Cathay Securities Corporation

Financial Statements

Three-Month Periods Ended

March 31, 2006 and 2007

With Independent Auditor's Review Report

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

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INDEX TO FINANCIAL STATEMENTS

English Translation of Review Report Originally Issued in Chinese
Review report of independent accountants

To: Board of Directors
Cathay Securities Corporation

We have reviewed the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of March 31, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the three months ended March 31, 2006 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with " 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 Republic of China.

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

Ernst & Young
Taipei, Taiwan
Republic of China
April 13, 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 review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Unaudited balance sheets
As of March 31, 2006 and 2007
(Expressed in thousands of dollars)

ASSETS	NOTES	March 31,2006 NT$	March 31,2006 US$	March 31,2007 NT$	March 31,2007 US$
Current assets					
Cash and cash equivalents	2,4(1),5	$896,630	$27,657	$679,142	$20,574
Financial assets at fair value through profit or loss - current	2,4(2),5,10	1,237,639	38,175	1,089,459	33,004
Receivable amount for margin loans	2,4(3)	299,232	9,230	843,451	25,551
Accounts receivable		2,057	63	-	-
Accounts receivable - related parties	5	414	13	766	23
Prepayments		1,547	48	502	15
Other receivables		3,344	103	12,617	382
Restricted assets - current	6	700,000	21,592	600,000	18,176
Deferred income tax assets - current	2,4(16)	174	5	65	2
Other current assets		1,111	34	603	19
Total current assets		3,142,148	96,920	3,226,605	97,746
Funds and investments					
Long-term investments under equity method	2,4(4)	714,872	22,050	718,101	21,754
Available-for-sale financial assets - noncurrent	2,4(5)	18	1	18	1
Total funds and investments		714,890	22,051	718,119	21,755
Property and equipment	2,4(6)				
Equipment		83,799	2,585	90,502	2,742
Prepayment for equipment		8,276	255	87	2
Leasehold improvement		38,335	1,182	51,853	1,571
Less: Accumulated depreciation		(25,972)	(801)	(53,243)	(1,613)
Net property and equipment		104,438	3,221	89,199	2,702
Intangible assets					
Deferred pension cost	2	1,934	60	-	-
Other intangible assets	2,4(7)	16,520	510	10,982	333
Total intangible assets		18,454	570	10,982	333
Other assets					
Operating deposits	4(8)	215,097	6,635	215,097	6,516
Settlement and clearance funds	4(9)	47,535	1,466	46,260	1,401
Guarantee deposits paid	5	19,225	593	28,326	858
Deferred income tax assets - noncurrent	2,4(16)	2,435	75	4,955	150
Total other assets		284,292	8,769	294,638	8,925
Total assets		$4,264,222	$131,531	$4,339,543	$131,461

(The exchange rate of March 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.42 and NT$33.01 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

(Forward)

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Unaudited balance sheets
As of March 31, 2006 and 2007
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	March 31,2006		March 31,2007	
		NT$	US$	NT$	US$
Current liabilities					
Securities sold under agreements to repurchase	2,4(11)	$50,000	$1,542	$-	$-
Financial liabilities at fair value through profit or loss - current	2,4(12),10	1,432	44	2,512	76
Securities financing guarantee deposits-in	2	3,173	98	7,166	217
Deposit payable for securities financing	2	3,503	108	7,924	240
Accounts payable		5,308	164	8,273	250
Accounts payable - related parties	5	99	3	188	6
Receipts under custody		3,576	110	5,672	172
Other payables		9,683	299	10,091	306
Other payables - related parties	5	15,088	465	7,664	232
Other financial liabilities - current	2,10	115,750	3,570	223,045	6,757
Other current liabilities		348	11	5	-
Total current liabilities		207,960	6,414	272,540	8,256
Long-term liabilities					
Other long-term liabilities		77	2	296	9
Other liabilities					
Reserve for default losses	2	8,932	276	17,166	520
Reserve for trading losses	2	250	8	2,278	69
Guarantee deposits-in		484	15	141	4
Accrued pension liability - noncurrent	2	2,740	85	2,655	81
Total other liabilities		12,406	384	22,240	674
Securities brokerage credit accounts - net	4(10)	23,022	710	982	30
Total liabilities		243,465	7,510	296,058	8,969
Stockholders' equity					
Capital stock					
Common stock	4(13)	3,700,000	114,127	3,700,000	112,087
Capital surplus	4(14)	258,434	7,972	258,434	7,829
Retained earnings	4(15)				
Legal reserve		-	-	5,690	172
Special reserve		-	-	11,380	345
Unappropriated retained earnings		62,323	1,922	67,981	2,059
Total stockholders' equity		4,020,757	124,021	4,043,485	122,492
Total liabilities and stockholders' equity		$4,264,222	$131,531	$4,339,543	$131,461

(The exchange rate of March 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.42 and NT$33.01 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Unaudited statements of income
For the three months ended March 31, 2006 and 2007
(Expressed in thousands of dollars, except for earnings per share)

ITEMS	NOTES	For the three months ended March 31, 2006 NT$	US$	For the three months ended March 31, 2007 NT$	US$
Revenue	2,5				
Brokerage commissions		$55,621	$1,716	$65,834	$1,994
Revenue from underwriting commissions		29	1	70	2
Profit from trading securities		6,265	193	2,037	62
Interest revenue		1,942	60	12,565	381
Gain on valuation of operating securities		2,082	64	-	-
Profit from issuing call (put) warrants	10	-	-	1,675	51
Brokerage commissions for introducing futures contracts		957	29	1,759	53
Gain from derivative financial instruments - futures	10	2,464	76	4,714	143
Gain from derivative financial instruments - GreTai (over-the-counter)	10	-	-	670	20
Other operating revenue		6,729	208	595	18
Non-operating revenue and profits		15,874	490	8,106	245
Total revenue		91,963	2,837	98,025	2,969
Expenses	2,5				
Brokerage securities transaction charges		(4,260)	(131)	(6,322)	(191)
Dealing securities transaction charges		(286)	(9)	(623)	(19)
Refinancing transaction fees		-	-	(1)	-
Interest expense		(34)	(1)	(27)	(1)
Loss on valuation of operating securities		-	-	(1,710)	(52)
Clearing and settlement fees		(101)	(3)	(182)	(6)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(8,842)	(273)	-	-
Loss from structured notes transactions		(215)	(7)	(520)	(16)
Operating expenses		(71,964)	(2,220)	(83,456)	(2,528)
Non-operating expense and losses		-	-	(1,568)	(47)
Total expenses		(85,702)	(2,644)	(94,409)	(2,860)
Income from continuing operations before income taxes		6,261	193	3,616	109
Income tax expense	2,4(16)	(1,010)	(31)	(1,661)	(50)
Net income from continuing operations		5,251	162	1,955	59
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	173	5	-	-
Net income		$5,424	$167	$1,955	$59
Earnings per share (in dollars)	4(18)				
Net income from continuing operations		$0.01	$0.0003	$0.01	$0.0003
Cumulative effect of changes in accounting principles		-	-	-	-
Net income		$0.01	$0.0003	$0.01	$0.0003

(The exchange rate of March 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.42 and NT$33.01 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statements of changes in stockholders' equity

For the three months ended March 31, 2006 and 2007

(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, 2006	$3,700,000	$114,127	$258,434	$7,972	$-	$-	$-	$-	$56,899	$1,755	$4,015,333	$123,854
Net income for the three months ended March 31, 2006	-	-	-	-	-	-	-	-	5,424	167	5,424	167
Balance on March 31, 2006	$3,700,000	$114,127	$258,434	$7,972	$-	$-	$-	$-	$62,323	$1,922	$4,020,757	$124,021
Balance on January 1, 2007	$3,700,000	$112,087	$258,434	$7,829	$5,690	$172	$11,380	$345	$66,026	$2,000	$4,041,530	$122,433
Net income for the three months ended March 31, 2007	-	-	-	-	-	-	-	-	1,955	59	1,955	59
Balance on March 31, 2007	$3,700,000	$112,087	$258,434	$7,829	$5,690	$172	$11,380	$345	$67,981	$2,059	$4,043,485	$122,492

(The exchange rate of March 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.42 and NT$33.01 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Unaudited statements of cash flows
For the three months ended March 31, 2006 and 2007
(Expressed in thousands of dollars)

ITEMS	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income	$5,424	$167	$1,955	$59
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	6,507	201	7,304	221
Amortization	2,039	63	2,442	74
Loss (gain) on valuation of operating securities	(2,082)	(64)	1,710	52
Gain on valuation of open-end funds and currency market instruments	(2,210)	(68)	(890)	(27)
Recoveries on reserve for trading losses	(590)	(18)	-	-
Reserve for trading losses	420	13	705	21
Reserve for default losses	1,837	57	3,116	94
Investment income recognized by equity method in excess of cash dividends received	(4,465)	(138)	1,568	48
Cumulative effect of changes in accounting principles	(173)	(5)	-	-
Changes in assets and liabilities				
Financial assets at fair value through profit or loss - current				
Decrease in operating securities - dealing	34,917	1,077	105,314	3,190
(Increase) decrease in operating securities - hedging	(15,368)	(474)	14,883	451
Increase in call options - futures	(2,449)	(76)	-	-
Increase in margin for futures trading - own funds	(241,315)	(7,443)	(4,714)	(143)
Decrease in derivative financial instrument assets - GreTai (over-the-counter)	2,216	68	-	-
Increase in receivable amount for margin loans	(299,232)	(9,230)	(91,022)	(2,757)
Decrease in securities refinancing margin deposits	-	-	443	13
Decrease in notes receivable	49	2	-	-
Increase in accounts receivable	(962)	(30)	-	-
(Increase) decrease in accounts receivable - related parties	(200)	(6)	350	11
(Increase) decrease in prepayments	(460)	(14)	412	13
(Increase) decrease in other receivables	1,221	37	(2,611)	(79)
Increase in other current assets	(935)	(29)	(517)	(16)
Increase in securities sold under agreements to repurchase	50,000	1,542	-	-
Financial liabilities at fair value through profit or loss - current				
Decrease in liabilities for issuance of call (put) warrants	-	-	(666)	(20)
Increase in put options - futures	1,299	40	-	-
Decrease in derivative financial instrument liabilities - GreTai (over-the-counter)	-	-	(3,053)	(92)
Increase (decrease) in securities financing guarantee deposits-in	3,173	98	(4,541)	(137)
Increase (decrease) in deposit payable for securities financing	3,503	108	(4,951)	(150)
Decrease in accounts payable	(1,603)	(50)	(8,751)	(265)
Increase in accounts payable - related parties	57	2	117	4
Decrease in accounts collected in advance	(5,254)	(162)	-	-
Decrease in receipts under custody	(191)	(6)	(752)	(23)
Decrease in other payables	(5,002)	(154)	(2,106)	(64)
Increase in other payables - related parties	56	2	673	20
Increase in other financial liabilities - current	54,588	1,684	47,342	1,434
Increase (decrease) in other current liabilities	227	7	(7)	-
Net change in deferred income tax assets/liabilities	(813)	(25)	(221)	(7)
Increase (decrease) in other long-term liabilities	77	2	(173)	(5)
Increase (decrease) in accrued pension liability	(380)	(12)	366	11
Net change in securities brokerage debit/credit accounts - net	31,697	978	8,280	251
Net cash provided by (used in) operating activities	(384,377)	(11,856)	72,005	2,182

(Forward)

(The exchange rate of March 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.42 and NT$33.01 to US$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statements of cash flows

For the three months ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

ITEMS	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
	NT$	US$	NT$	US$
Cash flows from investing activities				
Financial assets at fair value through profit or loss - current				
(Increase) decrease in open-end funds and currency market instruments	(60,256)	(1,859)	96,782	2,932
Decrease in restricted assets - current	600,000	18,507	50,000	1,515
Acquisition of long-term investments under equity method	(710,406)	(21,912)	-	-
Acquisition of property and equipment	(5,165)	(159)	(78)	(2)
Increase in other intangible assets	(620)	(19)	(348)	(11)
Increase (decrease) in settlement and clearance funds	(4,500)	(139)	475	14
Decrease in guarantee deposits paid	-	-	9,913	300
Net cash provided by (used in) investing activities	(180,947)	(5,581)	156,744	4,748
Cash flows from financing activities				
Decrease in guarantee deposits-in	(1,154)	(36)	-	-
Net cash used in financing activities	(1,154)	(36)	-	-
Increase (decrease) in cash and cash equivalents	(566,478)	(17,473)	228,749	6,930
Cash and cash equivalents at the beginning of period	1,463,108	45,130	450,393	13,644
Cash and cash equivalents at the end of period	$896,630	$27,657	$679,142	$20,574
Supplemental disclosure of cash flows information				
Interest paid during the period	$29	$1	$37	$1
Interest paid (excluding capitalized interest)	$29	$1	$37	$1
Income tax paid	$1,815	$56	$869	$26

(The exchange rate of March 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.42 and NT$33.01 to US$1.00, respectively)

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

<u>**English Translation of Financial Statements Originally Issued in Chinese**</u>

Cathay Securities Corporation

Notes to unaudited financial statements

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

As of March 31, 2006 and 2007

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 March 31, 2007, the Company had 3 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of March 31, 2006 and 2007, the Company had 161 and 165 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

Pursuant to 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" the Company's 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". Financial assets 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) Intangible assets

As of January 1, 2007, the Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No.37 "Accounting for Intangible Assets". Intangible assets are initially recognized at cost expect intangible assets granted by government are recognized at fair value. After initial recognition, intangible assets are carried at cost plus incremental gains following statutory revaluation less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets of the Company are deemed to be finite.

The amortization of intangible assets with finite useful lives is allocated on a systematic basis over their useful lives. Impairment testing is performed when there are indications of impairment. The Company evaluates the residual values, amortization periods and amortization methods of its intangible assets with finite useful lives at the end of each annual accounting period and changes are treated as changes in accounting estimates.

The "other intangible assets" of the Company primarily includes computer software which are amortized over an estimated useful lives of 3 to 5 years using the straight-line method.

(10) 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 compares the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and writes down the carrying amount to the recoverable amount when applicable. The 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 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 recalculates the recoverable amount of the asset. If the recoverable amount increases as a result of an increase in the estimated service potential of the asset, the Company reverses the impairment loss but only to the extent that the carrying amount after the reversal does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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

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

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

(11) Accounting for impairment of financial assets

The Company 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.

(12) Reserve for default losses

According to the Regulations Governing Securities Firms, a securities firm trading securities for customer accounts must 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 can 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$6,059) reserving is suspended.

(13) Reserve for trading losses

According to the Regulations Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT$200,000 (US$6,059). 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 must 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.

(14) 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 March 2004, the Company has made contributions to the retirement fund, which is administered by the Employees' Retirement Fund Committee and deposited in the Committee's name in the Central Trust of China under the Labor Standards Law. The activities of the retirement fund are separated from those of the Company and therefore, they are not reflected in the accompanying financial statements.

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

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

According to ROC SFAS No.23 "Interim Financial Reporting and Disclosures", certain pension information is not required to be disclosed in the Company's interim financial statements.

(15) 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.

(16) 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.

(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$32.42 and NT$33.01 to US$1.00 effective on March 31, 2006 and 2007, 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.

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

3. Changes in accounting and their effects

The Company 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 March 31, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
Cash on hand	$120	$4	$120	$4
Savings accounts	118,864	3,666	74,051	2,243
Checking accounts	328	10	34	1
Time deposits	777,318	23,977	604,937	18,326
Total	$896,630	$27,657	$679,142	$20,574
Annual interest rate of time deposits	1.15%-1.84%		1.07%~2.17%	

As of March 31, 2006 and 2007, 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

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
Open-end funds and currency market instruments	$822,526	$25,371	$526,887	$15,961
Operating securities – dealing	50,046	1,544	227,685	6,898
Operating securities – hedging	56,462	1,741	21,605	654
Call options-futures	2,449	76	-	-
Margin for futures trading – own funds	303,127	9,350	313,282	9,491
Derivative financial instrument assets – GreTai (over-the-counter)	3,029	93	-	-
Total	$1,237,639	$38,175	$1,089,459	$33,004

As of March 31, 2006 and 2007, 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

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$5,858	US$
Open-end funds	$820,256	$25,301	$521,029	$15,784
Add: Valuation adjustment	2,270	70	5,858	177
Net	$822,526	$25,371	$526,887	$15,961

B. Operating securities – dealing

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
OTC stocks	$61	$2	$-	$-
Real Estate Investment Trusts (REITs)	-	-	173,069	5,243
OTC corporate bonds	50,000	1,542	50,000	1,515
Subtotal	50,061	1,544	223,069	6,758
Add (Less): Valuation adjustment	(15)	-	4,616	140
Net	$50,046	$1,544	$227,685	$6,898

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

C. Operating securities – hedging

Item	March 31, 2006 NT$	March 31, 2006 US$	March 31, 2007 NT$	March 31, 2007 US$
Listed stocks	$24,942	$769	$21,650	$655
OTC stocks	30,809	950	-	-
Subtotal	55,751	1,719	21,650	655
Add (Less): Valuation adjustment	711	22	(45)	(1)
Net	$56,462	1,741	$21,605	$654

D. Margin for futures trading – own funds

	March 31, 2006					
Futures trading company	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$302,955	$9,345	$172	$5	$303,127	$9,350

	March 31, 2007					
Futures trading company	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$313,290	$9,491	$(8)	$-	$313,282	$9,491

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

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

See note 10.

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

(3) Receivable amount for margin loans

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
Receivable amount for margin loans	$299,232	$9,230	$843,451	$25,551
Less: Allowance for bad debts	-	-	-	-
Net	$299,232	$9,230	$843,451	$25,551

A. For the three months ended March 31, 2006 and 2007, receivable amount for margin loans had an annual interest rate of 6.25% and 6.60%, respectively.

B. As of March 31, 2006 and 2007, the market value of securities used for collateral in connection with the Company's margin loan activity was NT$530,355(US$16,359), and NT$1,499,030 (US$45,411), respectively.

(4) Long-term investments under equity method

A.

	March 31, 2006			March 31, 2007		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Cathay Futures Co., Ltd.	$714,872	$22,050	99.99%	$718,101	$21,754	99.99%

B. The investment income recognized by the equity method as of March 31, 2006 and 2007 are listed below:

	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
Name of investee	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$4,465	$138	$(1,568)	$(48)

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

D. As of March 31, 2006 and 2007, 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

	March 31, 2006			March 31, 2007		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Stock:						
Taiwan Futures						
Exchange Corporation	$18	$1	-	$18	$1	-

As of March 31, 2006 and 2007, none of the available-for-sale financial assets – noncurrent were pledged to other parties.

(6) Property and equipment

	March 31, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$83,799	$2,585	$21,219	$654	$62,580	$1,931
Prepayment for equipment	8,276	255	-	-	8,276	255
Leasehold improvement	38,335	1,182	4,753	147	33,582	1,035
Total	$130,410	$4,022	$25,972	$801	$104,438	$3,221

	March 31, 2007					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$90,502	$2,742	$40,504	$1,227	$49,998	$1,515
Prepayment for equipment	87	2	-	-	87	2
Leasehold improvement	51,853	1,571	12,739	386	39,114	1,185
Total	$142,442	$4,315	$53,243	$1,613	$89,199	$2,702

As of March 31, 2006 and 2007, 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) Other intangible assets

	January 1, 2006		Increase		Decrease		March 31, 2006	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software	$24,715	$762	$620	$19	$(631)	$(19)	$24,704	$762
Amortization and impairment:								
Amortization	(6,776)	(208)	(2,039)	(63)	631	19	(8,184)	(252)
Book value	$17,939	$554					$16,520	$510

	January 1, 2007		Increase		Decrease		March 31, 2007	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software	$29,313	$888	$348	$11	$(1,789)	$(54)	$27,872	$845
Amortized and impairment:								
Amortized	(16,237)	(492)	(2,442)	(74)	1,789	54	(16,890)	(512)
Book value	$13,076	$396					$10,982	$333

The other intangible assets of the Company are computer software which are amortized using the straight-line method over estimated useful lives of 3~5 years.

(8) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms and the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT$215,097 (US$6,635) and NT$215,097 (US$6,516) as of March 31, 2006 and 2007, respectively.

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT$47,535 (US$1,466) and NT$46,260 (US$1,401) in settlement and clearance funds as of March 31, 2006 and 2007, respectively.

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

(10) Securities brokerage credit accounts – net

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
Debit balance:				
Cash and cash equivalents – settlement amount	$66	$2	$1,375	$42
Clearance	57,782	1,782	419,890	12,720
Accounts receivable – brokering	397,578	12,264	616,527	18,677
Subtotal	455,426	14,048	1,037,792	31,439
Credit balance:				
Accounts payable – brokering	(478,448)	(14,758)	(1,038,774)	(31,469)
Net	$(23,022)	$(710)	$(982)	$(30)

(11) Securities sold under agreements to repurchase

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
OTC corporate bonds	$50,000	$1,542	$-	$-

As of March 30, 2006, securities sold under agreements to repurchase were due within one year with annual interest rates 1.60%. These bonds were made available for repurchase at an agreed aggregate amount of NT$50,068 (US$1,544) between April 28 – May 2, 2006.

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

	March 31, 2006		March 31, 2007	
Item	NT$	US$	NT$	US$
Liabilities for issuance of call (put) warrants	$-	$-	$800	$24
Repurchase of issued call (put) warrants	-	-	(180)	(5)
Put options - futures	1,432	44	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	-	-	1,892	57
Total	$1,432	$44	$2,512	$76

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

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:

		March 31, 2007 (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 02	ACER Incorporated	2006.11.30	20,000	$0.298	$84.20	$0.04	20.64	$5,960	$800
Less: Gains from changes in value of call (put) warrants								(5,160)	
Net								$800	

		March 31, 2007 (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 02	ACER Incorporated	2006.11.30	20,000	$0.009	$2.55	$0.001	20.64	$181	$24
Less: Gains from changes in value of call (put) warrants								(157)	
Net								$24	

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.

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

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

	March 31, 2007 (NT$)		
Name	Unit repurchased (thousands)	Repurchase cost	Market value
Cathay 02	$4,512	$1,246	$180
Less: Losses from changes in value of call (put) warrants		(1,066)	
Net		$180	

	March 31, 2007 (US$)		
Name	Unit repurchased (thousands)	Repurchase cost	Market value
Cathay 02	$4,512	$38	$5
Less: Losses from changes in value of call (put) warrants		(33)	
Net		$5	

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

See note 10.

(13) Capital Stock

As of March 31, 2006 and 2007, 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.

(14) Capital surplus

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.

(15) 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. 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.

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

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

D. According to an explanatory letter of the SFB, commencing on January 1, 2007, in addition to the legal reserve, the Company will be required to provision for a special reserve in an amount equal to "unrealized loss from financial instruments".

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

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

(16) Income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income before income tax in the statements of income for the years ended March 31, 2006 and 2007, are as follows:

Item	For the three months ended March 31, 2006 NT$	US$	For the three months ended March 31, 2007 NT$	US$
Income before income taxes	$6,261	$193	$3,616	$109
Adjustments:				
Interest income taxed on a separate basis	(5,775)	(178)	(3,497)	(106)
Adjusted revenue and expense from dealing departments	6,804	210	848	26
Gain on valuation of open-end funds and currency market instruments	(2,210)	(68)	(890)	(27)
Unrealized gain (loss) on valuation of operating securities	(2,082)	(64)	1,710	52
Unrealized gain (loss) from derivative financial instruments – GreTai (over-the-counter)	2,683	83	(3,278)	(99)
Investment (income) loss recognized on equity method investments	(4,465)	(138)	1,568	48
Option premium for issuance of call (put) warrants	-	-	3,086	94
Loss from issuing call (put) warrants	-	-	(1,675)	(51)
Reserve for default losses	1,837	57	3,116	94
Provision for pensions	(380)	(12)	366	11
Others	-	-	8	-
Taxable income	2,673	83	4,978	151
Times: tax rates	25%	25%	25%	25%
Subtotal	668	20	1,244	38
Add: Tax effects under integrated income tax system	-	-	(61)	(2)
Subtotal	668	20	1,183	36
Tax on a separate basis	1,155	36	699	21
Deferred tax benefit	(813)	(25)	(221)	(7)
Total income tax expense	$1,010	$31	$1,661	$50

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

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

	March 31, 2006		March 31, 2007	
	NT$	US$	NT$	US$
a. Total deferred income tax assets	$2,787	$86	$5,020	$152
b. Total deferred income tax liabilities	$178	$6	$-	$-
c. Temporary differences:				
Reserve for default losses	$8,932	$276	$17,167	$520
Provision for pensions	806	25	2,655	80
Unrealized gain from derivative financial instruments	1,408	43	231	7
Unrealized gain (loss) on valuation of operating securities – hedging	(711)	(22)	27	1
Total	$10,435	$322	$20,080	$608

	March 31, 2006		March 31, 2007	
	NT$	US$	NT$	US$
d. Deferred income tax assets – current	$352	$11	$65	$2
Deferred income tax liabilities – current	(178)	(6)	-	-
Net deferred income tax assets – current	$174	$5	$65	$2
Deferred income tax assets – noncurrent	$2,435	$75	$4,955	$150
Net deferred income tax assets – noncurrent	$2,435	$75	$4,955	$150

C. Information related to tax imputation:

	March 31, 2006		March 31, 2007	
	NT$	US$	NT$	US$
Balance of imputation credit account	$8,085	$249	$9,022	$273

	March 31, 2006 (Actual)	March 31, 2007 (Estimated)
Imputation credit account ratio	14.45%	13.66%

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

D. Information related to undistributed earnings:

	March 31, 2006		March 31, 2007	
	NT$	US$	NT$	US$
After 1998	$56,899	$1,755	$66,026	$2,000

Undistributed earnings after 1998 does not include net income for the three months ended March 31, 2006 and 2007.

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.

(17) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the three months ended March 31, 2006 and 2007 are summarized as follows:

Item	For the three months ended March 31, 2006 (NT$)			For the three months ended March 31, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$33,226	$33,226	$-	$1,025	$1,025
Labor & health insurance expenses	-	2,042	2,042	-	63	63
Pension expenses	-	1,884	1,884	-	58	58
Other expenses	-	1,342	1,342	-	41	41
Depreciation	-	6,507	6,507	-	201	201
Depletion	-	-	-	-	-	-
Amortization	-	2,039	2,039	-	63	63

<u>**English Translation of Financial Statements Originally Issued in Chinese**</u>

Cathay Securities Corporation

Notes to unaudited financial statements (continued)

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

As of March 31, 2006 and 2007

Item	For the three months ended March 31, 2007 (NT$)			For the three months ended March 31, 2007 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$37,992	$37,992	$-	$1,151	$1,151
Labor & health insurance expenses	-	2,209	2,209	-	67	67
Pension expenses	-	1,937	1,937	-	59	59
Other expenses	-	1,358	1,358	-	41	41
Depreciation	-	7,304	7,304	-	221	221
Depletion	-	-	-	-	-	-
Amortization	-	2,442	2,442	-	74	74

(18) Earnings per share

For the three months ended March 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	$6,261	$193	$5,251	$162	370,000	$0.02	$0.0006	$0.01	$0.0003
Cumulative effect of changes in accounting principles	211	6	173	5	370,000	-	-	-	-
Net income	$6,472	$199	$5,424	$167		$0.02	$0.0006	$0.01	$0.0003

For the three months ended March 31, 2007

	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	$3,616	$109	$1,955	$59	370,000	$0.01	$0.0003	$0.01	$0.0003

(19) Presentation of financial statements

Certain accounts in the financial statements for the three months ended March 31, 2006 have been reclassified in order to be comparable with those in the financial statements for the three months ended March 31, 2007.

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 (Merged with Cathay United Bank on January 1,2007)
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
Pai Hsing Investment 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

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

Name	Relationship
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

(2) Transactions with related parties

A. Cash in bank

		For the three months ended March 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$124,929	0.10%	$-
	Checking accounts	$328	-	$-
	Negotiable certificates of deposit	$1,325,000	1.24%-1.37%	$5,775

		For the three months ended March 31, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$3,853	0.10%	$-
	Checking accounts	$10	-	$-
	Negotiable certificates of deposit	$40,870	1.24%-1.37%	$178

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

		For the three months ended March 31, 2007		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United	Savings accounts	$71,300	0.10%	$-
Bank Co., Ltd.	Checking accounts	$34	-	$-
	Negotiable certificates of deposit	$965,000	1.50%	$3,495
	Time deposit	$10,000	1.39%-1.74%	$128

		For the three months ended March 31, 2007		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United	Savings accounts	$2,160	0.10%	$-
Bank Co., Ltd.	Checking accounts	$1	-	$-
	Negotiable certificates of deposit	$29,234	1.50%	$106
	Time deposit	$303	1.39%-1.74%	$4

As of March 31, 2006 and 2007, except for NT$700,000 (US$21,592) and NT$600,000 (US$18,176) 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

	March 31, 2006		March 31, 2007	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.				
– Cathay Bond Fund	$310,270	$9,570	$183,996	$5,574
– Cathay Soaring Eagle Bond Fund	-	-	20,150	611
– Cathay Global Money Market Fund	-	-	100,259	3,037
Total	$310,270	$9,570	$304,405	$9,222

C. Operating securities

		March 31, 2006		March 31, 2007	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Cathay No.1 REITs	$-	$-	$177,690	$5,383

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

D. Accounts receivable

	March 31, 2006		March 31, 2007	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$414	$13	$565	$17
Others	-	-	201	6
Total	$414	$13	$766	$23

E. Other payables

	March 31, 2006		March 31, 2007	
Name	NT$	US$	NT$	US$
Cathay Financial Holdings Co., Ltd. (Note)	$15,088	$465	$7,549	$229
Others	-	-	115	3
	$15,088	$465	$7,664	$232

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

F. Brokerage commissions

	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$2,475	$76	$1,339	$40
Cathay Life Insurance Co., Ltd.	22,361	690	24,081	730
Cathay Century Insurance Co., Ltd.	333	10	561	17
Total	$25,169	$776	$25,981	$787

Terms of the transactions between the Company and related parties were comparable to general market terms.

G. Brokerage commissions for introducing futures contracts

	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$957	$29	$1,759	$53

Terms of the transactions between the Company and related parties were comparable to general market terms.

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

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

	For the three months ended March 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.	$101	$3	$98	$3	$99	$3	$303,127	$9,350

	For the three months ended March 31, 2007							
	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.	$182	$6	$321	$10	$188	$6	$313,282	$9,491

I. Rental expenses and guarantee deposits paid

	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	NT$	NT$	NT$	NT$
Cathay United Bank Co., Ltd.	$1,257	$1,318	$1,257	$1,405
Cathay Life Insurance Co., Ltd.	3,982	3,647	4,089	3,785
Total	$5,239	$4,965	$5,346	$5,190

	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	US$	US$	US$	US$
Cathay United Bank Co., Ltd.	$39	$41	$38	$42
Cathay Life Insurance Co., Ltd.	123	112	124	115
Total	$162	$153	$162	$157

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

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

J. Operating expenses

Name	Description	For the three months ended March 31, 2006 NT$	US$	For the three months ended March 31, 2007 NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$398	$12	$441	$13
	Other fees	-	-	558	17
Subtotal		398	12	999	30
Cathay United Bank Co., Ltd.	Other fees	295	9	814	25
Symphox Information Co., Ltd.	Cable service	366	11	286	9
	Other fees	143	5	176	5
Subtotal		509	16	462	14
Total		$1,202	$37	$2,275	$69

K. Non-operating revenue and profits

Name	Description	For the three months ended March 31, 2006 NT$	US$	For the three months ended March 31, 2007 NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$1,200	$37	$600	$18

6. Pledged assets

Item	March 31, 2006 NT$	US$	March 31, 2007 NT$	US$
Restricted assets – time deposits	$700,000	$21,592	$600,000	$18,176

(1) As of March 31, 2006 and 2007, the Company pledged its restricted assets – time deposits to Cathay United Bank Co., Ltd. as collateral for the over-loaning of settlement accounts.

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

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

7. Other important matters and contingent liabilities

As of March 31, 2007, the Company entered into several operating lease agreements and the future payments over the next five years are as follows:

	Amount	
Year	NT$	US$
April 1, 2007 – March 31, 2008	$12,267	$372
April 1, 2008 – March 31, 2009	2,661	81
April 1, 2009 – March 31, 2010	2,118	64
April 1, 2010 – March 31, 2011	1,032	31
April 1, 2011 – March 31, 2012	-	-
Total	$18,078	$548

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

	March 31, 2006			
	Carrying amount (NT$)	Fair value (NT$)	Carrying amount (US$)	Fair value (US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$896,630	$896,630	$27,657	$27,657
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	822,526	822,526	25,371	25,371
Operating securities	106,508	106,508	3,285	3,285
Receivable amount for margin loans	299,232	299,232	9,230	9,230
Receivables	5,815	5,815	179	179
Restricted assets – current	700,000	700,000	21,592	21,592
Long-term investments under equity method	714,872	714,872	22,050	22,050
Available-for-sale financial assets-noncurrent	18	18	1	1
Operating deposits	215,097	215,097	6,635	6,635
Settlement and clearance funds	47,535	47,535	1,466	1,466
Guarantee deposits paid	19,225	19,225	593	593
Liabilities:				
Securities sold under agreements to repurchase	50,000	50,000	1,542	1,542
Securities financial guarantee deposits-in	3,173	3,173	98	98
Deposit payable for securities financing	3,503	3,503	108	108
Payables	30,178	30,178	931	931
Guarantee deposits-in	484	484	15	15
Derivative				
Assets:				
Financial assets at fair value through profit or loss-current				
Call options-futures	2,449	2,449	76	76
Margin for futures trading – own funds	303,127	303,127	9,350	9,350
Derivative financial instrument assets – GreTai (over-the-counter)	3,029	3,029	93	93

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

	March 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				
Put options – futures	1,432	1,432	44	44
Other financial liabilities – current	115,750	115,750	3,570	3,570

	March 31, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$679,142	$679,142	$20,574	$20,574
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	526,887	526,887	15,961	15,961
Operating securities – net	249,290	249,290	7,552	7,552
Receivable amount for margin loans	843,451	843,451	25,551	25,551
Receivables	13,383	13,383	405	405
Restricted assets – current	600,000	600,000	18,176	18,176
Long-term investments under equity method	718,101	718,101	21,754	21,754
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,097	215,097	6,516	6,516
Settlement and clearance funds	46,260	46,260	1,401	1,401
Guarantee deposits paid	28,326	28,326	858	858
Liabilities:				
Securities financing guarantee deposits-in	7,166	7,166	217	217
Deposit payable for securities financing	7,924	7,924	240	240
Payables	26,216	26,216	794	794
Guarantee deposits-in	141	141	4	4

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

	March 31, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Derivative				
Assets:				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	313,282	313,282	9,491	9,491
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants				
Repurchase of issued call (put) warrants	800	800	24	24
Derivative financial instrument liabilities	(180)	(180)	(5)	(5)
-GreTai (over-the-counter)	1,892	1,892	57	57
Other financial liabilities – current	223,045	223,045	6,757	6,757

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, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities sold under agreements to repurchase, securities financing guarantee deposits-in, deposit payable for securities financing, payables and guarantee deposits-in.

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

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

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

The following table summarizes the fair value information of financial assets and liabilities as of March 31, 2006 and 2007:

	March 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	$822,526	$-	$25,371	$-
Operating securities – net	106,508	-	3,285	-
Call options-futures	2,449	-	76	-
Margin for futures trading – own funds	303,127	-	9,350	-
Derivative financial instrument assets – GreTai (over-the-counter)	-	3,029	-	93
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	1,432	-	44	-
Other financial liabilities – current	-	115,750	-	3,570

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

	March 31, 2007			
	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	$526,887	$-	$15,961	$-
Operating securities – net	249,290	-	7,552	-
Margin for futures trading – own funds	313,282	-	9,491	-
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	800	-	24	-
Repurchase of issued call (put) warrants	(180)	-	(5)	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	1,892	-	57
Other financial liabilities – current	-	223,045	-	6,757

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.

(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

	March 31, 2006		March 31, 2007	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Issuance of call warrants	NT$- (US$-)	NT$- (US$-)	NT$5,960 (US$181)	NT$- (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 March 31, 2007, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

Balance sheet

	March 31, 2007	
	Financial liabilities at fair value through profit or loss-current	
	NT$	US$
Liabilities for issuance of call (put) warrants	$800	$24
Repurchase of issued call (put) warrants	(180)	(5)
Total	$620	$19

Statement of income

	For the three months ended March 31, 2007		
	Profit from issuing call (put) warrants		Comments
	NT$	US$	
Liabilities for issuance of call (put) warrants	$(1,760)	$(53)	Fair value method
Repurchase of issued call (put) warrants			
- Loss on disposal	(4,164)	(126)	
- Gain from valuation	2,439	74	Fair value method
Gain from expiration of warrants issued	5,160	156	
Total	$1,675	$51	

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	March 31, 2006		March 31, 2007	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Equity-linked notes	NT$113,200	NT$-	NT$-	NT$-
	(US$3,492)	(US$-)	(US$-)	(US$-)
Principal guaranteed notes	NT$-	NT$-	$225,300	NT$-
	(US$-)	(US$-)	(US$6,825)	(US$-)

The Company's credit risk arises 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 March 31, 2006 and 2007, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

Balance sheet

	March 31, 2006		March 31, 2007	
	NT$	US$	NT$	US$
Derivative financial instrument assets – GreTai (over-the-counter) (note 1)				
Equity-linked notes	$3,029	$93	$-	$-
Derivative financial instrument liabilities – GreTai (over-the-counter) (note 2)				
Principal guaranteed notes	-	-	1,892	57
Other financial liabilities – current				
Principal guaranteed notes	-	-	223,045	6,757
Equity-linked notes	115,750	3,570	-	-

Note 1: Recorded as "Financial assets at fair value through profit or loss – current" in balance sheet.

Note 2: Recorded as "Financial liabilities at fair value through profit or loss – current" in balance sheet.

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

Statement of income

	For the three months ended March 31, 2006		For the three months ended March 31, 2007		
	NT$	US$	NT$	US$	Comments
Gain (loss) on valuation					
- Principal guaranteed notes	$-	$-	$624	$19	Fair value method
- Equity-linked notes	(8,781)	(271)	-	-	〃
Gain (loss) on redemption in advance					
- Principal guaranteed notes	-	-	46	1	
- Equity-linked notes	(61)	(2)	-	-	
Net	$(8,842)	$(273)	$670	$20	

C. Futures and options transactions

As of March 31, 2006 and 2007, the Company's unexercised options were as follows:

March 31, 2006

Item	Nature of Transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Options	TXO-Call	Sell	150	$757	$23	$1,432	$44
Options	TXO-Call	Buy	450	$1,229	$38	$2,220	$69
Options	TXO-Put	Buy	150	$301	$9	$229	$7
Futures	TAIEX futures	Buy	30	$39,194	$1,209	$39,366	$1,214

March 31, 2007

Item	Nature of Transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Futures	TAIEX futures	Buy	10	$15,676	$475	$15,668	$475

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

a. Nominal principal or contract amount and credit risk

	March 31, 2006	
Financial instruments	Nominal principal/ contract amount	Credit risk
For trading purposes		
TXO	NT$2,287 (US$70)	$-
TAIEX futures	NT$39,194 (US$1,209)	$-

	March 31, 2007	
Financial instruments	Nominal principal/ contract amount	Credit risk
TAIEX futures	NT$15,676 (US$475)	$-

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 March 31, 2006 and 2007, the related gain (loss) of futures and options on the statements of income were as follows:

Gain from derivative financial instruments – futures	For the three months ended March 31, 2006		For the three months ended March 31, 2007	
	NT$	US$	NT$	US$
Gain on futures contracts - realized	$873	$27	$3,713	$112
Gain (Loss) on futures contracts - unrealized	427	13	(8)	-
Gain from options transactions - realized	1,011	31	1,009	31
Gain from options transactions - unrealized	153	5	-	-
Total	$2,464	$76	$4,714	$143