
Guarantee deposits-in	141	141	4	4

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

	December 31, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Derivative				
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	4,200	4,200	129	129
Repurchase of issued call (put) warrants	(2,914)	(2,914)	(90)	(90)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	4,946	4,946	152	152
Other financial liabilities – current	175,703	175,703	5,392	5,392

Methods and assumptions for estimating the fair value of financial instruments are as follows:

A. Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, securities refinancing margin deposits, futures trading margin, receivables for futures trading margin, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities financing guarantee deposits-in, deposit payable for securities financing, futures dealer equity, payables and guarantee depositis-in.

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

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

C. If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, the Company and Subsidiary assesses fair value by using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value information of financial assets and liabilities as of December 31, 2006:

	December 31, 2006			
	Based on quoted market price	Based on valuation method	Based on quoted market price	Based on valuation method
Assets:	(NT$)	(NT$)	(US$)	(US$)
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	$622,779	$-	$19,109	$-
Operating securities – net	371,197	-	11,390	-
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities of issuance of call (put)warrants	4,200	-	129	-
Repurchase of issued call(put) warrants	(2,914)	-	(90)	-
Derivative financial instrument liabilities-GreTai (over-ther-counter)	-	4,946	-	152
Other financial liabilities – current	-	175,703	-	5,392

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

(2) Financial risk information

A. Market risk

The Company invests in equity securities that have active public market prices. When adverse market conditions exist, the Company is exposed to market risk as prices fluctuate. Although the Company controls and quantifies its market risk by establishing stop-loss limits and measuring Value-at-Risk, evaluates its risk utilizing historical prices and controls its overall investment portfolio, it is still exposed to market risk.

The futures and options transactions engaged in by the Subsidiary's dealing department are primarily for trading purposes. Large price fluctuations result from the ability to leverage transactions. Effective from March 21, 2006, the Subsidiary's dealing department was closed down.

The fair market values of stocks of listed companies held by the Subsidiary will fluctuate based on changes in market prices.

B. Credit risk

In accordance with the Company's policy, credit evaluations are required for all credit transactions. Credit limits are established based on customers' credit ratings. Margin ratios are also evaluated continuously to control default risk.

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

Credit evaluations are required for all customers of the Subsidiary's brokerage department and credit lines are properly monitored. The Subsidiary's dealing department was closed down on March 21, 2006 and therefore no related credit risks exist.

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.

The Subsidiary's dealing department was closed down on March 31, 2006 and thus there is no liquidity risk of defaulting on contracts due to insufficient funds. In addition, except for the financial assets carried at cost which possess liquidity risks due to lack of an active market, all stocks held by the Subsidiary can easily be sold at prices approximate to fair values.

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－the Company

a. Nominal principal or contract amount and credit risk

	December 31, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk
For trading purposes		
Issuance for call warrants	NT$11,120	NT$-
	(US$341)	(US$-)

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 risk

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

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 shareholders 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 prices 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.

d. Types, purposes, and strategies for financial derivatives

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

e. Consolidated financial statement presentation of derivative financial instruments

As of December 31, 2006, disclosure of the issuance of call (put) warrants on the consolidated balance sheet and consolidated statement of income are summarized as follows:

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

Consolidated balance sheet

	December 31, 2006	
	Financial liabilities at fair value through profit or loss-current	
	NT$	US$
Liabilities for issuance of call (put) warrants	$4,200	$129
Repurchase of issued call (put) warrants	(2,914)	(90)
Total	$1,286	$39

Consolidated statement of income

	For the year ended December 31, 2006		
	Profit from issuing call (put) warrants		Comments
	NT$	US$	
Change in value of liabilities of call (put) warrants	$6,920	$212	Fair value method
Change in value of repurchase of issued call (put) warrants			
- Loss on disposal	(1,865)	(57)	
- Loss of valuation	(3,505)	(107)	Fair value method
Total	$1,550	$48	

B. Structured notes transactions—the Company

a. Nominal principal or contract amount and credit risk

	December 31, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk
For trading purposes		
Principal guaranteed notes	NT$177,900 (US$5,459)	NT$- (US$-)

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.

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. Consolidated financial statement presentation of derivative financial instruments

As of December 31, 2006, the disclosure of structured notes transactions on the consolidated balance sheet and consolidated statement of income are summarized as follows:

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

Consolidated balance sheet

	December 31, 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$
Principal guaranteed notes	$-	$-	$180,649	$5,544

Consolidated statement of income

	For the year ended December 31, 2006		
	Loss from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Equity-linked notes	$8,839	$271	Fair value method
Principal guaranteed notes	3,506	108	〃
Total	$12,345	$379	

C. Futures and options transactions－the Company and Subsidiary

a. As of December 31, 2006, all of the Company's futures and options transactions were exercised.

b. Consolidated financial statement presentation of derivative financial instruments

For the year ended December 31, 2006, the related gain (loss) of futures and options on the consolidated statement of income were as follows:

	For the year ended December 31, 2006	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$5,850	$180
Gain from options transactions	$3,821	$117