Cathay Securities Corporation
Financial Statements
As of June 30, 2006 and 2007
With Independent Auditors' 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", "Regulation on Business Entity Accounting Handling", "Criteria Governing the Preparation of Financial Reports by Securities Firms", and the "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC. 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.

Address: 17~18 Fl., No. 296, Jen-Ai Road, Sec. 4, Taipei, Taiwan, ROC
Telephone: (02)2326-9888

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English Translation of Report Originally Issued in Chinese

Independent Auditor's Report

To: Board of Directors
Cathay Securities Corporation

We have audited the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of June 30, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the six months ended June 30, 2006 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement 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 June 30, 2006 and 2007, and the results of its operations and their cash flows for the six months ended June 30, 2006 and 2007 in conformity with " Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling", "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 reviewed the consolidated financial statements of the Company as of and for the six months ended June 30, 2006 and 2007, and expressed a modified unqualified review report and an unqualified review report , respectively.

Ernst & Young
Taipei, Taiwan
Republic of China
July 25, 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

Balance sheets

As of June 30, 2006 and 2007

(Expressed in thousands of dollars)

ASSETS	NOTES	June 30,2006 NT$	June 30,2006 US$	June 30,2007 NT$	June 30,2007 US$
Current assets					
Cash and cash equivalents	2,4(1),5	$493,652	$15,269	$475,377	$14,480
Financial assets at fair value through profit or loss - current	2,4(2),5,10	1,054,351	32,612	1,506,667	45,893
Receivable amount for margin loans	2,4(3)	543,597	16,814	943,591	28,742
Securities refinancing margin deposits	2	499	15	-	-
Accounts receivable		196	6	9	-
Accounts receivable - related parties	5	651	20	800	24
Prepayments		1,693	52	458	14
Other receivables		5,731	178	58,451	1,780
Restricted assets - current	6	900,000	27,838	300,000	9,138
Deferred income tax assets - current	2,4(16)	170	5	-	-
Other current assets		1,765	55	1,627	50
Total current assets		3,002,305	92,864	3,286,980	100,121
Funds and investments					
Long-term investments under equity method	2,4(4)	721,851	22,327	717,306	21,849
Available-for-sale financial assets - noncurrent	2,4(5)	18	1	18	1
Total funds and investments		721,869	22,328	717,324	21,850
Property and equipment	2,4(6)				
Equipment		85,328	2,640	88,934	2,709
Prepayment for equipment		7,927	245	843	26
Leasehold improvement		38,570	1,193	51,853	1,579
Less: Accumulated depreciation		(32,749)	(1,013)	(59,754)	(1,820)
Net property and equipment		99,076	3,065	81,876	2,494
Intangible assets					
Deferred pension cost	2	1,928	60	-	-
Other intangible assets	2,4(7),5	17,415	539	9,588	292
Total intangible assets		19,343	599	9,588	292
Other assets					
Operating deposits	4(8)	215,098	6,653	225,097	6,856
Settlement and clearance funds	4(9)	56,335	1,742	50,550	1,540
Guarantee deposits paid	5	19,238	595	28,326	863
Deferred income tax assets - noncurrent	2,4(16)	3,027	94	5,747	175
Total other assets		293,698	9,084	309,720	9,434
Securities brokerage debit accounts - net	4(10)	18,815	582	-	-
Total assets		$4,155,106	$128,522	$4,405,488	$134,191

(The exchange rate of June 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.33 and NT$32.83 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
Balance sheets
As of June 30, 2006 and 2007
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	June 30,2006 NT$	June 30,2006 US$	June 30,2007 NT$	June 30,2007 US$
Current liabilities					
Securities sold under agreements to repurchase	2,4(11)	$10,040	$311	$-	$-
Financial liabilities at fair value through profit or loss - current	2,4(12),5,10	4	-	5,984	182
Securities financing guarantee deposits-in	2	3,665	113	6,029	184
Deposit payable for securities financing	2	4,050	125	6,662	203
Accounts payable		4,961	153	15,194	463
Accounts payable - related parties	5	63	2	124	4
Accounts collected in advance		-	-	1,927	59
Receipts under custody		3,747	116	9,083	277
Other payables		14,097	436	32,706	996
Other payables - related parties	5	4,385	136	8,418	256
Deferred income tax liabilities - current	2,4(16)	-	-	8	-
Other financial liabilities - current	2,10	75,282	2,329	238,315	7,259
Other current liabilities		37	1	20	1
Total current liabilities		120,331	3,722	324,470	9,884
Long-term liabilities					
Other long-term liabilities		211	6	633	19
Other liabilities					
Reserve for default losses	2	10,831	335	19,975	608
Reserve for trading losses	2	154	5	1,464	45
Guarantee deposits-in		484	15	141	4
Accrued pension liability - noncurrent	2	3,204	99	3,014	92
Total other liabilities		14,673	454	24,594	749
Securities brokerage credit accounts - net	4(10)	-	-	11,656	355
Total liabilities		135,215	4,182	361,353	11,007
Stockholders' equity					
Capital stock					
Common stock	4(13)	3,700,000	114,445	3,700,000	112,702
Capital surplus	4(14)	258,434	7,994	258,434	7,872
Retained earnings	4(15)				
Legal reserve		5,690	176	8,310	253
Special reserve		11,380	352	16,619	506
Unappropriated retained earnings		44,387	1,373	60,772	1,851
Total stockholders' equity		4,019,891	124,340	4,044,135	123,184
Total liabilities and stockholders' equity		$4,155,106	$128,522	$4,405,488	$134,191

(The exchange rate of June 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.33 and NT$32.83 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 six months ended June 30, 2006 and 2007

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

ITEMS	NOTES	For the six months ended June 30, 2006 NT$	US$	For the six months ended June 30, 2007 NT$	US$
Revenue	2,5				
Brokerage commissions		$114,438	$3,540	$130,556	$3,977
Revenue from underwriting commissions		57	2	23,072	703
Profit from trading securities		12,830	397	4,737	144
Interest revenue		9,136	282	26,231	799
Dividend revenue		-	-	6,955	212
Profit from issuing call (put) warrants	10	-	-	6,055	184
Brokerage commissions for introducing futures contracts		2,862	89	3,470	106
Gain from derivative financial instruments - futures	10	2,158	67	4,372	133
Other operating revenue		9,809	303	1,811	55
Non-operating revenue and profits		31,595	977	19,613	597
Total revenue		182,885	5,657	226,872	6,910
Expenses	2,5				
Brokerage securities transaction charges		(8,668)	(268)	(12,173)	(371)
Dealing securities transaction charges		(709)	(22)	(1,261)	(39)
Refinancing transaction fees		(3)	-	(2)	-
Interest expense		(621)	(19)	(45)	(1)
Loss on valuation of operating securities		(6,497)	(201)	(4,099)	(125)
Expenses from issuing call (put) warrants		-	-	(64)	(2)
Clearing and settlement fees		(251)	(8)	(407)	(12)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(6,480)	(200)	(4,478)	(136)
Operating expenses		(149,998)	(4,640)	(166,792)	(5,080)
Non-operating expense and losses		-	-	(7,029)	(214)
Total expenses		(173,227)	(5,358)	(196,350)	(5,980)
Income from continuing operations before income taxes		9,658	299	30,522	930
Income tax expense	2,4(16)	(5,273)	(163)	(9,578)	(292)
Net income from continuing operations		4,385	136	20,944	638
Cumulative effect of changes in accounting principles (less tax expense NT$38(US$1))	3	173	5	-	-
Net income		$4,558	$141	$20,944	$638
Earnings per share (in dollars)	4(18)				
Net income from continuing operations		$0.01	$0.0003	$0.06	$0.0018
Cumulative effect of changes in accounting principles		-	-	-	-
Net income		$0.01	$0.0003	$0.06	$0.0018

(The exchange rate of June 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.33 and NT$32.83 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 six months ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

SUMMARY	Common stock		Capital surplus		Retained earnings: Legal reserve		Retained earnings: Special reserve		Retained earnings: Unappropriated retained earnings		Total	
	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)	(NT$)	(US$)
Balance on January 1, 2006	$3,700,000	$114,445	$258,434	$7,994	$-	$-	$-	$-	$56,899	$1,760	$4,015,333	$124,199
Appropriations and distributions of 2005:												
Legal reserve					5,690	176			(5,690)	(176)	-	-
Special reserve							11,380	352	(11,380)	(352)	-	-
Net income for the six months ended June 30, 2006									4,558	141	4,558	141
Balance on June 30, 2006	$3,700,000	$114,445	$258,434	$7,994	$5,690	$176	$11,380	$352	$44,387	$1,373	$4,019,891	$124,340
Balance on January 1, 2007	$3,700,000	$112,702	$258,434	$7,872	$5,690	$173	$11,380	$347	$66,026	$2,011	$4,041,530	$123,105
Legal reserve					2,620	80			(2,620)	(80)	-	-
Special reserve							5,239	159	(5,239)	(159)	-	-
Cash dividends									(17,757)	(541)	(17,757)	(541)
Bonus paid to employees									(582)	(18)	(582)	(18)
Net income for the six months ended June 30, 2007									20,944	638	20,944	638
Balance on June 30, 2007	$3,700,000	$112,702	$258,434	$7,872	$8,310	$253	$16,619	$506	$60,772	$1,851	$4,044,135	$123,184

(The exchange rate of June 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.33 and NT$32.83 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 six months ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

ITEMS	For the six months ended June 30, 2006 NT$	US$	For the six months ended June 30, 2007 NT$	US$
Cash flows from operating activities				
Net income	$4,558	$141	$20,944	$638
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	13,285	411	14,530	443
Amortization	4,144	128	5,422	165
Loss on valuation of operating securities	6,497	201	4,099	125
(Gain) loss on valuation of open-end funds and currency market instruments	(3,736)	(116)	5,331	162
Recoveries on reserve for trading losses	(266)	(8)	(1,032)	(31)
Reserve for trading losses	-	-	923	28
Reserve for default losses	3,736	116	5,925	181
Investment income recognized by equity method in excess of cash dividends received	(11,444)	(354)	2,363	72
Loss on disposal of property and equipment	-	-	515	16
Cumulative effect of changes in accounting principles	(173)	(5)	-	-
Changes in assets and liabilities				
Financial assets at fair value through profit or loss - current				
(Increase) decrease in operating securities - dealing	4,340	134	(104,092)	(3,171)
Increase in operating securities - underwriting	-	-	(530,000)	(16,144)
Increase in operating securities - hedging	(16,766)	(519)	(62,373)	(1,900)
Increase in call options - futures	(11)	-	-	-
Increase in margin for futures trading - own funds	(242,018)	(7,486)	(4,508)	(137)
Increase in derivative financial instrument assets - GreTai (over-the-counter)	(5,596)	(173)	-	-
Increase in receivable amount for margin loans	(543,597)	(16,814)	(191,162)	(5,823)
(Increase) decrease in securities refinancing margin deposits	(499)	(15)	443	14
Decrease in notes receivable	49	1	-	-
(Increase) decrease in accounts receivable	899	28	(9)	-
(Increase) decrease in accounts receivable - related parties	(436)	(14)	316	10
(Increase) decrease in prepayments	(605)	(19)	456	14
Increase in other receivables	(1,166)	(36)	(48,445)	(1,476)
Increase in other current assets	(1,590)	(49)	(1,539)	(47)
Increase in securities sold under agreements to repurchase	10,040	311	-	-
Financial liabilities at fair value through profit or loss - current				
Decrease in liabilities for issuance of call (put) warrants	-	-	(417)	(13)
Decrease in put options - futures	(129)	(4)	-	-
Increase in derivative financial instrument liabilities - GreTai (over-the-counter)	-	-	169	5
Increase (decrease) in securities financing guarantee deposits-in	3,665	113	(5,678)	(173)
Increase (decrease) in deposit payable for securities financing	4,050	125	(6,213)	(189)
Decrease in accounts payable	(1,950)	(60)	(1,830)	(56)
Increase in accounts payable - related parties	20	1	53	2
Increase (decrease) in accounts collected in advance	(5,255)	(163)	1,927	59
Increase (decrease) in receipts under custody	(20)	(1)	2,658	81
Increase (decrease) in other payables	(589)	(18)	20,509	625
Increase (decrease) in other payables - related parties	(10,647)	(329)	1,427	43
Increase in other financial liabilities - current	14,120	437	62,612	1,907
Increase (decrease) in other current liabilities	(83)	(3)	9	-
Net change in deferred income tax assets/liabilities	(1,402)	(43)	(940)	(29)
Increase in other long-term liabilities	211	7	164	5
Increase in accrued pension liability	89	3	724	22
Net change in securities brokerage debit/credit accounts - net	(10,140)	(314)	18,953	577
Net cash used in operating activities	(788,415)	(24,386)	(787,766)	(23,995)

(The exchange rate of June 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.33 and NT$32.83 to US$1.00, respectively)

(Forward)

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 six months ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

ITEMS	For the six months ended June 30, 2006 NT$	US$	For the six months ended June 30, 2007 NT$	US$
Cash flows from investing activities				
Financial assets at fair value through profit or loss - current				
Decrease in open-end funds and currency market instruments	154,034	4,764	487,420	14,847
Decrease in restricted assets - current	400,000	12,372	350,000	10,661
Acquisition of long-term investments under equity method	(710,407)	(21,974)	-	-
Acquisition of property and equipment	(6,581)	(203)	(834)	(25)
Disposal of property and equipment	-	-	338	10
Increase in other intangible assets	(3,620)	(112)	(1,934)	(59)
Increase in settlement and clearance funds	(13,300)	(411)	(3,815)	(116)
Increase in operating deposits	-	-	(10,000)	(305)
(Increase) decrease in guarantee deposits paid	(13)	-	9,914	302
Net cash provided by (used in) investing activities	(179,887)	(5,564)	831,089	25,315
Cash flows from financing activities				
Decrease in guarantee deposits-in	(1,154)	(36)	-	-
Cash dividends	-	-	(17,757)	(541)
Bonus paid to employees	-	-	(582)	(18)
Net cash used in financing activities	(1,154)	(36)	(18,339)	(559)
Increase (decrease) in cash and cash equivalents	(969,456)	(29,986)	24,984	761
Cash and cash equivalents at the beginning of period	1,463,108	45,255	450,393	13,719
Cash and cash equivalents at the end of period	$493,652	$15,269	$475,377	$14,480
Supplemental disclosure of cash flows information				
Interest paid during the period	$163	$5	$57	$2
Interest paid (excluding capitalized interest)	$163	$5	$57	$2
Income tax paid	$17,447	$540	$8,815	$269

(The exchange rate of June 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT$32.33 and NT$32.83 to US$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements

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

As of June 30, 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 June 30, 2007, the Company had 4 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of June 30, 2006 and 2007, the Company had 167 and 194 employees, respectively.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with the "Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling", "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 "principal of structured notes". Any options purchased are recognized as "structured notes transactions", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) from structured 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 "principal of structured notes". Any options purchased are recognized as "structured notes transactions", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) from structured 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 held 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 recorded 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 except intangible assets granted by the 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 is amortized over the 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 to offset 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$6,092) 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$6,092). 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$32.33 and NT$32.83 to US$1.00 effective on June 30, 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.

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 six months ended June 30, 2006.

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

4. Breakdown of significant accounts

(1) Cash and cash equivalents

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Cash on hand	$120	$4	$170	$5
Savings accounts	20,690	640	114,107	3,476
Time deposits	472,842	14,625	361,100	10,999
Total	$493,652	$15,269	$475,377	$14,480
Annual interest rate of time deposits	1.20%~1.56%		1.39%~2.245%	

As of June 30, 2006 and 2007, none of the cash and cash equivalents were pledged to other parties.

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

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Open-end funds and currency market instruments	$609,763	$18,861	$130,027	$3,961
Operating securities – dealing	80,999	2,505	433,594	13,207
Operating securities – underwriting	-	-	530,014	16,144
Operating securities – hedging	48,906	1,513	99,955	3,045
Call options-futures	11	-	-	-
Margin for futures trading – own funds	303,830	9,398	313,077	9,536
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	335	-	-
Total	$1,054,351	$32,612	$1,506,667	$45,893

As of June 30, 2006 and 2007, none of the financial assets at fair value through profit or loss – current were pledged to other parties.

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

A. Open-end funds and currency market instruments

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Open-end funds	$605,967	$18,743	$130,391	$3,972
Add (Less) : Valuation adjustment	3,796	118	(364)	(11)
Net	$609,763	$18,861	$130,027	$3,961

B. Operating securities – dealing

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Listed stocks	$-	$-	$35,490	$1,081
Real Estate Investment Trusts (REITs)	30,637	948	184,958	5,634
OTC corporate bonds	50,000	1,546	50,000	1,523
Real Estate Asset Trust (REAT)	-	-	150,000	4,569
Emerging stocks	-	-	12,026	366
Subtotal	80,637	2,494	432,474	13,173
Add: Valuation adjustment	362	11	1,120	34
Net	$80,999	$2,505	$433,594	$13,207

C. Operating securities - underwriting

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Real Estate Asset Trust (REAT)	$-	$-	$530,000	$16,144
Add: Valuation adjustment	-	-	14	-
Net	$-	$-	$530,014	$16,144

D. Operating securities – hedging

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Listed stocks	$38,306	$1,185	$98,907	$3,013
OTC stocks	18,844	583	-	-
Subtotal	57,150	1,768	98,907	3,013
Add (Less): Valuation adjustment	(8,244)	(255)	1,048	32
Net	$48,906	$1,513	$99,955	$3,045

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

E. Margin for futures trading – own funds

	June 30, 2006					
Futures trading company	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$303,830	$9,398	$-	$-	$303,830	$9,398

	June 30, 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.	$312,926	$9,532	$151	$4	$313,077	$9,536

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

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

See note 10.

(3) Receivable amount for margin loans

Item	June 30, 2006 NT$	June 30, 2006 US$	June 30, 2007 NT$	June 30, 2007 US$
Receivable amount for margin loans	$543,597	$16,814	$943,591	$28,742
Less: Allowance for bad debts	-	-	-	-
Net	$543,597	$16,814	$943,591	$28,742

For the six months ended June 30, 2006 and 2007, receivable amount for margin loans had an annual interest rate of 6.25% and 6.60%, respectively.

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

(4) Long-term investments under equity method

A.

	June 30, 2006			June 30, 2007		
Name of investee	NT$	US$	Percentage of ownership	NT$	US$	Percentage of ownership
Cathay Futures Co., Ltd.	$721,851	$22,327	99.99%	$717,306	$21,849	99.99%

B. Changes in investments under the equity method as of June 30, 2006 and 2007 are listed below:

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
Item	NT$	US$	NT$	US$
Balance on January 1	$-	$-	$719,669	$21,921
Increase in investments	710,407	21,973	-	-
Investment income (loss) recognized under the equity method	11,444	354	(1,183)	(36)
Cash dividends	-	-	(1,180)	(36)
Balance on June 30	$721,851	$22,327	$717,306	$21,849

C. The investment income recognized by the equity method as of June 30, 2006 and 2007 is listed below:

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
Name of investee	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$11,444	$354	$(1,183)	$(36)

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

E. As of June 30, 2006 and 2007, none of the long-term investments under the 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

	June 30, 2006			June 30, 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 June 30, 2006 and 2007, none of the available-for-sale financial assets – noncurrent were pledged to other parties.

(6) Property and equipment

	June 30, 2006					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$85,328	$2,640	$26,391	$816	$58,937	$1,824
Prepayment for equipment	7,927	245	-	-	7,927	245
Leasehold improvement	38,570	1,193	6,358	197	32,212	996
Total	$131,825	$4,078	$32,749	$1,013	$99,076	$3,065

	June 30, 2007					
	Cost		Accumulated depreciation		Carrying amount	
Item	NT$	US$	NT$	US$	NT$	US$
Equipment	$88,934	$2,709	$44,861	$1,367	$44,073	$1,342
Prepayment for equipment	843	26	-	-	843	26
Leasehold improvement	51,853	1,579	14,893	453	36,960	1,126
Total	$141,630	$4,314	$59,754	$1,820	$81,876	$2,494

As of June 30, 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

Item	January 1, 2006 NT$	January 1, 2006 US$	Increase NT$	Increase US$	Decrease NT$	Decrease US$	June 30, 2006 NT$	June 30, 2006 US$
Acquired cost:								
Computer software	$24,715	$765	$3,620	$112	$(631)	$(20)	$27,704	$857
Amortization and impairment:								
Amortization	(6,776)	(210)	(4,144)	(128)	631	20	(10,289)	(318)
Book value	$17,939	$555					$17,415	$539

Item	January 1, 2007 NT$	January 1, 2007 US$	Increase NT$	Increase US$	Decrease NT$	Decrease US$	June 30, 2007 NT$	June 30, 2007 US$
Acquired cost:								
Computer software	$29,313	$893	$1,934	$59	$(1,789)	$(55)	$29,458	$897
Amortization and impairment:								
Amortization	(16,237)	(495)	(5,422)	(165)	1,789	55	(19,870)	(605)
Book value	$13,076	$398					$9,588	$292

The other intangible assets of the Company is computer software which is 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$215,098 (US$6,653) and NT$225,097 (US$6,856) as of June 30, 2006 and 2007, respectively.

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT$56,335 (US$1,742) and NT$50,550 (US$1,540) in settlement and clearance funds as of June 30, 2006 and 2007, respectively.

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

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

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Debit balance:				
Cash and cash equivalents – settlement amount	$303	$9	$3,320	$101
Proceeds receivable from investors	-	-	5,085	155
Clearance	-	-	1,223,085	37,255
Accounts receivable – brokering	701,827	21,708	816,268	24,864
Subtotal	702,130	21,717	2,047,758	62,375
Credit balance:				
Proceeds payable to investors	-	-	2,499	76
Accounts payable – brokering	455,607	14,092	2,056,915	62,654
Clearance	227,708	7,043	-	-
Subtotal	683,315	21,135	2,059,414	62,730
Net	$18,815	$582	$(11,656)	$(355)

(11) Securities sold under agreements to repurchase

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
OTC corporate bonds	$10,040	$311	$-	$-

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

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

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Liabilities for issuance of call (put) warrants	$-	$-	$1,200	$36
Repurchase of issued call (put) warrants	-	-	(331)	(10)
Put options - futures	4	-	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	-	-	5,115	156
Total	$4	$-	$5,984	$182

(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:

	June 30, 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 03	Compal Communications Inc.	2007.4.25	20,000	$0.665	$148.91	$0.06	17.29	$13,300	$1,200
Less: Gains from changes in value of call (put) warrants								(12,100)	
Net								$1,200	

	June 30, 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 03	Compal Communications Inc.	2007.4.25	20,000	$0.020	$4.54	$0.002	17.29	$405	$36
Less: Gains from changes in value of call (put) warrants								(369)	
Net								$36	

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

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

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

„ 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:

	June 30, 2007 (NT$)		
Name	Unit repurchased (thousands)	Repurchase cost	Market value
Cathay 03	5,513	$3,690	$331
Less: Losses from changes in value of call (put) warrants		(3,359)	
Net		$331	

	June 30, 2007 (US$)		
Name	Unit repurchased (thousands)	Repurchase cost	Market value
Cathay 03	5,513	$112	$10
Less: Losses from changes in value of call (put) warrants		(102)	
Net		$10	

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

See note 10.

(13) Capital Stock

As of June 30, 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 six months ended June 30, 2006 and 2007 are as follows:

Item	For the six months ended June 30, 2006 NT$	US$	For the six months ended June 30, 2007 NT$	US$
Income before income taxes	$9,658	$299	$30,522	$930
Adjustments:				
Interest income taxed on a separate basis	(10,010)	(310)	(6,881)	(209)
Adjusted revenue and expense from dealing departments	14,284	442	6,739	205
Gain (loss) on valuation of open-end funds and currency market instruments	(3,736)	(116)	5,331	162
Unrealized loss on valuation of operating securities	6,497	201	4,099	125
Unrealized gain from derivative financial instruments – GreTai (over-the-counter)	(6,287)	(194)	(177)	(5)
Investment (income) loss recognized on equity method investments	(11,444)	(354)	1,183	36
Option premium for issuance of call (put) warrants	-	-	4,541	138
Gain from issuing call (put) warrants	-	-	(11,466)	(349)
Reserve for default losses	3,736	116	5,925	180
Others	12	-	(4,940)	(151)
Taxable income	2,710	84	34,876	1,062
Times: tax rates	25%	25%	25%	25%
Subtotal	678	21	8,719	266
Add: Extra 10% income tax on unappropriated retained earnings	3,983	123	-	-
Tax effects under integrated income tax system	-	-	5	-
Subtotal	4,661	144	8,724	266
Tax on a separate basis	2,002	62	1,790	55
Deferred tax benefit	(1,402)	(43)	(940)	(29)
Prior years' income tax adjustment	12	-	4	-
Total income tax expense	$5,273	$163	$9,578	$292

(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:

	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
a. Total deferred income tax assets	$5,088	$158	$9,026	$275
b. Total deferred income tax liabilities	$1,891	$59	$3,287	$100

c. Temporary differences:

	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
Reserve for default losses	$10,831	$335	$19,975	$608
Provision for pensions	1,275	39	3,014	92
Unrealized loss (gain) from derivative financial instruments	(7,563)	(234)	3,333	102
Unrealized gain (loss) on valuation of operating securities – hedging	8,244	255	(1,048)	(32)
Gains from changes in value of call (put) warrants	-	-	(12,100)	(369)
Losses from changes in value of call (put) warrants	-	-	8,339	254
Losses from trading securities-hedging	-	-	1,443	44

	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
d. Deferred income tax assets – current	$2,061	$64	$3,279	$100
Deferred income tax liabilities – current	(1,891)	(59)	(3,287)	(100)
Net deferred income tax assets (liabilities) – current	$170	$5	$(8)	$-
Deferred income tax assets – noncurrent	$3,027	$94	$5,747	$175
Net deferred income tax assets – noncurrent	$3,027	$94	$5,747	$175

C. Information related to tax imputation:

	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
Balance of imputation credit account	$6,524	$202	$5,880	$179

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

	2005 (Actual)	2006 (Actual)
Imputation credit account ratio	14.45%	14.76%

D. Information related to undistributed earnings:

	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
After 1998	$39,829	$1,232	$39,828	$1,213

Undistributed earnings after 1998 does not include net income for the six months ended June 30, 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 six months ended June 30, 2006 and 2007 are summarized as follows:

Item	For the six months ended June 30, 2006 (NT$)			For the six months ended June 30, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$67,853	$67,853	$-	$2,099	$2,099
Labor & health insurance expenses	-	4,201	4,201	-	130	130
Pension expenses	-	3,886	3,886	-	120	120
Other expenses	-	2,659	2,659	-	82	82
Depreciation	-	13,285	13,285	-	411	411
Depletion	-	-	-	-	-	-
Amortization	-	4,144	4,144	-	128	128

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

Item	For the six months ended June 30, 2007 (NT$)			For the six months ended June 30, 2007 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$-	$73,558	$73,558	$-	$2,241	$2,241
Labor & health insurance expenses	-	4,305	4,305	-	131	131
Pension expenses	-	3,861	3,861	-	118	118
Other expenses	-	3,076	3,076	-	94	94
Depreciation	-	14,530	14,530	-	443	443
Depletion	-	-	-	-	-	-
Amortization	-	5,422	5,422	-	165	165

(18) Earnings per share

For the six months ended June 30, 2006

	Amount				Outstanding shares	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT$	US$	NT$	US$	(thousands)	NT$	US$	NT$	US$
Net income from continuing operations	$9,658	$299	$4,385	$136	370,000	$0.03	$0.0009	$0.01	$0.0003
Cumulative effect of changes in accounting principles	211	7	173	5	370,000	-	-	-	-
Net income	$9,869	$306	$4,558	$141	370,000	$0.03	$0.0009	$0.01	$0.0003

For the six months ended June 30, 2007

	Amount				Outstanding shares	EPS			
	Before income taxes		After income taxes		(thousands)	Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT$	US$	NT$	US$		NT$	US$	NT$	US$
Net income	$30,522	$930	$20,944	$638	370,000	$0.08	$0.0024	$0.06	$0.0018

(19) Presentation of financial statements

Certain accounts in the financial statements for the six months ended June 30, 2006 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 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 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

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

Name	Relationship
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

(2) Transactions with related parties

A. Cash in bank

		For the six months ended June 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank Co., Ltd.	Savings accounts	$19,964	0.10%	$63
	Negotiable certificates of deposit	$1,220,000	1.43%~1.57%	$10,010

		For the six months ended June 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank Co., Ltd.	Savings accounts	$618	0.10%	$2
	Negotiable certificates of deposit	$37,736	1.43%~1.57%	$310

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

Name	Item	For the six months ended June 30, 2007		
		Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United	Savings accounts	$115,601	0.10%~2.35%	$41
Bank Co., Ltd.	Negotiable certificates of deposit	$560,000	1.50%~1.53%	$6,806
	Time deposit	$10,000	1.39%~1.76%	$250

Name	Item	For the six months ended June 30, 2007		
		Ending balance	Interest rate	Interest income
		US$		US$
Cathay United	Savings accounts	$3,521	0.10%~2.35%	$1
Bank Co., Ltd.	Negotiable certificates of deposit	$17,058	1.50%~1.53%	$207
	Time deposit	$305	1.39%~1.76%	$8

As of June 30, 2006 and 2007, except for NT$900,000 (US$27,838) and NT$300,000 (US$9,138) 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	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.				
– Cathay Bond Fund	$287,243	$8,885	$10,391	$317

C. Accounts receivable

Name	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$651	$20	$600	$18
Cathay United Bank Co., Ltd.	-	-	200	6
Total	$651	$20	$800	$24

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

D. Other intangible assets

	June 30, 2006		June 30, 2007	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$-	$-	$986	$30

E. Other payables

	June 30, 2006		June 30, 2007	
Name	NT$	US$	NT$	US$
Cathay Financial Holdings Co., Ltd. (Note)	$4,385	$136	$8,330	$254
Symphox Information Co., Ltd.	-	-	88	2
	$4,385	$136	$8,418	$256

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

F. Revenue from underwriting commissions

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
Name	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	$-	$-	$1,824	$56
Cathay Life Insurance Co., Ltd.	-	-	21,115	643
Total	$-	$-	$22,939	$699

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 six months ended June 30, 2006		For the six months ended June 30, 2007	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$2,862	$89	$3,470	$106

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 six months ended June 30, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
Name	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$251	$8	$270	$8	$63	$2	$303,830	$9,398

	For the six months ended June 30, 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.	$407	$12	$574	$17	$124	$4	$313,077	$9,536

I. Rental expenses and guarantee deposits paid

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	NT$	NT$	NT$	NT$
Cathay United Bank Co., Ltd.	$2,514	$1,318	$2,601	$1,325
Cathay Life Insurance Co., Ltd.	7,901	3,785	8,123	3,785
Total	$10,415	$5,103	$10,724	$5,110

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	US$	US$	US$	US$
Cathay United Bank Co., Ltd.	$78	$41	$79	$41
Cathay Life Insurance Co., Ltd.	244	117	248	115
Total	$322	$158	$327	$156

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

		For the six months ended June 30, 2006		For the six months ended June 30, 2007	
Name	Description	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Insurance	$671	$21	$881	$27
	Other fees	-	-	1,303	40
	Subtotal	671	21	2,184	67
Cathay United Bank Co., Ltd.	Other fees	1,513	47	2,749	84
Cathay Century Insurance Co., Ltd.	Insurance	109	3	367	11
Symphox Information Co., Ltd.	Cable service etc.	856	26	1,054	32
Total		$3,149	$97	$6,354	$194

K. Non-operating revenue and profits

		For the six months ended June 30, 2006		For the six months ended June 30, 2007	
Name	Description	NT$	US$	NT$	US$
Cathay United Bank Co., Ltd.	Rebate	$1,800	$56	$1,200	$37

6. Pledged assets

	June 30, 2006		June 30, 2007	
Item	NT$	US$	NT$	US$
Restricted assets – time deposits	$900,000	$27,838	$300,000	$9,138

(1) As of June 30, 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.

7. Other important matters and contingent liabilities

None.

8. Serious damages

None.

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

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

	June 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$493,652	$493,652	$15,269	$15,269
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	609,763	609,763	18,861	18,861
Operating securities – net	129,905	129,905	4,018	4,018
Receivable amount for margin loans	543,597	543,597	16,814	16,814
Securities refinancing margin deposits	499	499	15	15
Receivables	6,578	6,578	204	204
Restricted assets – current	900,000	900,000	27,838	27,838
Long-term investments under equity method	721,851	721,851	22,327	22,327
Available-for-sale financial assets-noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,653	6,653
Settlement and clearance funds	56,335	56,335	1,742	1,742
Guarantee deposits paid	19,238	19,238	595	595
Liabilities:				
Securities sold under agreements to repurchase	10,040	10,040	311	311
Securities financial guarantee deposits-in	3,665	3,665	113	113
Deposit payable for securities financing	4,050	4,050	125	125
Payables	23,506	23,506	727	727
Guarantee deposits-in	484	484	15	15

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

	June 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Derivative				
Assets:				
Financial assets at fair value through profit or loss-current				
Call options-futures	11	11	-	-
Margin for futures trading – own funds	303,830	303,830	9,398	9,398
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	10,842	335	335
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	4	4	-	-
Other financial liabilities – current	75,282	75,282	2,329	2,329

	June 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Non-derivative				
Assets:				
Cash and cash equivalents	$475,377	$475,377	$14,480	$14,480
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	130,027	130,027	3,961	3,961
Operating securities – net	1,063,563	1,063,563	32,396	32,396
Receivable amount for margin loans	943,591	943,591	28,742	28,742
Receivables	59,260	59,260	1,804	1,804
Restricted assets – current	300,000	300,000	9,138	9,138
Long-term investments under equity method	717,306	717,306	21,849	21,849
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	225,097	225,097	6,856	6,856
Settlement and clearance funds	50,550	50,550	1,540	1,540
Guarantee deposits paid	28,326	28,326	863	863

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

	June 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT$)	(NT$)	(US$)	(US$)
Liabilities:				
Securities financing guarantee deposits-in	6,029	6,029	184	184
Deposit payable for securities financing	6,662	6,662	203	203
Payables	56,442	56,442	1,719	1,719
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	313,077	313,077	9,536	9,536
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,200	1,200	36	36
Repurchase of issued call (put) warrants	(331)	(331)	(10)	(10)
Derivative financial instrument liabilities -GreTai (over-the-counter)	5,115	5,115	156	156
Other financial liabilities – current	238,315	238,315	7,259	7,259

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, 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.

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

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.

The following table summarizes the fair value information of financial assets and liabilities as of June 30, 2006 and 2007:

	June 30, 2006			
	Based on quoted market price	Based on valuation method	Based on quoted market price	Based on valuation method
	(NT$)	(NT$)	(US$)	(US$)
Assets:				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	$609,763	$-	$18,861	$-
Operating securities – net	129,905	-	4,018	-
Call options-futures	11	-	-	-
Margin for futures trading – own funds	303,830	-	9,398	-
Derivative financial instrument assets – GreTai (over-the-counter)	-	10,842	-	335
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	4	-	-	-
Other financial liabilities – current	-	75,282	-	2,329

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

	June 30, 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	$130,027	$-	$3,961	$-
Operating securities – net	1,063,563	-	32,396	-
Margin for futures trading – own funds	313,077	-	9,536	-
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,200	-	36	-
Repurchase of issued call (put) warrants	(331)	-	(10)	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	5,115	-	156
Other financial liabilities – current	-	238,315	-	7,259

The above derivative financial instrument assests (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.

The Company also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 5 years, and as a result, the risk is relatively lower. In addition, the Company will take appropriate actions with respect these certificates based on interest rate fluctuations.

(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

	June 30, 2006		June 30, 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$13,300 (US$405)	NT$- (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.

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

Further, because underlying securities must meet specific regulatory requirements with respect to market price and shareholders diversification, the Company believes they can be easily sold at reasonable prices and that liquidity risk is low. Risk may arise from the need for capital when adjusting hedging position in response to prices changes of underlying securities. However, assuming strong market liquidity, the Company believes cash flow risk is low.

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

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

As of June 30, 2007, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

Balance sheet

	June 30, 2007	
	Financial liabilities at fair value through profit or loss-current	
	NT$	US$
Liabilities for issuance of call (put) warrants	$1,200	$36
Repurchase of issued call (put) warrants	(331)	(10)
Total	$869	$26

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

Statement of income

	For the six months ended June 30, 2007		
	Profit from issuing call (put) warrants		Comments
	NT$	US$	
Liabilities for issuance of call (put) warrants	$5,180	$158	Fair value method
Repurchase of issued call (put) warrants			
- Loss on disposal	(10,391)	(317)	
- Gain from valuation	146	4	Fair value method
Gain from expiration of warrants issued	11,120	339	
Total	$6,055	$184	

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	June 30, 2006		June 30, 2007	
Financial instruments	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
For trading purposes				
Equity-linked notes	NT$73,200 (US$2,264)	NT$- (US$-)	NT$- (US$-)	NT$- (US$-)
Principal guaranteed notes	NT$- (US$-)	NT$- (US$-)	NT$240,100 (US$7,313)	NT$- (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.

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 June 30, 2006 and 2007, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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

Balance sheet

	June 30, 2006		June 30, 2007	
	NT$	US$	NT$	US$
Derivative financial instrument assets – GreTai (over-the-counter) (note 1)				
Structured notes transactions	$10,842	$335	$-	$-
Derivative financial instrument liabilities – GreTai (over-the-counter) (note 2)				
Structured notes transactions	-	-	5,115	156
Other financial liabilities – current				
Principal of structured notes	75,282	2,329	238,315	7,259

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.

Statement of income

	For the six months ended June 30, 2006		For the six months ended June 30, 2007		
	NT$	US$	NT$	US$	Comments
Loss from derivative financial instruments-Gre Tai (over the counter)					
Loss from structured notes	$(6,480)	$(200)	$(4,478)	$(136)	Fair value method

C. Futures and options transactions

As of June 30, 2006 and 2007, the Company's unexercised options were as follows:

June 30, 2006

Item	Nature of Transaction	Unexercised options		Contract amount / payment reciept of premium		Fair value	
		Buy / Sell	Units	NT$	US$	NT$	US$
Options	TXO-Put	Sell	1	$(9)	$-	$4	$-
Options	TXO- Put l	Buy	30	$54	$2	$11	$-

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

June 30, 2007

Item	Nature of Transaction	Unexercised options		Contract amount/ payment reciept of premium		Fair value	
		Buy/Sell	Units	NT$	US$	NT$	US$
Futures	TAIEX futures	sell	20	$35,383	$1,078	$35,232	$1,073

a. Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2006 Nominal principal/ contract amount	June 30, 2006 Credit risk
For trading purposes		
TXO	NT$63 (US$2)	NT$- (US$-)

Financial instruments	June 30, 2007 Nominal principal/ contract amount	June 30, 2007 Credit risk
TAIEX futures	NT$35,383 (US$1,078)	NT$- (US$-)

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.

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

The Company's trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, the Company has sufficient working capital to meet its requirements, and hence the Company believes funding risk and cash flow risk are low. With respect to the Company's trading in options, prior to any transaction the Company pays or receives option premium. If the Company sells call options and the counterparty exercises its option, the Company has sufficient working capital to cover the exercise and hence the Company believes funding risk and cash flow risk are low.

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss – current ("margin for futures trading – own funds") on the balance sheet. For the six months ended June 30, 2006 and 2007, the related gain (loss) of futures and options on the statements of income were as follows:

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
	NT$	US$	NT$	US$
Gain from derivative financial instruments – futures				
Gain on futures contracts - realized	$260	$8	$3,034	$92
Gain on futures contracts - unrealized	255	8	151	5
Gain from options transactions - realized	1,771	55	1,187	36
Loss from options transactions - unrealized	(128)	(4)	-	-
Total	$2,158	$67	$4,372	$133