Cathay Securities Corporation
Financial Statements
Together with
Independent Auditors' Report
As of December 31, 2005 and 2006

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the " 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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English Translation of Report Originally Issued in Chinese

Independent auditors' report

To: Board of Directors
Cathay Securities Corporation

We have audited the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of December 31, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" and 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 financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Corporation as of December 31, 2005 and 2006, and the results of its operations and their cash flows for the years ended December 31, 2005 and 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 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".

We have also audited the consolidated financial statements of the Company for the year ended December 31, 2006 and expressed a modified unqualified opinion.

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

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Balance sheets

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

ASSETS	NOTES	December 31,2005		December 31,2006	
		NT$	US$	NT$	US$
Current assets					
Cash and cash equivalents	2,4(1),5	$1,463,108	$44,607	$450,393	$13,820
Financial assets at fair value through profit or loss - current	2,4(2),5,10	950,883	28,990	1,302,544	39,967
Receivable amount for margin loans	2,4(3)	-	-	752,429	23,088
Securities refinancing margin deposits	2	-	-	443	14
Notes receivable		49	1	-	-
Accounts receivable		1,179	36	97	3
Accounts receivable - related parties	5	215	7	1,116	34
Prepayments		1,087	33	914	28
Other receivables		4,481	137	9,910	304
Restricted assets - current	6	1,300,000	39,634	650,000	19,945
Deferred income tax assets - current	2,4(15)	-	-	713	22
Other current assets		175	5	87	3
Total current assets		3,721,177	113,450	3,168,646	97,228
Funds and investments					
Long-term investments under equity method	2,4(4)	-	-	719,669	22,082
Available-for-sale financial assets - noncurrent	2,4(5)	18	1	18	1
Total funds and investments		18	1	719,687	22,083
Property and equipment	2,4(6),5				
Equipment		82,313	2,509	90,424	2,775
Prepayment for equipment		17,339	529	87	3
Leasehold improvement		25,593	780	51,853	1,591
Less: Accumulated depreciation		(19,465)	(593)	(45,939)	(1,410)
Net property and equipment		105,780	3,225	96,425	2,959
Intangible assets					
Deferred pension cost	2,4(11)	1,400	43	2,190	67
Other assets					
Operating deposits	4(7)	215,098	6,558	215,098	6,600
Settlement and clearance funds	4(8)	43,035	1,312	46,734	1,434
Guarantee deposits paid	5	19,225	586	38,239	1,173
Deferred debits	5	17,938	547	13,076	401
Deferred income tax assets - noncurrent	2,4(15)	2,070	63	4,085	125
Total other assets		297,366	9,066	317,232	9,733
Securities brokerage debit accounts - net	4(9)	8,675	264	7,297	224
Total assets		$4,134,416	$126,049	$4,311,477	$132,294

(The exchange rate of December 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$32.80 and NT$32.59 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Balance sheets

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

		December 31,2005		December 31,2006	
LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	NT$	US$	NT$	US$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,4(10),5,10	$133	$4	$6,232	$191
Securities financing guarantee deposits-in	2	-	-	11,707	359
Deposit payable for securities financing	2	-	-	12,875	395
Accounts payable		6,911	211	17,024	523
Accounts payable - related parties	5	42	1	71	2
Accounts collected in advance		5,254	160	-	-
Receipts under custody		3,767	115	6,424	197
Other payables		14,685	448	12,197	374
Other payables - related parties	5	15,031	458	6,990	215
Deferred income tax liability - current	2,4(15)	237	7	-	-
Other financial liabilities - current	2,10	61,163	1,865	175,703	5,392
Other current liabilities		121	3	11	-
Total current liabilities		107,344	3,272	249,234	7,648
Long-term liabilities					
Other long-term liabilities		-	-	469	14
Other liabilities					
Reserve for default losses	2	7,095	216	14,050	431
Reserve for trading losses	2	420	13	1,573	48
Guarantee deposits-in		1,638	50	141	4
Accrued pension liability - noncurrent	2,4(11)	2,586	79	4,480	138
Total other liabilities		11,739	358	20,244	621
Total liabilities		119,083	3,630	269,947	8,283
Stockholders' equity					
Capital stock					
Common stock	4(12)	3,700,000	112,805	3,700,000	113,532
Capital surplus	4(13)	258,434	7,879	258,434	7,930
Retained earnings	4(14)				
Legal reserve		-	-	5,690	174
Special reserve		-	-	11,380	349
Unappropriated retained earnings		56,899	1,735	66,026	2,026
Total stockholders' equity		4,015,333	122,419	4,041,530	124,011
Total liabilities and stockholders' equity		$4,134,416	$126,049	$4,311,477	$132,294

(The exchange rate of December 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$32.80 and NT$32.59 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Statements of income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except for earnings per share)

ITEMS	NOTES	For the year ended December 31, 2005 NT$	For the year ended December 31, 2005 US$	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Revenue	2,5				
Brokerage commissions		$167,687	$5,113	$213,508	$6,551
Revenue from underwriting commissions		158,761	4,840	38,590	1,184
Profit from trading securities		-	-	19,437	596
Interest revenue		13,091	399	27,898	856
Dividend revenue		423	13	1,678	52
Gain on valuation of operating securities		-	-	7,666	235
Profit from issuing call (put) warrants	10	-	-	1,550	48
Brokerage commissions for introducing futures contracts	5	1,966	60	6,012	185
Gain from derivative financial instruments - futures	10	1,346	41	6,652	204
Gain from derivative financial instruments - GreTai (over-the-counter)	10	4,355	133	-	-
Other operating revenue		2,600	79	11,435	351
Non-operating revenue and profits		43,006	1,311	46,616	1,430
Total revenue		393,235	11,989	381,042	11,692
Expenses	2,5				
Brokerage securities transaction charges		(12,787)	(390)	(15,948)	(489)
Dealing securities transaction charges		(945)	(29)	(1,389)	(43)
Refinancing transaction fees		-	-	(11)	-
Underwriting transaction fees		(11)	-	-	-
Loss from trading securities		(1,212)	(37)	-	-
Interest expense		(8,925)	(273)	(1,219)	(37)
Loss on valuation of operating securities		(656)	(20)	-	-
Loss on trading - RS short covering		(76)	(2)	-	-
Expenses for issuing call (put) warrants		-	-	(114)	(4)
Clearing and settlement fees	5	(104)	(3)	(485)	(15)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	-	-	(12,345)	(379)
Operating expenses		(280,509)	(8,552)	(313,203)	(9,610)
Non-operating expense and losses		(2,229)	(68)	-	-
Total expenses		(307,454)	(9,374)	(344,714)	(10,577)
Income from continuing operations before income taxes		85,781	2,615	36,328	1,115
Income tax expense	2,4(15)	(28,882)	(880)	(10,304)	(316)
Net income from continuing operations		56,899	1,735	26,024	799
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	-	-	173	5
Net income		$56,899	$1,735	$26,197	$804
Earnings per share (in dollars)	4(17)				
Net income from continuing operations		$0.16	$0.005	$0.07	$0.002
Cumulative effect of changes in accounting principles		-	-	-	-
Net income		$0.16	$0.005	$0.07	$0.002

(The exchange rate of December 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$32.80 and NT$32.59 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of changes in stockholders' equity

For the years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

					Retained earnings							
SUMMARY	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance on January 1, 2005	$3,500,000	$106,707	$-	$-	$-	$-	$-	$-	$(41,566)	$(1,267)	$3,458,434	$105,440
Capital increase from cash contribution	200,000	6,098	300,000	9,146	-	-	-	-	-	-	500,000	15,244
Make up accumulated deficit using capital surplus	-	-	(41,566)	(1,267)	-	-	-	-	41,566	1,267	-	-
Net income for the year ended December 31, 2005	-	-	-	-	-	-	-	-	56,899	1,735	56,899	1,735
Balance on December 31, 2005	$3,700,000	$112,805	$258,434	$7,879	$-	$-	$-	$-	$56,899	$1,735	$4,015,333	$122,419
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)	-	-
Net income for the year ended December 31, 2006	-	-	-	-	-	-	-	-	26,197	804	26,197	804
Balance on December 31, 2006	$3,700,000	$113,532	$258,434	$7,930	$5,690	$174	$11,380	$349	$66,026	$2,026	$4,041,530	$124,011

(The exchange rate of December 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$32.80 and NT$32.59 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Statements of cash flows
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2005 NT$	For the year ended December 31, 2005 US$	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cash flows from operating activities				
Net income	$56,899	$1,735	$26,197	$804
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	18,791	573	27,886	856
Amortization	6,264	191	10,271	315
Loss (gain) on valuation of operating securities	656	20	(7,666)	(235)
Gain on valuation of open-end funds and currency market instruments	-	-	(4,908)	(151)
Recoveries on reserve for trading losses	(511)	(16)	(1,378)	(42)
Reserve for trading losses	808	25	2,531	78
Reserve for default losses	5,510	168	6,955	213
Investment income recognized by equity method in excess of cash dividends received	-	-	(9,263)	(284)
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	672,686	20,509	-	-
Financial assets at fair value through profit or loss - current				
(Increase) decrease in operating securities - dealing	41,777	1,274	(243,406)	(7,469)
Decrease in operating securities - hedging	128,909	3,930	3,850	118
Increase in margin for futures trading - own funds	(61,813)	(1,885)	(246,756)	(7,572)
(Increase) decrease in derivative financial instrument assets - GreTai (over-the-counter)	(4,042)	(123)	5,245	161
(Increase) decrease in receivable amount for margin loans	189,445	5,776	(752,429)	(23,088)
(Increase) decrease in securities refinancing margin deposits	687	21	(443)	(14)
(Increase) decrease in notes receivable	(49)	(1)	49	2
Decrease in accounts receivable	7,659	234	1,083	33
Increase in accounts receivable - related parties	(71)	(2)	(901)	(28)
(Increase) decrease in prepayments	(247)	(8)	173	5
(Increase) decrease in other receivables	5,745	175	(5,429)	(167)
Decrease in other receivables - related parties	2,569	78	-	-
Decrease in other current assets	626	19	89	3
Decrease in securities sold under agreements to repurchase	(776,327)	(23,669)	-	-
Financial liabilities at fair value through profit or loss - current				
Increase in liabilities for issuance of call (put) warrants	-	-	1,286	40
Increase (decrease) in put options - futures	133	4	(133)	(4)
Increase (decrease) in derivative financial instrument liabilities - GreTai (over-the-counter)	(12,440)	(379)	4,946	152
Increase (decrease) in securities financing guarantee deposits-in	(743)	(23)	11,707	359
Increase (decrease) in deposit payable for securities financing	(822)	(25)	12,875	395
Increase in accounts payable	3,081	94	10,113	310
Increase in accounts payable - related parties	42	1	29	1
Increase (decrease) in accounts collected in advance	5,078	155	(5,254)	(161)
Increase in receipts under custody	1,834	56	2,657	82
Increase (decrease) in other payables	6,650	203	(2,488)	(76)
Increase (decrease) in other payables - related parties	15,031	458	(8,041)	(247)
Increase (decrease) in other financial liabilities - current	(152,682)	(4,655)	114,541	3,515
Increase (decrease) in other current liabilities	81	2	(109)	(3)
Net change in deferred income tax assets/liabilities	7,598	232	(3,003)	(92)
Increase in other long-term liabilities	-	-	469	14
Increase in accrued pension liability	1,056	32	1,103	34
Net change in securities brokerage debit/credit accounts - net	(5,180)	(158)	1,378	42
Net cash provided by (used in) operating activities	166,467	5,075	(1,046,347)	(32,106)

(The exchange rate of December 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$32.80 and NT$32.59 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of cash flows

For the years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2005 NT$	US$	For the year ended December 31, 2006 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	(110,000)	(3,354)	142,190	4,363
(Increase) decrease in restricted assets - current	(800,000)	(24,390)	650,000	19,945
Acquisition of long-term investments under equity method	-	-	(710,407)	(21,798)
Acquisition of property and equipment	(91,329)	(2,784)	(18,532)	(569)
Disposal of property and equipment	852	26	-	-
Increase in operating deposits	(65,000)	(1,982)	-	-
Increase (decrease) in settlement and clearance funds	22,074	673	(3,700)	(114)
Increase (decrease) in guarantee deposits paid	703	21	(19,013)	(583)
Increase in deferred debits	(19,757)	(602)	(5,409)	(166)
Net cash provided by (used in) investing activities	(1,062,457)	(32,392)	35,129	1,078
Cash flows from financing activities				
Increase (decrease) in guarantee deposits-in	1,475	45	(1,497)	(46)
Capital increase from cash contribution	500,000	15,244	-	-
Net cash provided by (used in) financing activities	501,475	15,289	(1,497)	(46)
Decrease in cash and cash equivalents	(394,515)	(12,028)	(1,012,715)	(31,074)
Cash and cash equivalents at the beginning of period	1,857,623	56,635	1,463,108	44,894
Cash and cash equivalents at the end of period	$1,463,108	$44,607	$450,393	$13,820
Supplemental disclosure of cash flows information				
Interest paid during the period	$8,674	$264	$2,236	$69
Interest paid (excluding capitalized interest)	$8,674	$264	$2,236	$69
Income tax paid	$6,162	$188	$21,956	$674

(The exchange rate of December 31, 2005 and 2006 provided by the Federal Reserve Bank of New York was NT$32.80 and NT$32.59 to US$1.00, respectively)

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

Cathay Securities Corporation
Notes to financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 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 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.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of December 31, 2005 and 2006, the Company had 147 and 168 employees, respectively.

2. Summary of significant accounting policies

These 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) 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 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. Margin for futures trading – own funds

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

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

Structured notes transactions

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

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

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

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Derivative financial assets for hedging

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

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

F. Financial liabilities 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".

(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$6,137) 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$6,137). 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 realized gains of trading futures shall be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches an amount equal to minimum legal paid-in capital or operating capital. Such reserve can only be used to offset the excess of futures 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.

(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$32.80 and NT$32.59 to US$1.00 effective on December 31, 2005 and 2006, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar 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 year ended December 31, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	December 31, 2005		December 31, 2006	
Item	NT$	US$	NT$	US$
Cash on hand	$100	$3	$120	$4
Savings accounts	45,861	1,398	21,835	670
Checking accounts	328	10	-	-
Time deposits	1,416,819	43,196	428,438	13,146
Total	$1,463,108	$44,607	$450,393	$13,820
Annual interest rate of time deposits	0.95%~1.42%		1.20%~1.70%	

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

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

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

Item	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Open-end funds and currency market instruments	$760,000	$23,171	$622,779	$19,109
Operating securities – dealing	83,767	2,554	334,075	10,251
Operating securities – hedging	40,058	1,221	37,122	1,139
Margin for futures trading – own funds	61,813	1,884	308,568	9,468
Derivative financial instrument assets – GreTai (over-the-counter)	5,245	160	-	-
Total	$950,883	$28,990	$1,302,544	$39,967

As of December 31, 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

Item	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Open-end funds	$760,000	$23,171	$617,811	$18,957
Add: Valuation adjustment	-	-	4,968	152
Net	$760,000	$23,171	$622,779	$19,109

As of December 31, 2005, open-end funds and currency market instruments were valued at the lower of cost or market value.

B. Operating securities – dealing

Item	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Listed stocks	$18,936	$577	$19,986	$613
OTC stocks	16,042	489	-	-
Real Estate Investment Trusts (REITs)	-	-	258,397	7,929
OTC corporate bonds	50,000	1,525	50,000	1,534
Subtotal	84,978	2,591	328,383	10,076
Add (Less): Valuation adjustment	(1,211)	(37)	5,692	175
Net	$83,767	$2,554	$334,075	$10,251

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

As of December 31, 2005, operating securities – dealing were valued at the lower of cost or market value.

C. Operating securities – hedging

Item	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Listed stocks	$32,376	$987	$36,533	$1,121
OTC stocks	8,008	244	-	-
Subtotal	40,384	1,231	36,533	1,121
Add (Less): Valuation adjustment	(326)	(10)	589	18
Net	$40,058	$1,221	$37,122	$1,139

As of December 31, 2005, operating securities – hedging were valued at the lower of cost or market value.

D. Margin for futures trading – own funds

December 31, 2005

Futures trading company	Account balance NT$	Account balance US$	Gain (loss) on outstanding futures contracts NT$	Gain (loss) on outstanding futures contracts US$	Net account value NT$	Net account value US$
Cathay Futures Co., Ltd.	$62,068	$1,892	$(255)	$(8)	$61,813	$1,884

December 31, 2006

Futures trading company	Account balance NT$	Account balance US$	Gain (loss) on outstanding futures contracts NT$	Gain (loss) on outstanding futures contracts US$	Net account value NT$	Net account value US$
Cathay Futures Co., Ltd.	$308,568	$9,468	$-	$-	$308,568	$9,468

See note 10 details of the Company's unexercised futures and options and their values.

E. 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) Receivable amount for margin loans

Item	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 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 was NT$1,311,703 (US$40,249).

(4) Long-term investments under equity method

A.

Name of investee	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2005 Percentage of ownership	December 31, 2006 NT$	December 31, 2006 US$	December 31, 2006 Percentage of ownership
Cathay Futures Co., Ltd.	$-	-	-	$719,669	$22,082	99.99%

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

Name of investee	For the year ended December 31, 2005 NT$	For the year ended December 31, 2005 US$	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cathay Futures Co., Ltd.	$-	$-	$9,263	$284

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

D. As of December 31, 2006, none of the long-term investments under equity method were pledged to other parties.

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

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

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

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

(6) Property and equipment

	December 31, 2005					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$82,313	$2,509	$16,134	$492	$66,179	$2,017
Prepayment for equipment	17,339	529	-	-	17,339	529
Leasehold improvement	25,593	780	3,331	101	22,262	679
Total	$125,245	$3,818	$19,465	$593	$105,780	$3,225

	December 31, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$90,424	$2,775	$35,353	$1,085	$55,071	$1,690
Prepayment for equipment	87	3	-	-	87	3
Leasehold improvement	51,853	1,591	10,586	325	41,267	1,266
Total	$142,364	$4,369	$45,939	$1,410	$96,425	$2,959

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

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

(7) 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$215,098 (US$6,558) and NT$215,098 (US$6,600) as of December 31, 2005 and 2006, respectively.

(8) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT$43,035 (US$1,312) and NT$46,734 (US$1,434) in settlement and clearance funds as of December 31, 2005 and 2006, respectively.

(9) Securities brokerage debit accounts – net

	December 31, 2005		December 31, 2006	
Item	NT$	US$	NT$	US$
Debit balance:				
Cash and cash equivalents – settlement amount	$5,730	$175	$129	$4
Proceeds receivable from investors	597,519	18,217	-	-
Clearance	-	-	483,599	14,839
Accounts receivable – brokering	968,098	29,515	320,656	9,839
Debit transaction	15,580	475	-	-
Subtotal	1,586,927	48,382	804,384	24,682
Credit balance:				
Proceeds payable to investors	576,944	17,590	-	-
Accounts payable – brokering	337,034	10,276	797,087	24,458
Clearance	664,274	20,252	-	-
Subtotal	1,578,252	48,118	797,087	24,458
Net	$8,675	$264	$7,297	$224

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

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

Item	December 31, 2005 NT$	December 31, 2005 US$	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)
Put options - futures	133	4	-	-
Derivative financial instrument liabilities - Gre Tai (over-the-counter)	-	-	4,946	152
Total	$133	$4	$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	

December 31, 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.	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	

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

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:

	December 31, 2006 (NT$)		
Name	Unit repurchased (thousands)	Repurchase cost	Market value
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	

	December 31, 2006 (US$)		
Name	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.

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

(11) Pension/Accrued pension liability

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

A. Net pension cost

	For the year ended December 31, 2005		For the year ended December 31, 2006	
	NT$	US$	NT$	US$
1) Service cost	$3,988	$122	$2,731	$84
2) Interest cost	87	3	176	5
3) Expected return on pension assets	(64)	(2)	(79)	(2)
4) Amortization of recognized transition net benefit obligation	139	4	137	4
Net pension cost	$4,150	$127	$2,965	$91

B. Pension funding status

	December 31, 2005		December 31, 2006	
	NT$	US$	NT$	US$
1) Vested benefit obligation (VBO)	$849	$26	$577	$18
2) Non-vested benefit obligation	3,057	93	4,262	131
3) Accumulated benefit obligation (ABO)	3,906	119	4,839	149
4) Additional benefits based on future salaries	2,484	76	3,182	98
5) Projected benefit obligation (PBO)	6,390	195	8,021	247
6) Fair value of pension fund assets	(1,575)	(48)	(2,653)	(81)
7) Pension funding status	4,815	147	5,368	166
8) Unrecognized transitional net benefit obligation	(2,897)	(88)	(2,759)	(85)
9) Unrecognized pension gain (loss)	668	20	1,871	57
10) Additional accrued pension liability	-	-	-	-
11) Accrued pension liability = 7)+8)+9)+10)	$2,586	$79	$4,480	$138

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

C. Actuarial assumptions

	For the year ended December 31, 2005	For the year ended December 31, 2006
Discount rate	3%	3%
Rate of increase in future salaries	3%	3%
Expected long-term rate of return on pension assets	3%	3%

(12) Capital Stock

A. As of December 31, 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$15,244) 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$113,532).

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

(13) Capital surplus

A. According to the Company Act 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$1,267) to offset its accumulated deficits.

(14) 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 refer to the "Market Observation Post System" on the website of the Taiwan Stock Exchange Corporation.

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.

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

(15) Income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income before income tax in the statements of income for the years ended December 31, 2005 and 2006, are as follows:

	For the year ended December 31, 2005		For the year ended December 31, 2006	
Item	NT$	US$	NT$	US$
Income before income taxes	$85,781	$2,615	$36,328	$1,115
Adjustments:				
Interest income taxed on a separate basis	(28,303)	(863)	(17,840)	(547)
Adjusted revenue and expense from dealing departments	35,986	1,097	11,344	348
Gain on valuation of open-end funds and currency market instruments	-	-	(4,908)	(151)
Unrealized gain (loss) on valuation of operating securities	326	10	(7,666)	(235)
Unrealized gain (loss) from derivative financial instruments – GreTai (over-the-counter)	(1,276)	(39)	4,785	147
Investment income recognized on equity method investments	-	-	(9,263)	(284)
Option premium for issuance of call (put) warrants	-	-	3,437	105
Reserve for default losses	5,510	168	6,955	213
Provision for pensions	1,056	32	1,104	34
Loss carry forwards	(36,193)	(1,103)	-	-
Others	(406)	(12)	(3,181)	(98)
Taxable income	62,481	1,905	21,095	647
Times: tax rates	25%	25%	25%	25%
Subtotal	15,620	476	5,274	162
Add: Extra 10% income tax on unappropriated retained earnings	-	-	3,983	122
Tax effects under integrated income tax system	-	-	445	14

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

	For the year ended December 31, 2005		For the year ended December 31, 2006	
Subtotal	15,620	476	9,702	298
Tax on a separate basis	5,664	172	3,568	109
Deferred tax expense (benefit)	7,598	232	(3,003)	(92)
Prior years' income tax adjustment	-	-	37	1
Total income tax expense	$28,882	$880	$10,304	$316

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

	December 31, 2005		December 31, 2006	
	NT$	US$	NT$	US$
a. Total deferred income tax assets	$2,152	$66	$4,962	$152
b. Total deferred income tax liabilities	$319	$10	$164	$5
c. Temporary differences:				
Reserve for default losses	$7,095	$216	$14,050	$431
Provision for pensions	1,186	36	2,290	70
Unrealized (gain) loss from derivative financial instruments	(1,276)	(39)	3,509	108
Unrealized (gain) loss on valuation of operating securities – hedging	326	10	(656)	(20)
Total	$7,331	$223	$19,193	$589
d. Deferred income tax assets – current	$82	$3	$877	$27
Deferred income tax liabilities – current	(319)	(10)	(164)	(5)
Net deferred income tax assets – current	$(237)	$(7)	$713	$22
Deferred income tax assets – noncurrent	$2,070	$63	$4,085	$125
Net deferred income tax assets – noncurrent	$2,070	$63	$4,085	$125

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

C. Information related to tax imputation:

	December 31, 2005		December 31, 2006	
	NT$	US$	NT$	US$
Balance of imputation credit account	$6,385	$195	$8,236	$253

	2005	2006 (Estimated)
Imputation credit account ratio	14.45%	12.47%

D. Information related to undistributed earnings:

	December 31, 2005		December 31, 2006	
	NT$	US$	NT$	US$
After 1998	$56,899	$1,735	$66,026	$2,026

E. The Company's income tax returns have been filed and assessed by the National Tax Administration through 2004. The Company disagreed with the assessment and has filed a dispute.

(16) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the years ended December 31, 2005 and 2006 are summarized as follows:

Item	For the year ended December 31, 2005 (NT$)			For the year ended December 31, 2005 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$138,749	$138,749	$-	$4,230	$4,230
Labor & health insurance expenses	-	7,626	7,626	-	233	233
Pension expenses	-	4,150	4,150	-	127	127
Other expenses	-	5,384	5,384	-	164	164
Depreciation	-	18,791	18,791	-	573	573
Depletion	-	-	-	-	-	-
Amortization	-	6,264	6,264	-	191	191

(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	$-	$134,722	$134,722	$-	$4,134	$4,134
Labor & health insurance expenses	-	8,933	8,933	-	274	274
Pension expenses	-	7,987	7,987	-	245	245
Other expenses	-	6,295	6,295	-	193	193
Depreciation	-	27,886	27,886	-	856	856
Depletion	-	-	-	-	-	-
Amortization	-	10,271	10,271	-	315	315

(17) Earnings per share

	For the year ended December 31, 2005									
	Amount				Outstanding shares (thousands)	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	$85,781	$2,615	$56,899	$1,735	360,685	$0.24	$0.007	$0.16	$0.005

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

	For the year ended December 31, 2006								
	Amount				Outstanding shares (thousands)	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	$36,328	$1,115	$26,024	$799	370,000	$0.10	$0.003	$0.07	$0.002
Cumulative effect of changes in accounting principles	211	6	173	5	370,000	-	-	-	-
Net income	$36,539	$1,121	$26,197	$804		$0.10	$0.003	$0.07	$0.002

(18) Presentation of financial statements

Certain accounts in the financial statements for the year ended December 31, 2005 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2006.

5. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Futures Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Co., Ltd.	Affiliated
Cathay United Bank Co., Ltd.	Affiliated
Cathay Century Insurance Co., Ltd.	Affiliated
Cathay Securities Investment Trust Co., Ltd.	Affiliated
Seaward Leasing Co., Ltd.	Affiliated
Symphox Information Co., Ltd	Affiliated
Seaward Card Co., Ltd.	Affiliated
Lin Yuan Investment Co., Ltd.	Affiliated
Lucky Bank	Affiliated

Name	Relationship
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, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Savings accounts	$51,444	0.10%	$134
Co., Ltd.	Checking accounts	$328	-	$-
	Negotiable certificates of deposit	$2,565,000	0.85%~1.32%	$28,302

		For the year ended December 31, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Savings accounts	$1,568	0.10%	$4
Co., Ltd.	Checking accounts	$10	-	$-
	Negotiable certificates of deposit	$78,201	0.85%~1.32%	$863

		For the year ended December 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Savings accounts	$18,918	0.10%	$99
Co., Ltd.	Checking accounts	$-	-	$-
	Negotiable certificates of deposit	$915,000	1.24%~1.50%	$17,838

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

Name	Item	For the year ended December 31, 2006 Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Savings accounts	$580	0.10%	$3
Co., Ltd.	Checking accounts	$-	-	$-
	Negotiable certificates of deposit	$28,076	1.24%~1.50%	$547

As of December 31, 2005 and 2006, except for NT$1,300,000 (US$39,634) and NT$650,000 (US$19,945) pledged as collateral for the over-draft 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

Name	December 31, 2005 NT$	US$	December 31, 2006 NT$	US$
Cathay Securities Investment Trust Co., Ltd.				
– Cathay Bond Fund	$400,000	$12,195	$203,358	$6,240
– Cathay Soaring Eagle Bond Fund	-	-	20,082	616
Total	$400,000	$12,195	$223,440	$6,856

C. Operating securities

Name	Description	December 31, 2005 NT$	US$	December 31, 2006 NT$	US$
Cathay Life Insurance Co., Ltd.	Cathay No.1 REITs	$-	$-	$263,402	$8,082

(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 year ended December 31, 2005		For the year ended December 31, 2006	
	Ending Balance	Interest expense	Ending balance	Interest expense
Name	NT$	NT$	NT$	NT$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$-	$1,988	$-	$-

	For the year ended December 31, 2005		For the year ended December 31, 2006	
	Ending balance	Interest expense	Ending balance	Interest expense
Name	US$	US$	US$	US$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	$-	$61	$-	$-

E. Accounts receivable

	December 31, 2005		December 31, 2006	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$-	$-	$200	$6
Cathay Futures Co., Ltd.	215	7	916	28
Total	$215	$7	$1,116	$34

F. Property transactions

		December 31, 2005		December 31, 2006	
Name	Item	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	Office equipment	$-	$-	$255	$8
〃	Leasehold improvements	-	-	2,710	83
Symphox Information Co., Ltd.	Computer equipment	-	-	1,975	61
〃	Leasehold improvements	1,898	58	-	-
Total		$1,898	$58	$4,940	$152

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

G. Deferred debits

Name	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Symphox Information Co., Ltd.	$-	$-	$986	$30

H. Other payables

Name	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Cathay Financial Holdings Co., Ltd. (Note)	$14,558	$444	$6,582	$202
Cathay Life Insurance Co., Ltd.	403	12	299	9
Others	70	2	109	4
	$15,031	$458	$6,990	$215

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

I. Brokerage commissions

Name	For the year ended December 31, 2005 NT$	For the year ended December 31, 2005 US$	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cathay United Bank Co., Ltd.	$10,870	$331	$8,832	$271
Cathay Life Insurance Co., Ltd.	78,435	2,391	78,525	2,409
Cathay Century Insurance Co., Ltd.	1,108	34	1,294	40
Total	$90,413	$2,756	$88,651	$2,720

J. Revenue from underwriting commissions

Name	For the year ended December 31, 2005 NT$	For the year ended December 31, 2005 US$	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cathay Life Insurance Co., Ltd.	$158,000	$4,817	$37,800	$1,160

K. Brokerage commissions for introducing futures contracts

Name	For the year ended December 31, 2005 NT$	For the year ended December 31, 2005 US$	For the year ended December 31, 2006 NT$	For the year ended December 31, 2006 US$
Cathay Futures Co., Ltd.	$1,966	$60	$6,012	$185

(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 year ended December 31, 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.	$104	$3	$79	$2	$42	$1	$61,813	$1,884

	For the year ended December 31, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
Name	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$485	$15	$541	$17	$71	$2	$308,568	$9,468

M. Rental expenses and guarantee deposits paid

	For the year ended December 31, 2005		For the year ended December 31, 2006	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	NT$	NT$	NT$	NT$
Cathay United Bank Co., Ltd.	$6,991	$1,318	$5,028	$1,318
Cathay Life Insurance Co., Ltd.	15,776	3,647	16,012	3,785
Seaward Leasing Co., Ltd.	325	-	298	-
Total	$23,092	$4,965	$21,338	$5,103

	For the year ended December 31, 2005		For the year ended December 31, 2006	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	US$	US$	US$	US$
Cathay United Bank Co., Ltd.	$213	$40	$154	$40
Cathay Life Insurance Co., Ltd.	481	111	491	116
Seaward Leasing Co., Ltd.	10	-	9	-
Total	$704	$151	$654	$156

(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 year ended December 31, 2005		For the year ended December 31, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$1,437	$44	$1,561	$48
Cathay United Bank Co., Ltd.	Other fees	1,614	49	3,130	96
Cathay Century Insurance Co., Ltd.	Insurance	328	10	466	14
Cathay Securities Investment Co., Ltd.	Other fees	-	-	438	13
Seaward Card Co., Ltd.	Service expenses	458	14	491	15
Lin Yuan Property Management Co., Ltd.	Maintenance expenses	-	-	1,692	52
Symphox Information Co., Ltd.	Cable service	2,945	90	2,003	62
	Other fees	1,241	38	920	28
Subtotal		4,186	128	2,923	90
Total		$8,023	$245	$10,701	$328

O. Non-operating revenue and profits

		For the year ended December 31, 2005		For the year ended December 31, 2006	
Name	Description	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$-	-	$3,200	$98

6. Pledged assets

	December 31, 2005		December 31, 2006	
Item	NT$	US$	NT$	US$
Restricted assets – time deposits	$1,300,000	$39,634	$650,000	$19,945

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

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

(2) Restricted assets – time deposits are disclosed at their net carrying amounts.

7. Other important matters and contingent liabilities

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:

	Amount	
Year	NT$	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

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, 2005			
	Carrying amount (NT$)	Fair value (NT$)	Carrying amount (US$)	Fair value (US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$1,463,108	$1,463,108	$44,607	$44,607
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	760,000	760,060	23,171	23,173
Operating securities – net	123,825	123,975	3,775	3,780
Receivables – net	5,924	5,924	181	181
Restricted assets – current	1,300,000	1,300,000	39,634	39,634
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,558	6,558
Settlement and clearance funds	43,035	43,035	1,312	1,312
Guarantee deposits paid	19,225	19,225	586	586
Liabilities:				
Payables	36,699	36,699	1,118	1,118
Guarantee deposits-in	1,638	1,638	50	50
Derivative				
Assets:				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	61,813	61,813	1,884	1,884
Derivative financial instrument assets – GreTai (over-the-counter)	5,245	5,245	160	160
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	133	133	4	4
Other financial liabilities – current	61,163	61,163	1,865	1,865

(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$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$450,393	$450,393	$13,820	$13,820
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
Receivables – net	11,123	11,123	341	341
Restricted assets – current	650,000	650,000	19,945	19,945
Long-term investments under equity method	719,669	719,669	22,082	22,082
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,600	6,600
Settlement and clearance funds	46,734	46,734	1,434	1,434
Guarantee deposits paid	38,239	38,239	1,173	1,173
Liabilities:				
Securities financing guarantee deposits-in	11,707	11,707	359	359
Deposit payable for securities financing	12,875	12,875	395	395
Payables	36,282	36,282	1,114	1,114
Guarantee deposits-in	141	141	4	4
Derivative				
Assets:				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	308,568	308,568	9,468	9,468

(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$)	(US$)
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, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, 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.

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.

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

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
	(NT$)	(NT$)	(US$)	(US$)
Assets:				
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	-
Margin for futures trading – own funds	308,568	-	9,468	-
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	4,200	-	129	-
Repurchase of issued call (put) warrants	(2,914)	-	(90)	-
Derivative financial instrument liabilities-GreTei (over-the-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.

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.

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.

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

(3) Financial derivatives

A. Issuance for call warrants

a. Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2005 Nominal principal /contract amount	December 31, 2005 Credit risk	December 31, 2006 Nominal principal /contract amount	December 31, 2006 Credit risk
For trading purposes				
Issuance for call warrants	NT$- (US$-)	NT$- (US$-)	NT$11,120 (US$341)	NT$- (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.

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

d. Types, purposes, and strategies for financial derivatives

The Company's 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 December 31, 2005 and 2006, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

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

Statement of income

	For the year ended December 31, 2006		
	Profit from issuing call (put) warrants		Comments
	NT$	US$	
Liabilities for issuance of call (put) warrants	$6,920	$212	Fair value method
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

a. Nominal principal or contract amount and credit risk

	December 31, 2005		December 31, 2006	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Equity-linked notes	NT$58,200	NT$-	NT$-	NT$-
	(US$1,774)	(US$-)	(US$-)	(US$-)
Principal guaranteed notes	NT$-	NT$-	NT$177,900	NT$-
	(US$-)	(US$-)	(US$5,459)	(US$-)

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.

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

Balance sheet	December 31, 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 and other financial liabilities – current	
	NT$	US$	NT$	US$
Equity – linked notes	$5,245	$160	$61,163	$1,865

Statement of income	For the year ended December 31, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT$	US$	
Interest rate swaps	$(790)	$(24)	Fair value method
Equity – linked notes	1,234	38	〃
Principal guaranteed notes	3,911	119	〃
	$4,355	$133	

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

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

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

As of December 31, 2005 and 2006, the Company's unexercised options were as follows:

December 31, 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	14	$6	$-	$5	$-
Options	TXO-Put	Sell	826	$217	$7	$128	$4
Futures	TAIEX futures	Buy	35	$46,420	$1,415	$46,165	$1,407

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

a. Nominal principal or contract amount and credit risk

	December 31, 2005	
Financial instruments	Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	NT$224(US$7)	$-
TAIEX futures	NT$46,420(IS$1,415)	$-

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. However, market risk still exists.

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.

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

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current ("margin for futures trading – own funds") on the balance sheet. For the years ended December 31, 2005 and 2006, the related gain (loss) of futures and options on the statements of income were as follows:

	For the year ended December 31, 2005	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$1,110	$34
(Includes unrealized loss on futures contracts of NT$255 (US$8))		
Loss from options transactions	$236	$7
(Includes unrealized gain from options transactions of NT$90 (US$3))		

	For the year ended December 31, 2006	
	NT$	US$
Gain from derivative financial instruments – futures		
Gain on futures contracts	$5,626	$173
Gain from options transactions	$1,026	$31