

Cathay Securities Corporation
Financial Statements
Nine-Month Periods Ended
September 30, 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", "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.

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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 September 30, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the nine months ended September 30, 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", "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".

Ernst & Young
Taipei, Taiwan
Republic of China
October 12, 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 September 30, 2006 and 2007

(Expressed in thousands of dollars)

ASSETS	NOTES	September 30,2006		September 30,2007	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2, 4.(1), 5	\$738,059	\$22,298	\$598,354	\$18,315
Financial assets at fair value through profit or loss - current	2, 4.(2), 5,6, 10	1,116,742	33,738	1,430,947	43,800
Receivable amount for margin loans	2, 4.(3)	567,915	17,158	1,207,761	36,969
Accounts receivable		2	-	3,582	110
Accounts receivable - related parties	5	38,304	1,157	1,076	33
Prepayments		1,482	45	287	9
Other receivables		9,830	297	19,388	593
Restricted assets - current	6	600,000	18,127	-	-
Other current assets		587	18	396	12
Total current assets		<u>3,072,921</u>	<u>92,838</u>	<u>3,261,791</u>	<u>99,841</u>
Funds and investments					
Long-term investments under equity method	2, 4.(4)	722,374	21,824	718,652	21,997
Available-for-sale financial assets - noncurrent	2, 4.(5)	18	1	18	1
Total funds and investments		<u>722,392</u>	<u>21,825</u>	<u>718,670</u>	<u>21,998</u>
Property and equipment	2, 4.(6),5				
Equipment		91,823	2,774	91,684	2,806
Prepayment for equipment		88	2	372	12
Leasehold improvement		51,763	1,564	53,024	1,623
Less: Accumulated depreciation		(40,126)	(1,212)	(67,090)	(2,054)
Net property and equipment		<u>103,548</u>	<u>3,128</u>	<u>77,990</u>	<u>2,387</u>
Intangible assets					
Deferred pension cost	2	1,928	58	-	-
Other intangible assets	2, 4.(7),5	15,570	470	7,491	229
Total intangible assets		<u>17,498</u>	<u>528</u>	<u>7,491</u>	<u>229</u>
Other assets					
Operating deposits	4.(8)	215,098	6,499	230,097	7,043
Settlement and clearance funds	4.(9)	56,335	1,702	50,550	1,547
Guarantee deposits paid	5	29,239	883	49,185	1,506
Deferred income tax assets - noncurrent	2, 4.(15)	3,482	105	6,722	206
Total other assets		<u>304,154</u>	<u>9,189</u>	<u>336,554</u>	<u>10,302</u>
Securities brokerage debit accounts - net	4.(10)	-	-	22,546	690
Total assets		<u>\$4,220,513</u>	<u>\$127,508</u>	<u>\$4,425,042</u>	<u>\$135,447</u>

(The exchange rate of September 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$33.10 and NT\$32.67 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited balance sheets

As of September 30, 2006 and 2007

(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	September 30,2006		September 30,2007	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2, 4.(11), 10	\$724	\$22	\$36,765	\$1,125
Securities financing guarantee deposits-in	2	11,434	346	18,467	565
Deposit payable for securities financing	2	12,642	382	21,158	648
Accounts payable		2,910	88	11,448	350
Accounts payable - related parties	5	108	3	90	3
Receipts under custody		5,076	153	11,008	337
Other payables		17,977	543	19,309	591
Other payables - related parties	2,5	7,367	223	13,160	403
Deferred income tax liabilities - current	2, 4.(15)	67	2	879	27
Other financial liabilities - current	2, 10	42,408	1,281	213,306	6,529
Other current liabilities		52,101	1,574	38	1
Total current liabilities		<u>152,814</u>	<u>4,617</u>	<u>345,628</u>	<u>10,579</u>
Long-term liabilities					
Other long-term liabilities		371	11	749	23
Other liabilities					
Reserve for default losses	2	12,155	367	23,506	719
Reserve for trading losses	2	-	-	1,395	43
Guarantee deposits-in		299	9	141	4
Accrued pension liability - noncurrent	2	3,702	112	3,382	104
Total other liabilities		<u>16,156</u>	<u>488</u>	<u>28,424</u>	<u>870</u>
Securities brokerage credit accounts - net	4.(10)	16,717	505	-	-
Total liabilities		<u>186,058</u>	<u>5,621</u>	<u>374,801</u>	<u>11,472</u>
Stockholders' equity					
Capital stock					
Common stock	4.(12)	3,700,000	111,782	3,700,000	113,254
Capital surplus	4.(13)	258,434	7,808	258,434	7,910
Retained earnings	4.(14)				
Legal reserve		5,690	172	8,310	254
Special reserve		11,380	344	16,619	509
Unappropriated retained earnings		58,951	1,781	66,878	2,048
Total stockholders' equity		<u>4,034,455</u>	<u>121,887</u>	<u>4,050,241</u>	<u>123,975</u>
Total liabilities and stockholders' equity		<u>\$4,220,513</u>	<u>\$127,508</u>	<u>\$4,425,042</u>	<u>\$135,447</u>

(The exchange rate of September 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$33.10 and NT\$32.67 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statements of income

For the nine months ended September 30, 2006 and 2007

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

ITEMS	NOTES	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
		NT\$	US\$	NT\$	US\$
Revenue	2.5				
Brokerage commissions		\$155,223	\$4,690	\$220,375	\$6,746
Revenue from underwriting commissions		38,523	1,164	23,308	713
Profit from trading securities		8,853	267	5,062	155
Interest revenue		17,738	536	48,359	1,480
Dividend revenue		1,679	51	9,548	292
Profit from issuing call (put) warrants	10	331	10	8,580	263
Brokerage commissions for introducing futures contracts		4,283	129	6,104	187
Gain from derivative financial instruments - futures	10	9,580	289	19,189	587
Other operating revenue		10,455	316	2,915	89
Non-operating revenue and profits		40,892	1,235	24,569	752
Total revenue		<u>287,557</u>	<u>8,687</u>	<u>368,009</u>	<u>11,264</u>
Expenses	2,4(16).5				
Brokerage securities transaction charges		(11,738)	(355)	(19,575)	(599)
Dealing securities transaction charges		(1,078)	(32)	(1,631)	(50)
Refinancing transaction fees		(4)	-	(5)	-
Interest expense		(824)	(25)	(87)	(3)
Loss on valuation of operating securities		(897)	(27)	(15,463)	(473)
Expenses from issuing call (put) warrants		(64)	(2)	(192)	(6)
Clearing and settlement fees		(383)	(12)	(520)	(16)
Loss from derivative financial instruments - futures	10	(6,808)	(205)	(7,675)	(235)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(8,233)	(249)	(6,929)	(212)
Operating expenses		(227,379)	(6,869)	(268,839)	(8,229)
Non-operating expense and losses		-	-	(5,350)	(163)
Total expenses		<u>(257,408)</u>	<u>(7,776)</u>	<u>(326,266)</u>	<u>(9,986)</u>
Income from continuing operations before income taxes		30,149	911	41,743	1,278
Income tax expense	2, 4, (15)	(11,200)	(338)	(14,694)	(450)
Net income from continuing operations		18,949	573	27,049	828
Cumulative effect of changes in accounting principles (less tax expense NT\$38(US\$1))	3	173	5	-	-
Net income		<u>\$19,122</u>	<u>\$578</u>	<u>\$27,049</u>	<u>\$828</u>
Earnings per share (in dollars)	4.(17)				
Net income from continuing operations		\$0.05	\$0.002	\$0.07	\$0.002
Cumulative effect of changes in accounting principles		-	-	-	-
Net income		<u>\$0.05</u>	<u>\$0.002</u>	<u>\$0.07</u>	<u>\$0.002</u>

(The exchange rate of September 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$33.10 and NT\$32.67 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2006 and 2007

(Expressed in thousands of dollars)

SUMMARY	Common stock		Capital surplus		Retained earnings				Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Balance on January 1, 2006	\$3,700,000	\$111,782	\$258,434	\$7,808	\$-	\$-	\$-	\$-	\$56,899	\$1,719	\$4,015,333	\$121,309
Appropriations and distributions of 2005:												
Legal reserve					5,690	172			(5,690)	(172)	-	-
Special reserve							11,380	344	(11,380)	(344)	-	-
Net income for the nine months ended September 30, 2006									19,122	578	19,122	578
Balance on September 30, 2006	\$3,700,000	\$111,782	\$258,434	\$7,808	\$5,690	\$172	\$11,380	\$344	\$58,951	\$1,781	\$4,034,455	\$121,887
Balance on January 1, 2007	\$3,700,000	\$113,254	\$258,434	\$7,910	\$5,690	\$174	\$11,380	\$349	\$66,026	\$2,021	\$4,041,530	\$123,708
Appropriations and distributions of 2006:												
Legal reserve					2,620	80			(2,620)	(80)	-	-
Special reserve							5,239	160	(5,239)	(160)	-	-
Cash dividends									(17,756)	(543)	(17,756)	(543)
Bonus paid to employees									(582)	(18)	(582)	(18)
Net income for the nine months ended September 30, 2007									27,049	828	27,049	828
Balance on September 30, 2007	\$3,700,000	\$113,254	\$258,434	\$7,910	\$8,310	\$254	\$16,619	\$509	\$66,878	\$2,048	\$4,050,241	\$123,975

(The exchange rate of September 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$33.10 and NT\$32.67 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Unaudited statements of cash flows
For the nine months ended September 30, 2006 and 2007
(Expressed in thousands of dollars)

ITEMS	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income	\$19,122	\$578	\$27,049	\$828
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	20,660	624	21,866	669
Amortization	6,974	211	8,117	249
Loss on valuation of operating securities	897	27	15,463	473
(Gain) loss on valuation of open-end funds and currency market instruments	(5,301)	(160)	4,835	148
Recoveries on reserve for trading losses	(1,378)	(42)	(2,046)	(63)
Reserve for trading losses	958	29	1,868	57
Reserve for default losses	5,060	153	9,456	289
Investment income recognized by equity method in excess of cash dividends received	(11,967)	(362)	1,017	31
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 in operating securities - dealing	(107,920)	(3,260)	(120,588)	(3,691)
Increase in operating securities - underwriting	-	-	(552,200)	(16,902)
Decrease (Increase) in operating securities - hedging	22,918	692	(11,267)	(345)
(Increase) decrease in margin for futures trading - own funds	(242,742)	(7,333)	87,555	2,680
Increase in derivative financial instrument assets - GreTai (over-the-counter)	2,136	65	-	-
Increase in receivable amount for margin loans	(567,915)	(17,157)	(455,332)	(13,937)
Decrease in securities refinancing margin deposits	-	-	443	14
Decrease in notes receivable	49	1	-	-
Decrease (Increase) in accounts receivable	1,093	33	(3,581)	(110)
(Increase) decrease in accounts receivable - related parties	(38,089)	(1,151)	40	1
(Increase) decrease in prepayments	(395)	(12)	627	19
Increase in other receivables	(5,188)	(156)	(9,306)	(285)
Increase in other current assets	(489)	(15)	(386)	(12)
Financial liabilities at fair value through profit or loss - current				
Increase in liabilities for issuance of call (put) warrants	638	19	32,472	994
(Decrease) increase in put options - futures	(131)	(4)	795	24
Increase (decrease) in derivative financial instrument liabilities - GreTai (over-the-counter)	84	3	(2,733)	(84)
Increase in securities financing guarantee deposits-in	11,434	346	6,760	207
Increase in deposit payable for securities financing	12,642	382	8,283	254
Decrease in accounts payable	(4,001)	(121)	(5,575)	(171)
Increase in accounts payable - related parties	66	2	19	1
Decrease in accounts collected in advance	(5,254)	(159)	-	-
Increase in receipts under custody	1,309	40	4,583	140
Increase in other payables	3,292	99	7,112	218
(Decrease) increase in other payables - related parties	(7,664)	(232)	6,170	189
(Decrease) increase in other financial liabilities - current	(18,755)	(567)	37,603	1,151
Increase in other current liabilities	51,981	1,570	26	1
Net change in deferred income tax assets/liabilities	(1,620)	(49)	(1,045)	(32)
Increase in other long-term liabilities	371	11	281	9
Increase in accrued pension liability	587	18	1,092	34
Net change in securities brokerage debit/credit accounts - net	25,392	767	(15,249)	(467)
Net cash used in operating activities	(831,319)	(25,115)	(895,261)	(27,403)

(The exchange rate of September 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$33.10 and NT\$32.67 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

Unaudited statements of cash flows

For the nine months ended September 30, 2006 and 2007

(Expressed in thousands of dollars)

ITEMS	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	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	\$164,365	\$4,966	\$447,799	\$13,707
Decrease in restricted assets - current	700,000	21,148	650,000	19,896
Acquisition of long-term investments under equity method	(710,407)	(21,462)	-	-
Acquisition of property and equipment	(18,429)	(557)	(4,284)	(131)
Disposal of property and equipment	-	-	338	10
Increase in other intangible assets	(4,606)	(139)	(2,532)	(78)
Increase in settlement and clearance funds	(13,300)	(402)	(3,815)	(117)
Increase in operating deposits	-	-	(15,000)	(459)
Increase in guarantee deposits paid	(10,014)	(303)	(10,946)	(335)
Net cash provided by investing activities	107,609	3,251	1,061,560	32,493
Cash flows from financing activities				
Decrease in guarantee deposits-in	(1,339)	(41)	-	-
Cash dividends	-	-	(17,756)	(543)
Bonus paid to employees	-	-	(582)	(18)
Net cash used in financing activities	(1,339)	(41)	(18,338)	(561)
(Decrease) increase in cash and cash equivalents	(725,049)	(21,905)	147,961	4,529
Cash and cash equivalents at the beginning of period	1,463,108	44,203	450,393	13,786
Cash and cash equivalents at the end of period	\$738,059	\$22,298	\$598,354	\$18,315
Supplemental disclosure of cash flows information				
Interest paid during the period	\$187	\$6	\$99	\$3
Interest paid (excluding capitalized interest)	\$187	\$6	\$99	\$3
Income tax paid	\$20,800	\$628	\$9,372	\$287

(The exchange rate of September 30, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$33.10 and NT\$32.67 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to unaudited financial statements

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

As of September 30, 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 September 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 September 30, 2006 and 2007, the Company had 174 and 216 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.

English Translation of Financial Statements Originally Issued in Chinese
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 September 30, 2006 and 2007

(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.

English Translation of Financial Statements Originally Issued in Chinese

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 September 30, 2006 and 2007

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”.

English Translation of Financial Statements Originally Issued in Chinese
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 September 30, 2006 and 2007

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.

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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.

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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.

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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.

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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.

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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\$6,122) 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\$6,122). Such reserve can only be used to offset the excess of securities trading losses over gains.

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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.

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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.

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(17) Convenience translation into US dollars

These financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these financial statements solely for the convenience of the reader using the noon buying rate of NT\$33.10 and NT\$32.67 to US\$1.00 effective on September 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 nine months ended September 30, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$120	\$4	\$140	\$4
Savings accounts	64,586	1,951	43,214	1,323
Checking accounts	3	-	-	-
Time deposits	673,350	20,343	555,000	16,988
Total	<u>\$738,059</u>	<u>\$22,298</u>	<u>\$598,354</u>	<u>\$18,315</u>
Annual interest rate of time deposits	1.20%~1.63%		1.39%~2.245%	

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As of September 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

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Open-end funds and currency market instruments	\$600,997	\$18,157	\$170,145	\$5,208
Operating securities - dealing	193,074	5,833	440,916	13,496
Operating securities - underwriting	-	-	550,346	16,846
Operating securities - hedging	15,007	453	48,526	1,485
Margin for futures trading - own funds	304,555	9,201	221,014	6,765
Derivative financial instrument assets - GreTai (over-the-counter)	3,109	94	-	-
Total	\$1,116,742	\$33,738	\$1,430,947	\$43,800

See note 6 for detail of financial assets at fair value through profit or loss - current pledged to other parties as of September 30, 2006 and 2007.

A. Open-end funds and currency market instruments

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$595,636	\$17,995	\$170,011	\$5,204
Add: Valuation adjustment	5,361	162	134	4
Net	\$600,997	\$18,157	\$170,145	\$5,208

B. Operating securities - dealing

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$139	\$4	\$139	\$4
Real Estate Investment Trusts (REITs)	142,758	4,313	176,488	5,402
OTC corporate bonds	50,000	1,511	50,000	1,531
Real Estate Asset Trust (REAT)	-	-	150,000	4,591
Emerging stocks	-	-	72,344	2,215
Subtotal	192,897	5,828	448,971	13,743
Add (Less): Valuation adjustment	177	5	(8,055)	(247)
Net	\$193,074	\$5,833	\$440,916	\$13,496

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C. Operating securities - underwriting

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$-	\$-	\$22,200	\$680
Real Estate Asset Trust (REAT)	-	-	530,000	16,223
Subtotal	-	-	552,200	16,903
Less: Valuation adjustment	-	-	(1,854)	(57)
Net	\$-	\$-	\$550,346	\$16,846

D. Operating securities - hedging

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$8,526	\$257	\$47,799	\$1,463
OTC stocks	8,940	270	-	-
Subtotal	17,466	527	47,799	1,463
Add (Less): Valuation adjustment	(2,459)	(74)	727	22
Net	\$15,007	\$453	\$48,526	\$1,485

E. Margin for futures trading - own funds

		September 30, 2006				
		Gain (loss) on outstanding				
Futures trading company	Account balance	futures contracts		Net account value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$304,656	\$9,204	\$(101)	\$(3)	\$304,555	\$9,201
		September 30, 2007				
		Gain (loss) on outstanding				
Futures trading company	Account balance	futures contracts		Net account value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$220,401	\$6,746	\$613	\$19	\$221,014	\$6,765

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

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F. Derivative financial instrument assets – GreTai (over-the-counter)

See note 10.

(3) Receivable amount for margin loans

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Receivable amount for margin loans	\$567,915	\$17,158	\$1,207,761	\$36,969
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$567,915</u>	<u>\$17,158</u>	<u>\$1,207,761</u>	<u>\$36,969</u>

For the nine months ended September 30, 2006 and 2007, receivable amount for margin loans had an annual interest rate of 6.25% and 3.25%~6.90%, respectively.

(4) Long-term investments under equity method

A.

Name of investee	September 30, 2006			September 30, 2007		
	NT\$	US\$	Percentage	NT\$	US\$	Percentage
			of			of
Cathay Futures Co., Ltd.	<u>\$722,374</u>	<u>\$21,824</u>	99.99%	<u>\$718,652</u>	<u>\$21,997</u>	99.99%

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

Item	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$-	\$-	\$719,669	\$22,028
Increase in investments	710,407	21,462	-	-
Investment income recognized under the equity method	11,967	362	163	5
Cash dividends	-	-	(1,180)	(36)
Balance on September 30	<u>\$722,374</u>	<u>\$21,824</u>	<u>\$718,652</u>	<u>\$21,997</u>

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

Name of investee	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$11,967	\$362	\$163	\$5

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

E. As of September 30, 2006 and 2007, none of the long-term investments under the equity method were pledged to other parties.

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

Name of investee	September 30, 2006			September 30, 2007		
	NT\$	US\$	Percentage of ownership	NT\$	US\$	Percentage of ownership
Stock:						
Taiwan Futures Exchange Corporation	\$18	\$1	-	\$18	\$1	-

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

(6) Property and equipment

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

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Item	September 30, 2007					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$91,684	\$2,806	\$50,023	\$1,531	\$41,661	\$1,275
Prepayment for equipment	372	12	-	-	372	12
Leasehold improvement	53,024	1,623	17,067	523	35,957	1,100
Total	\$145,080	\$4,441	\$67,090	\$2,054	\$77,990	\$2,387

As of September 30, 2006 and 2007, none of the property and equipment were pledged to other parties.

(7) Other intangible assets

Item	January 1, 2006		Increase		Decrease		September 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Acquired cost:							
Computer software	\$24,714	\$746	\$4,606	\$139	\$(810)	\$(24)	\$28,510	\$861
Amortization and impairment:								
Amortization	(6,776)	(204)	(6,974)	(211)	810	24	(12,940)	(391)
Book value	\$17,938	\$542					\$15,570	\$470

Item	January 1, 2007		Increase		Decrease		September 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Acquired cost:							
Computer software	\$29,313	\$897	\$2,532	\$78	\$(2,556)	\$(78)	\$29,289	\$897
Amortization and impairment:								
Amortization	(16,237)	(497)	(8,117)	(249)	2,556	78	(21,798)	(668)
Book value	\$13,076	\$400					\$7,491	\$229

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.

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(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\$6,499) and NT\$230,097 (US\$7,043) as of September 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\$1,702) and NT\$50,550 (US\$1,547) in settlement and clearance funds as of September 30, 2006 and 2007, respectively.

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

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Debit balance:				
Cash and cash equivalents -				
settlement amount	\$56	\$2	\$1,948	\$59
Clearance	339,431	10,255	1,607,555	49,206
Accounts receivable - brokering	506,236	15,294	655,320	20,059
Subtotal	845,723	25,551	2,264,823	69,324
Credit balance:				
Proceeds payable to investors	1,190	36	-	-
Accounts payable - brokering	861,250	26,020	2,242,277	68,634
Subtotal	862,440	26,056	2,242,277	68,634
Net	\$(16,717)	\$(505)	\$22,546	\$690

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

Item	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Liabilities for issuance of call (put)				
warrants	\$2,400	\$73	\$62,140	\$1,902
Repurchase of issued call (put)				
warrants	(1,762)	(53)	(28,382)	(869)
Put options - futures	2	-	794	24
Derivative financial instrument				
liabilities - GreTai				
(over-the-counter)	84	2	2,213	68
Total	\$724	\$22	\$36,765	\$1,125

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

Details of the liabilities for issuance of call (put) warrants and repurchase of issued call (put) warrants are as follows:

September 30, 2006 (NT\$)											
		Liabilities for issuance of call (put) warrants					Repurchase of issued call (put) warrants				
							Gains from		Losses from		
							changes in		changes in		
							value of call		value of call		
							Units				
Underlying	Units issued	Market	Issuance	Market	(put)	repurchased	Repurchase	Market	(put)		
Name	securities	price per	amount	Value	warrants	(thousands)	cost	value	warrants		
	(thousands)	unit (in dollars)									
Cathay 01	AU Optronics Corp.		20,000	\$0.12	\$5,160	\$2,400	\$2,760	14,683	\$3,760	\$1,762	\$(1,998)
September 30, 2006 (US\$)											
		Liabilities for issuance of call (put) warrants					Repurchase of issued call (put) warrants				
							Gains from		Losses from		
							changes in		changes in		
							value of call		value of call		
							Units				
Underlying	Units issued	Market	Issuance	Market	(put)	repurchased	Repurchase	Market	(put)		
Name	securities	price per	amount	Value	warrants	(thousands)	cost	value	warrants		
	(thousands)	unit (in dollars)									
Cathay 01	AU Optronics Corp.		20,000	\$0.0036	\$156	\$73	\$83	14,683	\$113	\$53	\$(60)

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September 30, 2007 (NT\$)										
Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Liabilities for issuance of call (put) warrants			Repurchase of issued call (put) warrants			
				Issuance amount	Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Losses from changes in value of call (put) warrants
Cathay 03	CCI	20,000	\$0.01	\$13,300	\$200	\$13,100	5,221	\$3,494	\$52	\$(3,442)
Cathay 04	N.P.C	20,000	0.39	36,400	7,800	28,600	15,650	26,600	6,103	(20,497)
Cathay 05	GEMTEK	20,000	0.48	19,680	9,600	10,080	18,468	17,906	8,865	(9,041)
Cathay 06	MSI	20,000	1.541	30,820	30,820	-	6,000	9,246	9,246	-
Cathay 07	SPIL	20,000	0.686	13,720	13,720	-	6,000	4,116	4,116	-
				<u>\$113,920</u>	<u>\$62,140</u>	<u>\$51,780</u>		<u>\$61,362</u>	<u>\$28,382</u>	<u>\$(32,980)</u>

September 30, 2007 (US\$)										
Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Liabilities for issuance of call (put) warrants			Repurchase of issued call (put) warrants			
				Issuance amount	Market Value	Gains from changes in value of call (put) warrants	Units repurchased (thousands)	Repurchase cost	Market value	Losses from changes in value of call (put) warrants
Cathay 03	CCI	20,000	\$0.0003	\$407	\$6	\$401	5,221	\$107	\$2	\$(105)
Cathay 04	N.P.C	20,000	0.0119	1,114	239	875	15,650	814	187	(627)
Cathay 05	GEMTEK	20,000	0.0147	602	294	308	18,468	548	271	(277)
Cathay 06	MSI	20,000	0.0472	943	943	-	6,000	283	283	-
Cathay 07	SPIL	20,000	0.0210	420	420	-	6,000	126	126	-
				<u>\$3,486</u>	<u>\$1,902</u>	<u>\$1,584</u>		<u>\$1,878</u>	<u>\$869</u>	<u>\$(1,009)</u>

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

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

See note 10.

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(12) Capital Stock

As of September 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.

(13) 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.

(14) Retained earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, should first be added to the legal reserve. In addition to distributing stock interest and 1% as a bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

B. 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".

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

(15) Income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income before income tax in the statements of income for the nine months ended September 30, 2006 and 2007 are as follows:

Item	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Income before income taxes	\$30,149	\$911	\$41,743	\$1,278
Adjustments:				
Interest income taxed on a separate basis	(14,112)	(426)	(15,963)	(488)
Adjusted revenue and expense from dealing departments	19,280	582	7,287	223
Loss (gain) on valuation of open-end funds and currency market instruments	(5,301)	(160)	4,835	148
Unrealized loss on valuation of operating securities	897	27	15,463	473
Unrealized gain from derivative financial instruments - GreTai (over-the-counter)	(1,334)	(40)	(2,997)	(92)
Investment income recognized on equity method investments	(11,967)	(362)	(163)	(5)
Option premium for issuance of call (put) warrants	903	27	4,541	139
Loss from issuing call (put) warrants	-	-	(13,990)	(428)
Reserve for default losses	5,060	153	9,456	289
Provision for pensions	587	18	1,092	34
Others	(2,027)	(61)	(484)	(15)
Taxable income	22,135	669	50,820	1,556
Times: tax rates	25%	25%	25%	25%
Subtotal	5,534	167	12,705	389
Add: Extra 10% income tax on unappropriated retained earnings	3,983	121	-	-
Tax effects under integrated income tax system	469	14	802	25
Subtotal	9,986	302	13,507	414
Tax on a separate basis	2,822	85	2,228	68
Deferred tax benefit	(1,620)	(49)	(1,045)	(32)
Prior years' income tax adjustment	12	-	4	-
Total income tax expense	\$11,200	\$338	\$14,694	\$450

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

	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	\$4,068	\$123	\$18,970	\$581
b. Total deferred income tax liabilities	\$653	\$20	\$13,127	\$402
c. Temporary differences:				
Reserve for default losses	\$12,155	\$367	\$23,506	\$719
Provision for pensions	1,774	54	3,382	103
Unrealized (gain) loss from derivative financial instruments	(2,610)	(79)	512	16
Unrealized loss (gain) on valuation of operating securities - hedging	2,343	71	(727)	(22)
Gains from changes in value of call (put) warrants	-	-	(51,780)	(1,585)
Losses from changes in value of call (put) warrants	-	-	45,495	1,393
Losses from trading securities-hedging	-	-	2,984	91
Total	\$13,662	\$413	\$23,372	\$715
d. Deferred income tax assets - current	\$586	\$18	\$12,248	\$375
Deferred income tax liabilities - current	(653)	(20)	(13,127)	(402)
Net deferred income tax liabilities - current	\$(67)	\$(2)	\$(879)	\$(27)
Deferred income tax assets - noncurrent	\$3,482	\$105	\$6,722	\$206
Net deferred income tax assets - noncurrent	\$3,482	\$105	\$6,722	\$206

C. Information related to tax imputation:

	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$7,447	\$225	\$6,312	\$193
Imputation credit account ratio	2005(Actual) 14.45%		2006 (Actual) 14.76%	

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D. Information related to undistributed earnings:

	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
After 1998	\$39,829	\$1,203	\$39,829	\$1,220

Undistributed earnings after 1998 does not include net income for the nine months ended September 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.

(16) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the nine months ended September 30, 2006 and 2007 are summarized as follows:

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

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Item	For the nine months ended September 30, 2007 (NT\$)			For the nine months ended September 30, 2007 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$118,440	\$118,440	\$-	\$3,625	\$3,625
Labor & health insurance expenses	-	6,870	6,870	-	210	210
Pension expenses	-	6,034	6,034	-	185	185
Other expenses	-	5,230	5,230	-	160	160
Depreciation	-	21,866	21,866	-	669	669
Depletion	-	-	-	-	-	-
Amortization	-	8,117	8,117	-	249	249

(17) Earnings per share

For the nine months ended September 30, 2006

	Amount					Outstanding shares (thousands)	EPS			
	Before income taxes		After income taxes				Before income tax		After income tax	
	NT\$	US\$	NT\$	US\$			EPS (in dollars)		EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$		US\$	NT\$	US\$	
Net income from continuing operations	\$30,149	\$911	\$18,949	\$573	370,000	\$0.08	\$0.002	\$0.05	\$0.002	
Cumulative effect of changes in accounting principles	211	6	173	5	370,000	-	-	-	-	
Net income	\$30,360	\$917	\$19,122	\$578		\$0.08	\$0.002	\$0.05	\$0.002	

For the nine months ended September 30, 2007

	Amount				Outstanding shares (thousands)	EPS				
	Before income taxes		After income taxes				Before income tax		After income tax	
	NT\$	US\$	NT\$	US\$			EPS (in dollars)		EPS (in dollars)	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$	
Net income	\$41,743	\$1,278	\$27,049	\$828	370,000	\$0.11	\$0.003	\$0.07	\$0.002	

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(18) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2006 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 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 Consulting Co., Ltd.	Affiliated
Cathay Insurance (Bermuda) Co., Ltd.	Affiliated
Lin Yuan Property Management Co., Ltd.	Affiliated
Cathay Life Insurance Co., Ltd. (Shanghai)	Affiliated
Cathay Bank Life Insurance Agency of Association	Affiliated
Cathay Bank Property Agency of Association	Affiliated
Indovina Bank Limited	Affiliated
China England Company Ltd.	Affiliated

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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

Name	Item	For the nine months ended September 30, 2006		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United	Savings accounts	\$62,965	0.10%	\$63
Bank Co., Ltd.	Checking accounts	\$3	-	\$-
	Negotiable certificates of deposit	\$1,120,000	1.24%~1.45%	\$14,110

Name	Item	For the nine months ended September 30, 2006		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United	Savings accounts	\$1,902	0.10%	\$2
Bank Co., Ltd.	Checking accounts	\$-	-	\$-
	Negotiable certificates of deposit	\$33,837	1.24%~1.45%	\$426

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Name	Item	For the nine months ended September 30, 2007		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Savings accounts	\$42,538	0.10%~2.35%	\$74
	Negotiable certificates of deposit	\$505,000	1.50%~1.70%	\$9,014
	Time deposit	\$30,000	1.56%~1.66%	\$441

Name	Item	For the nine months ended September 30, 2007		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Savings accounts	\$1,302	0.10%~2.35%	\$2
	Negotiable certificates of deposit	\$15,458	1.50%~1.70%	\$276
	Time deposit	\$918	1.56%~1.66%	\$13

As of September 30, 2006, except for NT\$600,000 (US\$18,127) 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	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.				
- Cathay Bond Fund	\$267,561	\$8,083	\$-	\$-
-Cathay Soaring Eagle Bond Fund	20,014	605	10,000	306
Total	\$287,575	\$8,688	\$10,000	\$306

C. Accounts receivable

Name	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$504	\$15	\$540	\$17
Cathay Life Insurance Co., Ltd.	37,800	1,142	336	10
Other	-	-	200	6
Total	\$38,304	\$1,157	\$1,076	\$33

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D. Property transactions

Name	Item	For the nine months ended September 30, 2006	
		NT\$	US\$
Cathay Futures Co., Ltd.	Office equipment	\$255	\$8
"	Leasehold Improvements	2,710	82
Symphox Information Co., Ltd.	Computer equipment	1,975	59
Total		\$4,940	\$149

There were no acquisition or disposal of fixed assets from/to related parties for the nine months ended September 30, 2007.

E. Other intangible assets

Name	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$986	\$30	\$986	\$30

F. Other payables

Name	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd. (Note)	\$7,204	\$218	\$12,953	\$397
Other	163	5	207	6
Total	\$7,367	\$223	\$13,160	\$403

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

G. Revenue from underwriting commissions

Name	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$-	\$-	\$1,824	\$56
Cathay Life Insurance Co., Ltd.	37,800	1,142	21,115	646
Total	\$37,800	\$1,142	\$22,939	\$702

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

H. Brokerage commissions for introducing futures contracts

Name	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$4,283	\$129	\$6,104	\$187

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

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

Name	For the nine months ended September 30, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading - own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$383	\$12	\$423	\$13	\$108	\$3	\$304,555	\$9,201

Name	For the nine months ended September 30, 2007							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading - own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$520	\$16	\$733	\$22	\$90	\$3	\$221,014	\$6,765

J. Rental expenses and guarantee deposits paid

Name	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay United Bank Co., Ltd.	\$3,771	\$1,318	\$3,945	\$1,325
Cathay Life Insurance Co., Ltd.	11,928	3,785	12,835	4,644
Seaward Leasing Co., Ltd.	-	-	356	-
Total	\$15,699	\$5,103	\$17,136	\$5,969

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Name	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
	Cathay United Bank Co., Ltd.	\$114	\$40	\$121
Cathay Life Insurance Co., Ltd.	360	114	393	142
Seaward Leasing Co., Ltd.	-	-	11	-
Total	\$474	\$154	\$525	\$183

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

K. Operating expenses

Name	Description	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
		NT\$	US\$	NT\$	US\$
		Cathay Life Insurance Co., Ltd.	Insurance	\$1,254	\$38
	Other fees	-	-	1,570	48
	Subtotal	1,254	38	2,953	90
Cathay United Bank Co., Ltd.	Other fees	2,372	72	3,554	109
Cathay Century Insurance Co., Ltd.	Insurance	318	10	428	13
Symphox Information Co., Ltd.	Cable service etc.	2,010	61	1,765	54
Cathay Securities Investment Consulting Co., Ltd.	Other fees	306	9	87	3
Seaward Card Co., Ltd.	Service	247	7	170	5
Total		\$6,507	\$197	\$8,957	\$274

L. Non-operating revenue and profits

Name	Description	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
		NT\$	US\$	NT\$	US\$
		Cathay United Bank Co., Ltd.	Rental revenue	\$2,400	\$73

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6. Pledged assets

Item	Pledged Organization	September 30, 2006		September 30, 2007	
		NT\$	US\$	NT\$	US\$
Restricted assets-time deposits	Cathay United Bank Co., Ltd.	\$600,000	\$18,127	\$-	\$-
Operating securities-dealing	"	-	-	148,408	4,542
Operating securities-underwriting	"	-	-	529,996	16,223
Total		<u>\$600,000</u>	<u>\$18,127</u>	<u>\$678,404</u>	<u>\$20,765</u>

(1) The assets above were the collaterals for the over-loaning of settlement accounts.

(2) The assets above were disclosed at their net carrying amounts.

7. Other important matters and contingent liabilities

None.

8. Serious damages

None.

9. Subsequent events

None.

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10. Other important events

(1) Information related to financial instruments

	September 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$738,059	\$738,059	\$22,298	\$22,298
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	600,997	600,997	18,157	18,157
Operating securities - net	208,081	208,081	6,286	6,286
Receivable amount for margin loans	567,915	567,915	17,158	17,158
Receivables - net	48,136	48,136	1,454	1,454
Restricted assets - current	600,000	600,000	18,127	18,127
Long-term investments under equity method	722,374	722,374	21,824	21,824
Available-for-sale financial assets-noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,499	6,499
Settlement and clearance funds	56,335	56,335	1,702	1,702
Guarantee deposits paid	29,239	29,239	883	883
Liabilities:				
Securities financial guarantee deposits-in	11,434	11,434	346	346
Deposit payable for securities financing	12,642	12,642	382	382
Payables	28,362	28,362	857	857
Guarantee deposits-in	299	299	9	9
Derivative				
Assets:				
Financial assets at fair value through profit and loss - current				
Margin for futures trading - own funds	304,555	304,555	9,201	9,201
Derivative financial instrument assets - GreTai (over-the-counter)	3,109	3,109	94	94

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	September 30, 2006			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Liabilities:				
Financial liabilities at fair value through profit and loss – current				
Liabilities for issuance of call (put) warrants	2,400	2,400	73	73
Repurchase of issued call (put) warrants	(1,762)	(1,762)	(53)	(53)
Put options – futures	2	2	-	-
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	84	84	2	2
Other financial liabilities – current	42,408	42,408	1,281	1,281
	September 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$598,354	\$598,354	\$18,315	\$18,315
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	170,145	170,145	5,208	5,208
Operating securities – net	1,039,788	1,039,788	31,827	31,827
Receivable amount for margin loans	1,207,761	1,207,761	36,969	36,969
Receivables	24,046	24,046	736	736
Long-term investments under equity method	718,652	718,652	21,997	21,997
Available-for-sale financial assets –				
noncurrent	18	18	1	1
Operating deposits	230,097	230,097	7,043	7,043
Settlement and clearance funds	50,550	50,550	1,547	1,547
Guarantee deposits paid	49,185	49,185	1,506	1,506
Liabilities:				
Securities financing guarantee deposits-in	18,467	18,467	565	565
Deposit payable for securities financing	21,158	21,158	648	648
Payables	44,007	44,007	1,347	1,347
Guarantee deposits-in	141	141	4	4

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	September 30, 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	221,014	221,014	6,765	6,765
Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	62,140	62,140	1,902	1,902
Repurchase of issued call (put) warrants	(28,382)	(28,382)	(869)	(869)
Put options-futures	794	794	24	24
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	2,213	2,213	68	68
Other financial liabilities - current	213,306	213,306	6,529	6,529

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 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.

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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 September 30, 2006 and 2007:

	September 30, 2006			
	Based on quoted market price (NT\$)	Based on valuation method (NT\$)	Based on quoted market price (US\$)	Based on valuation method (US\$)
Assets:				
Financial assets at fair value through profit and loss - current				
Open-end funds and currency market instruments	\$600,997	\$-	\$18,157	\$-
Operating securities - net	208,081	-	6,286	-
Margin for futures trading - own funds	304,555	-	9,201	-
Derivative financial instrument assets - GreTai (over-the-counter)	-	3,109	-	94
Liabilities:				
Financial liabilities at fair value through profit and loss - current				
Liabilities for issuance of call (put) warrants	2,400	-	73	-
Repurchase of issued call (put) warrants	(1,762)	-	(53)	-
Put options - futures	2	-	-	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	84	-	2
Other financial liabilities - current	-	42,408	-	1,281

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	September 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	\$170,145	\$-	\$5,208	\$-
Operating securities - net	1,039,788	-	31,827	-
Margin for futures trading - own funds	221,014	-	6,765	-
Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	62,140	-	1,902	-
Repurchase of issued call (put) warrants	(28,382)	-	(869)	-
Put options-futures	794	-	24	-
Derivative financial instrument liabilities-GreTai (over-the-counter)	-	2,213	-	68
Other financial liabilities - current	-	213,306	-	6,529

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

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(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.

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The Company holds 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

Financial instruments	September 30, 2006		September 30, 2007	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call warrants	NT\$5,160 (US\$156)	NT\$- -	NT\$113,920 (US\$3,487)	NT\$- -

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, market risk still exists.

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.

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

Balance sheet

	September 30, 2006	
	Financial liabilities at fair value through profit and loss-current	
	NT\$	US\$
Liabilities for insurance of call (put) warrants	\$2,400	\$73
Repurchase of issued call (put) warrants	(1,762)	(53)
Total	\$638	\$20
	September 30, 2007	
	Financial liabilities at fair value through profit or loss-current	
	NT\$	US\$
Liabilities for issuance of call (put) warrants	\$62,140	\$1,902
Repurchase of issued call (put) warrants	(28,382)	(869)
Total	\$33,758	\$1,033

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Statement of income

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

	For the nine months ended September 30, 2007		Comments
	Profit from issuing call (put) warrants		
	NT\$	US\$	
Liabilities for issuance of call (put) warrants	\$44,860	\$1,373	Fair value method
Repurchase of issued call (put) warrants			
- Loss on disposal	(17,925)	(549)	
- Gain from valuation	(29,475)	(902)	Fair value method
Gain from expiration of warrants issued	11,120	341	
Total	\$8,580	\$263	

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2006		September 30, 2007	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Equity-linked notes	NT\$15,000 (US\$453)	\$-	NT\$- (US\$-)	\$-
Principal guaranteed notes	NT\$27,700 (US\$837)	\$-	NT\$214,400 (US\$6,563)	\$-

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.

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

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As of September 30, 2006 and 2007

Balance sheet

	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instrument assets - GreTai (over-the-counter) (note 1)				
Structured notes transactions	\$3,109	\$94	\$-	\$-
Derivative financial instrument liabilities - GreTai (over-the-counter) (note 2)				
Structured notes transactions	84	2	2,213	68
Other financial liabilities - current				
Principal of structured notes	42,408	1,281	213,306	6,529

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 nine months ended September 30, 2006		For the nine months ended September 30, 2007		Comments
	NT\$	US\$	NT\$	US\$	
	Loss from derivative financial instruments-Gre Tai (over the counter)				
Loss from structured notes	\$8,233	\$249	\$6,929	\$212	Fair value method

C. Futures and options transactions

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

September 30, 2006

Item	Nature of Transaction	Unexercised options		Contract amount/ payment receipt of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
				Options	TXO-Call	Sell	2
Futures	TAIEX futures	Sell	28	\$(38,410)	\$(1,160)	\$38,511	\$1,163

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As of September 30, 2006 and 2007

September 30, 2007

Item	Nature of Transaction	Unexercised options		Contract amount/ payment receipt of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	TAIEX futures	Buy	88	\$166,446	\$5,095	\$167,059	\$5,114
Options	TXO-Put	Sell	410	\$(991)	\$(30)	\$794	\$24

a. Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2006	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	\$3 (US\$-)	\$-
TAIEX futures	\$38,410 (US\$1,160)	\$-
Financial instruments	September 30, 2007	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TAIEX futures	\$166,446 (US\$5,095)	\$-
TXO	\$991 (US\$30)	\$-

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.

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c. Risk from liquidity, cash flow and future cash requirements

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

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

d. Types, purposes, and strategies for financial derivatives

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

e. Financial statement presentation of derivative financial instruments

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

	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Gain from derivative financial instruments - futures				
Gain on futures contracts - realized	\$6,192	\$187	\$14,959	\$458
Gain on futures contracts - unrealized	538	16	773	23
Gain from options transactions - realized	2,021	61	2,248	69
Gain from options transactions - unrealized	829	25	1,209	37
Total	<u>\$9,580</u>	<u>\$289</u>	<u>\$19,189</u>	<u>\$587</u>

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	For the nine months ended September 30, 2006		For the nine months ended September 30, 2007	
	NT\$	US\$	NT\$	US\$
Loss from derivative financial instruments - futures				
Loss on futures contracts - realized	\$5,017	\$151	\$5,087	\$156
Loss on futures contracts - unrealized	384	11	160	5
Loss from options transactions - realized	490	15	1,416	43
Loss from options transactions - unrealized	917	28	1,012	31
Total	<u>\$6,808</u>	<u>205</u>	<u>\$7,675</u>	<u>\$235</u>