

**Cathay Securities Corporation
Financial Statements
Together with
Independent Auditors' Report
As of December 31, 2006 and 2007**

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

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

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' report	3
Balance sheets as of December 31, 2006 and 2007	4-5
Statements of income for the years ended December 31, 2006 and 2007	6
Statements of changes in stockholders' equity for the years ended December 31, 2006 and 2007	7
Statements of cash flows for the years ended December 31, 2006 and 2007	8-9
Notes to financial statements	10-55

English Translation of Report Originally Issued in Chinese
Independent Auditors' Report

To: Board of Directors
Cathay Securities Corporation

We have audited the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of December 31, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2006 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Corporation as of December 31, 2006 and 2007, and the results of its operations and their cash flows for the years ended December 31, 2006 and 2007 in conformity with requirements of the "Business Entity Accounting Act" and "Regulation on Business Entity Accounting Handling" with respect to financial accounting standards, "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the ROC.

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

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2006 and 2007, and expressed a modified unqualified report and an unqualified report , respectively.

Ernst & Young
Taipei, Taiwan
Republic of China
January 16, 2008

Notice to Readers

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

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

ASSETS	NOTES	December 31, 2006		December 31, 2007	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4(1),5	\$450,393	\$13,820	\$230,455	\$7,106
Financial assets at fair value through profit or loss - current	2,4(2),5,6,10	1,302,544	39,967	1,853,451	57,152
Receivable amount for margin loans	2,4(3)	752,429	23,088	1,053,680	32,491
Securities refinancing margin deposits	2	443	14	-	-
Accounts receivable		-	-	944	29
Accounts receivable - related parties	5	1,116	34	1,119	35
Prepayments		914	28	357	11
Other receivables		10,083	310	16,383	505
Restricted assets - current	6	650,000	19,945	-	-
Deferred income tax assets - current	2,4(16)	714	22	-	-
Other current assets		10	-	527	16
Total current assets		3,168,646	97,228	3,156,916	97,345
Funds and investments					
Long-term investments under equity method	2,4(4)	719,669	22,082	719,500	22,186
Available-for-sale financial assets - noncurrent	2,4(5)	18	1	18	1
Total funds and investments		719,687	22,083	719,518	22,187
Property and equipment	2,4(6),5				
Equipment		90,424	2,775	92,834	2,863
Prepayment for equipment		87	3	372	12
Leasehold improvement		51,853	1,591	53,024	1,635
Less: Accumulated depreciation		(45,939)	(1,410)	(74,509)	(2,298)
Net property and equipment		96,425	2,959	71,721	2,212
Intangible assets					
Deferred pension cost	2	2,190	67	2,410	74
Other intangible assets	2,4(7),5	13,076	401	6,339	196
Total intangible assets		15,266	468	8,749	270
Other assets					
Operating deposits	4(8)	215,098	6,600	230,097	7,095
Settlement and clearance funds	4(9)	46,734	1,434	50,550	1,559
Guarantee deposits paid	5	38,239	1,173	102,251	3,153
Deferred income tax assets - noncurrent	2,4(16)	4,085	125	7,374	227
Cash and cash equivalents - funds for subscription of shares collected		-	-	192	6
Total other assets		304,156	9,332	390,464	12,040
Securities brokerage debit accounts - net	4(10)	7,297	224	14,747	455
Total assets		\$4,311,477	\$132,294	\$4,362,115	\$134,509

(The exchange rate of December 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

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

(Forward)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	December 31, 2006		December 31, 2007	
		NTS	US\$	NTS	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,4(11),10	\$6,232	\$191	\$11,177	\$345
Securities financing guarantee deposits-in	2	11,707	359	35,828	1,105
Deposit payable for securities financing	2	12,875	395	39,545	1,219
Accounts payable		17,024	523	11,683	360
Accounts payable - related parties	5	71	2	36	1
Receipts under custody		6,424	197	6,280	194
Other payables		12,197	374	11,096	342
Other payables - related parties	2,5	6,990	215	11,306	349
Deferred income tax liabilities - current	2,4(16)	-	-	577	18
Other financial liabilities - current	2,10	175,703	5,392	158,821	4,897
Other current liabilities		11	-	215	7
Total current liabilities		249,234	7,648	286,564	8,837
Long-term liabilities					
Other long-term liabilities		469	14	868	27
Other liabilities					
Reserve for default losses	2	14,050	431	25,959	801
Reserve for trading losses	2	1,573	48	232	7
Guarantee deposits-in		141	4	141	4
Accrued pension liability - noncurrent	2,4(12)	4,480	138	5,947	183
Total other liabilities		20,244	621	32,279	995
Total liabilities		269,947	8,283	319,711	9,859
Stockholders' equity					
Capital stock					
Common stock	4(13)	3,700,000	113,532	3,700,000	114,092
Capital surplus	4(14)	258,434	7,930	258,434	7,969
Retained earnings	4(15)				
Legal reserve		5,690	174	8,310	256
Special reserve		11,380	349	16,619	512
Unappropriated retained earnings		66,026	2,026	59,041	1,821
Total stockholders' equity		4,041,530	124,011	4,042,404	124,650
Total liabilities and stockholders' equity		\$4,311,477	\$132,294	\$4,362,115	\$134,509

(The exchange rate of December 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$32.59 and NT\$32.43 to US\$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of income

For the years ended December 31, 2006 and 2007

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

ITEMS	NOTES	For the year ended December 31, 2006		For the year ended December 31, 2007	
		NT\$	US\$	NT\$	US\$
Revenue	2,5				
Brokerage commissions		\$213,508	\$6,551	\$284,769	\$8,781
Revenue from underwriting commissions		38,590	1,184	23,728	732
Profit from trading securities		19,437	596	-	-
Interest revenue		27,898	856	73,474	2,266
Dividend revenue		1,678	52	9,548	294
Gain on valuation of operating securities		7,666	235	-	-
Profit from issuing call (put) warrants	10	1,550	48	16,368	505
Brokerage commissions for introducing futures contracts		6,012	184	9,056	279
Gain from derivative financial instruments - futures	10	16,314	501	23,185	715
Other operating revenue		11,435	351	4,689	144
Non-operating revenue and profits		46,616	1,430	27,945	862
Total revenue		<u>390,704</u>	<u>11,988</u>	<u>472,762</u>	<u>14,578</u>
Expenses	2,4(17),5				
Brokerage securities transaction charges		(15,948)	(489)	(24,682)	(761)
Dealing securities transaction charges		(1,389)	(43)	(2,027)	(63)
Refinancing transaction fees		(11)	-	(4)	-
Underwriting transaction fees		-	-	(2)	-
Loss from trading securities		-	-	(16,421)	(506)
Interest expense		(1,219)	(37)	(145)	(5)
Loss on valuation of operating securities		-	-	(10,518)	(324)
Expenses from issuing call (put) warrants		(114)	(4)	(1,024)	(32)
Clearing and settlement fees		(485)	(15)	(642)	(20)
Loss from derivative financial instruments - futures	10	(9,662)	(296)	(10,163)	(313)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(12,345)	(379)	(4,902)	(151)
Operating expenses		(313,203)	(9,610)	(365,447)	(11,269)
Non-operating expense and losses		-	-	(4,831)	(149)
Total expenses		<u>(354,376)</u>	<u>(10,873)</u>	<u>(440,808)</u>	<u>(13,593)</u>
Income from continuing operations before income taxes		36,328	1,115	31,954	985
Income tax expense	2,4(16)	(10,304)	(316)	(12,742)	(393)
Net income from continuing operations		26,024	799	19,212	592
Cumulative effect of changes in accounting principles (less tax expense NT\$38(US\$1))	3	173	5	-	-
Net income		<u>\$26,197</u>	<u>\$804</u>	<u>\$19,212</u>	<u>\$592</u>
Earnings per share (in dollars)	4(18)				
Net income from continuing operations		\$0.07	\$0.002	\$0.05	\$0.002
Cumulative effect of changes in accounting principles		-	-	-	-
Net income		<u>\$0.07</u>	<u>\$0.002</u>	<u>\$0.05</u>	<u>\$0.002</u>

(The exchange rate of December 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of changes in stockholders' equity

For the years ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

SUMMARY	Retained earnings											
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance on January 1, 2006	\$3,700,000	\$113,532	\$258,434	\$7,930	\$-	\$-	\$-	\$-	\$56,899	\$1,745	\$4,015,333	\$123,207
Appropriations and distributions of 2005:												
Legal reserve					5,690	174			(5,690)	(174)	-	-
Special reserve							11,380	349	(11,380)	(349)	-	-
Net income for the year ended December 31, 2006									26,197	804	26,197	804
Balance on December 31, 2006	<u>\$3,700,000</u>	<u>\$113,532</u>	<u>\$258,434</u>	<u>\$7,930</u>	<u>\$5,690</u>	<u>\$174</u>	<u>\$11,380</u>	<u>\$349</u>	<u>\$66,026</u>	<u>\$2,026</u>	<u>\$4,041,530</u>	<u>\$124,011</u>
Balance on January 1, 2007	\$3,700,000	\$114,092	\$258,434	\$7,969	\$5,690	\$175	\$11,380	\$351	\$66,026	\$2,036	\$4,041,530	\$124,623
Appropriations and distributions of 2006:												
Legal reserve					2,620	81			(2,620)	(81)	-	-
Special reserve							5,239	161	(5,239)	(161)	-	-
Cash dividends									(17,756)	(547)	(17,756)	(547)
Bonus paid to employees									(582)	(18)	(582)	(18)
Net income for the year ended December 31, 2007									19,212	592	19,212	592
Balance on December 31, 2007	<u>\$3,700,000</u>	<u>\$114,092</u>	<u>\$258,434</u>	<u>\$7,969</u>	<u>\$8,310</u>	<u>\$256</u>	<u>\$16,619</u>	<u>\$512</u>	<u>\$59,041</u>	<u>\$1,821</u>	<u>\$4,042,404</u>	<u>\$124,650</u>

(The exchange rate of December 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of cash flows

For the years ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NTS	US\$	NTS	US\$
Cash flows from operating activities				
Net income	\$26,197	\$804	\$19,212	\$592
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	27,886	856	29,285	903
Amortization	10,271	315	10,608	327
(Gain) loss on valuation of operating securities	(7,666)	(235)	10,518	324
(Gain) loss on valuation of open-end funds and currency market instruments	(4,908)	(151)	4,316	133
Recoveries on reserve for trading losses	(1,378)	(42)	(3,441)	(106)
Reserve for trading losses	2,531	78	2,100	65
Reserve for default losses	6,955	213	11,909	367
Investment income recognized by equity method in excess of cash dividends received	(9,263)	(284)	169	5
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	(243,406)	(7,469)	(123,778)	(3,817)
Increase in operating securities - underwriting	-	-	(534,733)	(16,489)
Decrease (increase) in operating securities - hedging	3,850	118	(70,990)	(2,189)
(Increase) decrease in margin for futures trading - own funds	(246,756)	(7,572)	86,729	2,675
Decrease (increase) in derivative financial instrument assets - GreTai (over-the-counter)	5,245	161	(640)	(20)
Increase in receivable amount for margin loans	(752,429)	(23,088)	(301,251)	(9,289)
(Increase) decrease in securities refinancing margin deposits	(443)	(14)	443	14
Decrease in notes receivable	49	2	-	-
Decrease (increase) in accounts receivable	1,095	33	(944)	(29)
Increase in accounts receivable - related parties	(901)	(28)	(3)	-
Decrease in prepayments	173	5	557	17
Increase in other receivables	(5,441)	(167)	(6,300)	(194)
Decrease (increase) in other current assets	89	3	(517)	(16)
Increase in cash and cash equivalents - funds for subscription of shares collected	-	-	(192)	(6)
Financial liabilities at fair value through profit or loss - current				
Increase in liabilities for issuance of call (put) warrants	1,286	40	9,478	292
Decrease in put options - futures	(133)	(4)	-	-
Increase (decrease) in derivative financial instrument liabilities - GreTai (over-the-counter)	4,946	152	(4,533)	(140)
Increase in securities financing guarantee deposits-in	11,707	359	24,121	744
Increase in deposit payable for securities financing	12,875	395	26,670	823
Increase (decrease) in accounts payable	10,113	310	(5,341)	(165)
Increase (decrease) in accounts payable - related parties	29	1	(35)	(1)
Decrease in accounts collected in advance	(5,254)	(161)	-	-
Increase (decrease) in receipts under custody	2,657	82	(144)	(4)
Decrease in other payables	(2,488)	(76)	(1,101)	(34)
(Decrease) increase in other payables - related parties	(8,041)	(247)	4,315	133
Increase (decrease) in other financial liabilities - current	114,541	3,515	(16,882)	(520)
(Decrease) increase in other current liabilities	(109)	(3)	204	6
Net change in deferred income tax assets/liabilities	(3,003)	(92)	(1,998)	(62)
Increase in other long-term liabilities	469	14	399	12
Increase in accrued pension liability	1,103	34	1,247	39
Net change in securities brokerage debit/credit accounts - net	1,378	42	(7,450)	(230)
Net cash used in operating activities	(1,046,347)	(32,106)	(837,478)	(25,824)

(The exchange rate of December 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NTS\$32.59 and NTS\$32.43 to US\$1.00, respectively)

(Forward)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of cash flows

For the years ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

ITEMS	For the year ended December 31, 2006		For the year ended December 31, 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	142,190	4,363	77,671	2,395
Decrease in restricted assets - current	650,000	19,945	650,000	20,043
Acquisition of long-term investments under equity method	(710,406)	(21,798)	-	-
Acquisition of property and equipment	(18,532)	(569)	(5,434)	(168)
Disposal of property and equipment	-	-	338	11
Increase in other intangible assets	(5,409)	(166)	(3,871)	(119)
Increase in operating deposits	-	-	(15,000)	(463)
Increase in settlement and clearance funds	(3,700)	(114)	(3,814)	(118)
Increase in guarantee deposits paid	(19,014)	(583)	(64,012)	(1,974)
Net cash provided by investing activities	35,129	1,078	635,878	19,607
Cash flows from financing activities				
Decrease in guarantee deposits-in	(1,497)	(46)	-	-
Cash dividends	-	-	(17,756)	(547)
Bonus paid to employees	-	-	(582)	(18)
Net cash used in financing activities	(1,497)	(46)	(18,338)	(565)
Decrease in cash and cash equivalents	(1,012,715)	(31,074)	(219,938)	(6,782)
Cash and cash equivalents at the beginning of period	1,463,108	44,894	450,393	13,888
Cash and cash equivalents at the end of period	\$450,393	\$13,820	\$230,455	\$7,106
Supplemental disclosure of cash flows information				
Interest paid during the period	\$2,236	\$69	\$139	\$4
Interest paid (excluding capitalized interest)	\$2,236	\$69	\$139	\$4
Income tax paid	\$21,956	\$674	\$10,493	\$324

(The exchange rate of December 31, 2006 and 2007 provided by the Federal Reserve Bank of New York was NT\$32.59 and NT\$32.43 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements

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

As of December 31, 2006 and 2007

1. Organization and business scope

Cathay Securities Corporation (the "Company") was incorporated in Taipei on May 12, 2004, under the provisions of the Company Act (the "Company Act") of the Republic of China ("ROC"). The Company mainly engages in the business of securities dealing, brokerage and underwriting, margin lending and securities lending, dealing and brokerage services related to futures, and other operations approved by the authorities. As of December 31, 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 December 31, 2006 and 2007, the Company had 168 and 226 employees, respectively.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with requirements of the "Business Entity Accounting Act" and "Regulation on Business Entity Accounting Handling" with respect to financial accounting standards, "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 financial statements (continued)

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

As of December 31, 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 financial statements (continued)

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

As of December 31, 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, however, emerging stocks are valued at cost.

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 financial statements (continued)

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

As of December 31, 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

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) Margin trading of securities

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

(6) 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.

(7) 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.

(8) Intangible assets

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

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

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

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.

(9) Accounting for asset impairment

Pursuant to ROC SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of ROC SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company compares the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and writes down the carrying amount to the recoverable amount when applicable. The recoverable amount is defined as the higher of fair value less cost to sell and the value in use.

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

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

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

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

(10) Accounting for impairment of financial assets

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

Available-for-sale financial assets

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

(11) Reserve for default losses

According to the Regulations Governing Securities Firms, a securities firm trading securities for customer accounts 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\$6,167) reserving is suspended.

(12) Reserve for trading losses

According to the Regulations Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT\$200,000 (US\$6,167). Such reserve can only be used to offset the excess of securities trading losses over gains.

According to the Regulations Governing Futures Commission Merchants, 10% of the realized gains of trading futures must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches an amount equal to minimum legal paid-in capital or operating capital. Such reserve can only be used to offset the excess of futures trading losses over gains.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

(13) Pension

The Company has established a retirement plan and reserved for a retirement fund in an amount equal to 2% of total regular salaries and wages paid. Starting from 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.

(14) Income taxes

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

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

(15) Recognition of revenue and expenses

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

- A. Brokerage commissions, profit or loss from disposal of operating securities, and relevant brokerage securities transaction charges are recognized at the transaction date.
- B. Interest revenue or expense from margin loans are recognized on an accrued basis.
- C. The Company brokers futures transactions and collects commissions from futures agencies. Commissions are recognized as "brokerage commissions for introducing futures contracts" on an accrued basis.

(16) Convenience translation into US dollars

These financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these financial statements solely for the convenience of the reader using the noon buying rate of NT\$32.59 and NT\$32.43 to US\$1.00 effective on December 31, 2006 and 2007, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at these rates or any other rates of exchange.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

3. Changes in accounting and their effects

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

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

The above changes in accounting principles increased the Company's current assets and current liabilities by NT\$211 (US\$6) and NT\$38 (US\$1) as of January 1, 2006, respectively, and increased the Company's net income and earnings per share by NT\$173 (US\$5) and NT\$0.0005 (US\$0.00002) (dollars), respectively, for the year ended December 31, 2006.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$120	\$4	\$140	\$4
Savings accounts	21,835	670	6,315	195
Time deposits	428,438	13,146	224,000	6,907
Total	\$450,393	\$13,820	\$230,455	\$7,106
Annual interest rate of time deposits	1.20%~1.70%		1.39%~2.49%	

As of December 31, 2006 and 2007, none of the cash and cash equivalents were pledged to other parties.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

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

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Open-end funds and currency market instruments	\$622,779	\$19,109	\$540,791	\$16,676
Operating securities – dealing	334,075	10,251	446,648	13,773
Operating securities – underwriting	-	-	533,904	16,463
Operating securities – hedging	37,122	1,139	109,629	3,380
Margin for futures trading – own funds	308,568	9,468	221,839	6,840
Derivative financial instrument assets – GreTai (over-the-counter)	-	-	640	20
Total	\$1,302,544	\$39,967	\$1,853,451	\$57,152

See note 6 for detail of financial assets at fair value through profit or loss – current pledged to other parties as of December 31, 2006 and 2007.

A. Open-end funds and currency market instruments

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$617,811	\$18,957	\$540,139	\$16,656
Add : Valuation adjustment	4,968	152	652	20
Net	\$622,779	\$19,109	\$540,791	\$16,676

B. Operating securities – dealing

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$19,986	\$613	\$-	\$-
Real Estate Investment Trusts (REITs)	258,397	7,929	173,320	5,344
OTC stocks	-	-	573	18
OTC corporate bonds	50,000	1,534	72,725	2,243
Real Estate Asset Trust (REAT)	-	-	146,967	4,532
Emerging stocks	-	-	58,577	1,806
Subtotal	328,383	10,076	452,162	13,943
Add (Less): Valuation adjustment	5,692	175	(5,514)	(170)
Net	\$334,075	\$10,251	\$446,648	\$13,773

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

C. Operating securities – underwriting

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Real Estate Asset Trust (REAT)	\$-	\$-	\$519,283	\$16,013
OTC corporate bonds	-	-	15,450	476
Subtotal	-	-	534,733	16,489
Less: Valuation adjustment	-	-	(829)	(26)
Net	\$-	\$-	\$533,904	\$16,463

D. Operating securities – hedging

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$36,533	\$1,121	\$107,524	\$3,315
Add : Valuation adjustment	589	18	2,105	65
Net	\$37,122	\$1,139	\$109,629	\$3,380

E. Margin for futures trading – own funds

Futures trading company	December 31, 2006					
	Gain (loss) on outstanding					
	Account balance		futures contracts		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$308,568	\$9,468	\$-	\$-	\$308,568	\$9,468

Futures trading company	December 31, 2007					
	Gain (loss) on outstanding					
	Account balance		futures contracts		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$221,839	\$6,840	\$-	\$-	\$221,839	\$6,840

See note 10 for details of the Company's transactions on futures and options.

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

See note 10.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

(3) Receivable amount for margin loans

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Receivable amount for margin loans	\$752,429	\$23,088	\$1,053,680	\$32,491
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$752,429</u>	<u>\$23,088</u>	<u>\$1,053,680</u>	<u>\$32,491</u>

As of December 31, 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	December 31, 2006			December 31, 2007		
	NT\$	US\$	Percentage	NT\$	US\$	Percentage
			of			of
Cathay Futures Co., Ltd.	<u>\$719,669</u>	<u>\$22,082</u>	99.99%	<u>\$719,500</u>	<u>\$22,186</u>	99.99%

B. Changes in investments under the equity method as of December 31, 2006 and 2007 are listed below:

Item	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$-	\$-	\$719,669	\$22,191
Increase in investments	710,406	21,798	-	-
Investment income recognized under the equity method	9,263	284	1,011	31
Cash dividends	-	-	(1,180)	(36)
Balance on December 31	<u>\$719,669</u>	<u>\$22,082</u>	<u>\$719,500</u>	<u>\$22,186</u>

C. The investment income recognized by the equity method as of December 31, 2006 and 2007 is listed below:

Name of investee	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$9,263</u>	<u>\$284</u>	<u>\$1,011</u>	<u>\$31</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

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

E. As of December 31, 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	December 31, 2006			December 31, 2007		
	NT\$	US\$	Percentage of ownership	NT\$	US\$	Percentage of ownership
Stock:						
Taiwan Futures						
Exchange Corporation	\$18	\$1	-	\$18	\$1	-

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

(6) Property and equipment

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

Item	December 31, 2007					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$92,834	\$2,863	\$55,238	\$1,704	\$37,596	\$1,159
Prepayment for equipment	372	12	-	-	372	12
Leasehold improvement	53,024	1,635	19,271	594	33,753	1,041
Total	\$146,230	\$4,510	\$74,509	\$2,298	\$71,721	\$2,212

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

As of December 31, 2006 and 2007, none of the property and equipment were pledged to other parties.

(7) Other intangible assets

Item	January 1, 2006		Increase		Decrease		December 31, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$24,714	\$758	\$5,409	\$166	\$(810)	(25)	\$29,313	\$899
Amortization and impairment:								
Amortization	(6,776)	(208)	(10,271)	(315)	810	25	(16,237)	(498)
Book value	<u>\$17,938</u>	<u>\$550</u>					<u>\$13,076</u>	<u>\$401</u>

Item	January 1, 2007		Increase		Decrease		December 31, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$29,313	\$904	\$3,871	\$120	\$(7,690)	\$(237)	\$25,494	\$787
Amortization and impairment:								
Amortization	(16,237)	(501)	(10,608)	(327)	7,690	237	(19,155)	(591)
Book value	<u>\$13,076</u>	<u>\$403</u>					<u>\$6,339</u>	<u>\$196</u>

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

(8) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms and the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$215,098 (US\$6,600) and NT\$230,097 (US\$7,095) as of December 31, 2006 and 2007, respectively.

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT\$46,734 (US\$1,434) and NT\$50,550 (US\$1,559) in settlement and clearance funds as of December 31, 2006 and 2007, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

(10) Securities brokerage debit accounts – net

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Debit balance:				
Cash and cash equivalents – settlement amount	\$129	\$4	\$43	\$1
Clearance	483,599	14,839	402,116	12,400
Accounts receivable – brokering	320,656	9,839	509,521	15,711
Subtotal	<u>804,384</u>	<u>24,682</u>	<u>911,680</u>	<u>28,112</u>
Credit balance:				
Accounts payable – brokering	797,087	24,458	896,933	27,657
Net	<u>\$7,297</u>	<u>\$224</u>	<u>\$14,747</u>	<u>\$455</u>

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

Item	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Liabilities for issuance of call (put)				
warrants	\$4,200	\$129	\$130,200	\$4,015
Repurchase of issued call (put) warrants	(2,914)	(90)	(119,436)	(3,683)
Derivative financial instrument liabilities				
- GreTai (over-the-counter)	4,946	152	413	13
Total	<u>\$6,232</u>	<u>\$191</u>	<u>\$11,177</u>	<u>\$345</u>

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:

December 31, 2006 (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 01	AU Optronics Corp.	20,000	\$0.03	\$5,160	\$600	\$4,560	8,057	\$1,995	\$242	\$(1,753)
Cathay 02	ACER Incorporated	20,000	\$0.18	5,960	3,600	2,360	14,848	4,424	2,672	(1,752)
Total				<u>\$11,120</u>	<u>\$4,200</u>	<u>\$6,920</u>		<u>\$6,419</u>	<u>\$2,914</u>	<u>\$(3,505)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

December 31, 2006 (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 01	AU Optronics Corp.	20,000	\$0.0009	\$158	\$19	\$139	8,057	\$61	\$8	\$(53)
Cathay 02	ACER Incorporated	20,000	\$0.0055	183	110	73	14,848	136	82	(54)
Total				\$341	\$129	\$212		\$197	\$90	\$(107)

December 31, 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 04	N.P.C.	20,000	\$0.12	\$36,400	\$2,400	\$34,000	14,990	\$21,521	\$1,799	\$(19,722)
Cathay 05	GEMTEK	20,000	0.01	19,680	200	19,480	2,556	2,441	26	(2,415)
Cathay 06	MSI	20,000	0.05	30,820	1,000	29,820	17,906	23,484	895	(22,589)
Cathay 07	SPIL	20,000	0.01	13,720	200	13,520	15,168	8,999	152	(8,847)
Cathay08	EMC	20,000	0.17	26,560	3,400	23,160	13,194	10,340	2,243	(8,097)
Cathay09	TMI	20,000	0.10	22,640	2,000	20,640	19,299	15,629	1,930	(13,699)
Cathay10	YFY	20,000	0.10	24,800	2,000	22,800	19,862	23,210	1,986	(21,224)
Cathay11	ITE	20,000	0.43	42,860	8,600	34,260	19,541	27,532	8,403	(19,129)
Cathay12	ACER	20,000	0.27	19,840	5,400	14,440	19,621	16,628	5,298	(11,330)
Cathay13	FETL	20,000	0.13	8,340	2,600	5,740	18,923	7,844	2,460	(5,384)
Cathay14	CAL	20,000	0.71	12,940	14,200	(1,260)	10,605	6,985	7,529	544
Cathay15	WINTEK CORP.	20,000	0.41	17,320	8,200	9,120	18,835	15,790	7,722	(8,068)
Cathay16	INNOLUX	20,000	0.60	30,260	12,000	18,260	18,990	27,905	11,394	(16,511)
Cathay17	Yuanta Financial Holdings	20,000	0.57	18,120	11,400	6,720	19,969	17,330	11,382	(5,948)
Cathay18	MTI	20,000	0.19	8,760	3,800	4,960	19,814	7,802	3,765	(4,037)
Cathay19	WPG	20,000	0.92	16,100	18,400	(2,300)	19,656	15,828	18,083	2,255
Cathay20	FSC	20,000	1.24	16,520	24,800	(8,280)	19,980	16,744	24,775	8,031
Cathay21	FPC	20,000	0.48	11,340	9,600	1,740	19,987	11,369	9,594	(1,775)
Total				\$377,020	\$130,200	\$246,820		\$277,381	\$119,436	\$(157,945)

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

December 31, 2007 (US\$)										
		Liabilities for issuance of call (put) warrants					Repurchase of issued call (put) warrants			
		Market price per		Gains from changes in value of call			Units repurchased		Losses from changes in value of call	
Name	Underlying securities	Units issued (thousands)	unit (in dollars)	Issuance amount	Market Value	(put) warrants	repurchased (thousands)	Repurchase cost	Market value	(put) warrants
Cathay 04	N.P.C.	20,000	\$0.0037	\$1,122	\$74	\$1,048	\$14,990	\$664	\$56	\$(608)
Cathay 05	GEMTEK	20,000	0.0003	607	6	601	2,556	75	-	(75)
Cathay 06	MSI	20,000	0.0015	951	31	920	17,906	724	27	(697)
Cathay 07	SPIL	20,000	0.0003	423	6	417	15,168	277	4	(273)
Cathay08	EMC	20,000	0.0052	819	105	714	13,194	319	69	(250)
Cathay09	TMI	20,000	0.0031	698	62	636	19,299	482	60	(422)
Cathay10	YFY	20,000	0.0031	765	62	703	19,862	716	62	(654)
Cathay11	ITE	20,000	0.0133	1,321	265	1,056	19,541	849	259	(590)
Cathay12	ACER	20,000	0.0083	612	167	445	19,621	513	164	(349)
Cathay13	FETL	20,000	0.0400	257	80	177	18,923	242	76	(166)
Cathay14	CAL	20,000	0.0219	399	438	(39)	10,605	215	232	17
Cathay15	WINTEK CORP.	20,000	0.0126	534	253	281	18,835	487	238	(249)
Cathay16	INNOLUX	20,000	0.0185	933	370	563	18,990	860	351	(509)
Cathay17	Yuanta Financial Holdings	20,000	0.0176	559	352	207	19,969	534	351	(183)
Cathay18	MTI	20,000	0.0059	270	117	153	19,814	241	116	(125)
Cathay19	WPG	20,000	0.0284	496	567	(71)	19,655	488	558	70
Cathay20	FSC	20,000	0.0382	509	764	(255)	19,980	516	764	248
Cathay21	FPC	20,000	0.0148	350	296	54	19,987	351	296	(55)
Total				<u>\$11,625</u>	<u>\$4,015</u>	<u>\$7,610</u>	<u>\$8,553</u>	<u>\$3,683</u>	<u>\$3,683</u>	<u>\$(4,870)</u>

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

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

f 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

(12) Pension/Accrued pension liability

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

A. Net pension cost

	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
1) Service cost	\$2,731	\$84	\$2,389	\$74
2) Interest cost	176	5	235	7
3) Expected return on pension assets	(79)	(2)	(117)	(4)
4) Amortization of recognized transition net benefit obligation	137	4	138	4
Net pension cost	<u>\$2,965</u>	<u>\$91</u>	<u>\$2,645</u>	<u>\$81</u>

B. Pension funding status

	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
1) Vested benefit obligation (VBO)	\$577	\$18	\$671	\$21
2) Non-vested benefit obligation	4,262	131	4,838	149
3) Accumulated benefit obligation (ABO)	4,839	149	5,509	170
4) Additional benefits based on future salaries	3,182	98	3,552	109
5) Projected benefit obligation (PBO)	8,021	247	9,061	279
6) Fair value of pension fund assets	(2,653)	(81)	(3,954)	(122)
7) Pension funding status	5,368	166	5,107	157
8) Unrecognized transitional net benefit obligation	(2,759)	(85)	(2,621)	(81)
9) Unrecognized pension gain (loss)	1,871	57	3,461	107
10) Additional accrued pension liability	-	-	-	-
11) Accrued pension liability = 7)+8)+9)+10)	<u>\$4,480</u>	<u>\$138</u>	<u>\$5,947</u>	<u>\$183</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

C. Actuarial assumptions

	For the year ended December 31, 2006	For the year ended December 31, 2007
Discount rate	3%	3%
Rate of increase in future salaries	3%	3%
Expected long-term rate of return on pension assets	3%	3%

(13) Capital Stock

As of December 31, 2006 and 2007, the Company's total authorized shares and the number of shares outstanding were both 370,000,000 with a par value of NT\$10 per share.

(14) Capital surplus

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

(15) Retained earnings

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

B. Pursuant to the Company Act, 10% of the Company's annual after-tax net income must be appropriated as a legal reserve until the total reserve equals the amount of issued capital stock. This legal reserve can be used only to cover accumulated losses and not for distributing cash dividends. However, if the total accumulated legal reserve is greater than 50% of paid-in capital, and a resolution of a stockholders' meeting so approves, it can be capitalized for not more than 50% of its balance.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

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

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

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

F. The Company's appropriation of 2007 retained earnings has not yet been resolved by the board of directors as of the issuance date of the Independent Auditors' Report. For related information please refer to the “Market Observation Post System” on the website of the Taiwan Stock Exchange Corporation.

The Company's 2006 distribution of bonus paid to employees and remuneration paid to directors and supervisors is as follows :

	For the year ended	
	December 31, 2006	
	NT\$	US\$
A. Distribution		
Bonus paid to employees - cash	\$582	\$18
Remuneration paid to directors and supervisors	-	-
B. Earning per share information		
After-tax earnings per share (expressed in dollars)	\$0.07	0.002
Pro forma earnings per share (expressed in dollars)	\$0.07	0.002

Pro forma earnings per share =
$$\frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

(16) Income taxes

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

Item	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Income before income taxes	\$36,328	\$1,115	\$31,954	\$985
Adjustments:				
Interest income taxed on a separate basis	(17,840)	(547)	(18,986)	(585)
Adjusted revenue and expense from dealing departments	11,344	348	22,367	690
(Gain) loss on valuation of open-end funds and currency market instruments	(4,908)	(151)	4,316	133
Unrealized (gain) loss on valuation of operating securities	(7,666)	(235)	10,518	324
Unrealized (gain) loss from derivative financial instruments – GreTai (over-the-counter)	4,785	147	(5,311)	(164)
Investment income recognized on equity method investments	(9,263)	(284)	(1,011)	(31)
Option premium for issuance of call (put) warrants	3,437	105	4,541	140
Loss from issuing call (put) warrants	-	-	(17,139)	(528)
Reserve for default losses	6,955	213	11,909	367
Provision for pensions	1,104	34	1,247	38
Loss from trading securities – hedging	-	-	11,032	340
Others	(3,181)	(98)	(9,549)	(294)
Taxable income	21,095	647	45,888	1,415
Times: tax rates	25%	25%	25%	25%
Subtotal	5,274	162	11,472	354
Add: Extra 10% income tax on unappropriated retained earnings	3,983	122	58	2
Tax effects under integrated income tax system	445	14	323	10
Subtotal	9,702	298	11,853	366
Tax on a separate basis	3,568	109	2,883	89
Deferred tax benefit	(3,003)	(92)	(1,998)	(62)
Prior years' income tax adjustment	37	1	4	-
Total income tax expense	<u>\$10,304</u>	<u>\$316</u>	<u>\$12,742</u>	<u>\$393</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	\$4,962	\$152	\$69,479	\$2,142
b. Total deferred income tax liabilities	\$164	\$5	\$62,682	\$1,933
c. Temporary differences:				
Reserve for default losses	\$14,050	\$431	\$25,959	\$800
Provision for pensions	2,290	70	3,537	109
Unrealized (gain) loss from derivative financial instruments	3,509	108	(1,802)	(55)
Unrealized gain on valuation of operating securities - hedging	(656)	(20)	(2,105)	(65)
Loss from trading securities - hedging	-	-	11,032	340
Gains from changes in value of call (put) warrants	-	-	(246,820)	(7,611)
Losses from changes in value of call (put) warrants	-	-	237,386	7,320
Total	\$19,193	\$589	\$27,187	\$838

	December 31, 2006		December 31, 2007	
d. Deferred income tax assets - current	\$877	\$27	\$62,105	\$1,915
Deferred income tax liabilities - current	(164)	(5)	(62,682)	(1,933)
Net deferred income tax assets (liabilities) - current	\$713	\$22	\$(577)	\$(18)
Net deferred income tax assets - noncurrent	\$4,085	\$125	\$7,374	\$227

C. Information related to tax imputation:

	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$8,236	\$253	\$7,427	\$229

	2006 (Actual)	2007 (Estimated)
Imputation credit account ratio	14.76%	12.58%

D. Information related to undistributed earnings:

	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
After 1998	\$66,026	\$2,026	\$59,041	\$1,821

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

(17) Personnel, depreciation, depletion and amortization expenses

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

Item	For the year ended December 31, 2006 (NT\$)			For the year ended December 31, 2006 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$134,722	\$134,722	\$-	\$4,134	\$4,134
Labor & health insurance expenses	-	8,933	8,933	-	274	274
Pension expenses	-	7,987	7,987	-	245	245
Other expenses	-	6,295	6,295	-	193	193
Depreciation	-	27,886	27,886	-	856	856
Depletion	-	-	-	-	-	-
Amortization	-	10,271	10,271	-	315	315

Item	For the year ended December 31, 2007 (NT\$)			For the year ended December 31, 2007 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$164,022	\$164,022	\$-	\$5,058	\$5,058
Labor & health insurance expenses	-	8,792	8,792	-	271	271
Pension expenses	-	7,682	7,682	-	237	237
Other expenses	-	7,301	7,301	-	225	225
Depreciation	-	29,285	29,285	-	903	903
Depletion	-	-	-	-	-	-
Amortization	-	10,608	10,608	-	327	327

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

(18) Earnings per share

	For the year ended December 31, 2006								
	Amount				Outstanding shares (thousands)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)	After income tax EPS (in dollars)		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net income from continuing operations	\$36,328	\$1,115	\$26,024	\$799	370,000	\$0.10	\$0.003	\$0.07	\$0.002
Cumulative effect of changes in accounting principles	211	6	173	5	370,000	-	-	-	-
Net income	\$36,539	\$1,121	\$26,197	\$804		\$0.10	\$0.003	\$0.07	\$0.002

	For the year ended December 31, 2007								
	Amount				Outstanding shares (thousands)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)	After income tax EPS (in dollars)		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net income	\$31,954	\$985	\$19,212	\$592	370,000	\$0.09	\$0.003	\$0.05	\$0.002

(19) Presentation of financial statements

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

5. Related party transactions

(1) Related parties

<u>Name</u>	<u>Relationship</u>
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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

Name	Relationship
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
Cathay Global Money Market Fund etc.	Affiliated
Cathay Century Realty Co., Ltd.	Affiliated
Cathay Biotechnology Co., Ltd.	Affiliated
Indovina Bank Limited	Affiliated
China England Company Ltd.	Affiliated
Cathay Real Estate Holding Corporation	Affiliated
Cathay Lin Yuan Security Co., Ltd.	Affiliated
Yi Ru Corporation	Affiliated
Wan Pao Development Co., Ltd.	Affiliated
Taipei Smart Card Corp.	Affiliated
Taiwan Asset Management Corporation	Affiliated
Taiwan Finance Corp.	Affiliated
Taiwan Real – estate Management Corp.	Affiliated
IBT Venture Capital Corp.	Affiliated
Hung Yuan Technology Venture Capital Corp.	Affiliated
Industrial and Commercial Bank of Vietnam	Affiliated
Shanghai China Eastern Media Co., Ltd.	Affiliated
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliated
Shanghai East Fly Service Co., Ltd.	Affiliated
CEA Futures Brokerage Co., Ltd.	Affiliated
CEA Finance Holding Co., Ltd.	Affiliated
China Eastern Aviation IMP/EXP Corp.	Affiliated
CEA Finance Co., Ltd.	Affiliated
China Eastern Realestate investment Co., Ltd.	Affiliated
China Eastern Airlines Co., Ltd.	Affiliated
China Eastern Airlines Jiangsu Ltd.	Affiliated
Cathay Life Insurance (Vietnam) Co., Ltd.	Affiliated
Cathay General Hospital	Affiliated
Cathay Real Estate Culture Foundation	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
Sunlight Asset Management Corporation	Affiliated
Other related parties	Includes chairmen, managers, their spouses and relatives of affiliates

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

(2) Transactions with related parties

A. Cash in bank

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

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

Name	Item	For the year ended December 31, 2007		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United	Savings accounts	\$4,666	0.10%~2.35%	\$100
Bank Co., Ltd.	Negotiable certificates of deposit	\$200,000	1.50%~1.77%	\$10,649
	Time deposit	\$4,000	1.39%~2.49%	\$870

Name	Item	For the year ended December 31, 2007		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United	Savings accounts	\$144	0.10%~2.35%	\$3
Bank Co., Ltd.	Negotiable certificates of deposit	\$6,167	1.50%~1.77%	\$328
	Time deposit	\$123	1.39%~2.49%	\$27

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

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

B. Open-end funds and currency market instruments

Name	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.				
- Cathay Bond Fund	\$203,358	\$6,240	\$65,014	\$2,005
- Cathay Soaring Eagle Bond Fund	20,082	616	-	-
Total	\$223,440	\$6,856	\$65,014	\$2,005

C. Accounts receivable

Name	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$916	\$28	\$919	\$29
Cathay United Bank Co., Ltd.	200	6	200	6
Total	\$1,116	\$34	\$1,119	\$35

D. Property transactions

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

There were no acquisitions or disposals of fixed assets from / to related parties for the year ended December 31, 2007.

E. Other intangible assets

Name	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$986	\$30	\$986	\$30

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

F. Other payables

Name	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd. (Note)	\$6,582	\$202	\$10,962	\$338
Cathay Life Insurance Co., Ltd.	299	9	288	9
Others	109	4	56	2
Total	\$6,990	\$215	\$11,306	\$349

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

G. Revenue from underwriting commissions

Name	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$-	\$-	\$1,824	\$56
Cathay Life Insurance Co., Ltd.	37,800	1,160	21,115	651
Total	\$37,800	\$1,160	\$22,939	\$707

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 year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$6,012	\$184	\$9,056	\$279

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

Name	For the year ended December 31, 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.	\$485	\$15	\$541	\$17	\$71	\$2	\$308,568	\$9,468

Name	For the year ended December 31, 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.	\$642	\$20	\$863	\$27	\$36	\$1	\$221,839	\$6,840

J. Rental expenses and guarantee deposits paid

Name	For the year ended December 31, 2006		For the year ended December 31, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay United Bank Co., Ltd.	\$5,028	\$1,318	\$5,289	\$1,325
Cathay Life Insurance Co., Ltd.	16,012	3,785	17,880	4,710
Seaward Leasing Co., Ltd.	298	-	504	-
Total	\$21,338	\$5,103	\$23,673	\$6,035

Name	For the year ended December 31, 2006		For the year ended December 31, 2007	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
Cathay United Bank Co., Ltd.	\$154	\$40	\$163	\$41
Cathay Life Insurance Co., Ltd.	491	116	551	145
Seaward Leasing Co., Ltd.	9	-	16	-
Total	\$654	\$156	\$730	\$186

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

K. Operating expenses

Name	Description	For the year ended December 31, 2006		For the year ended December 31, 2007	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurance	\$1,561	\$48	\$1,943	\$60
	Other fees	-	-	2,089	64
	Subtotal	1,561	\$48	4,032	124
Cathay United Bank Co., Ltd.	Other fees	3,130	96	3,812	118
Cathay Century Insurance Co., Ltd.	Insurance	466	14	442	14
Cathay Securities Investment					
Consulting Co., Ltd.	Other fees	438	13	87	3
Seaward Card Co., Ltd.	Service	491	15	170	5
Lin Yuan Property Management Co., Ltd.	Maintenance	1,692	52	-	-
Symphox Information Co., Ltd.	Cable service	2,003	62	1,222	37
	Other fees	920	28	1,295	40
	Subtotal	2,923	90	2,517	77
Total		\$10,701	\$328	\$11,060	\$341

L. Non-operating revenue and profits

Name	Description	For the year ended December 31, 2006		For the year ended December 31, 2007	
		NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	Rental revenue	\$3,200	\$98	\$2,400	\$74

6. Pledged assets

Item	Pledged Organization	December 31, 2006		December 31, 2007	
		NT\$	US\$	NT\$	US\$
Restricted assets-time deposits	Cathay United Bank Co., Ltd.	\$650,000	\$19,945	\$-	\$-
Operating securities-dealing	"	-	-	151,647	4,676
Operating securities-underwriting	"	-	-	519,280	16,012
Total		\$650,000	\$19,945	\$670,927	\$20,688

(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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

7. Other important matters and contingent liabilities

None.

8. Serious damages

None.

9. Subsequent events

None.

10. Other important events

(1) Information related to financial instruments

	December 31, 2006			
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$450,393	\$450,393	\$13,820	\$13,820
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	622,779	622,779	19,109	19,109
Operating securities - net	371,197	371,197	11,390	11,390
Receivable amount for margin loans	752,429	752,429	23,088	23,088
Securities refinancing margin deposits	443	443	14	14
Receivables - net	11,199	11,199	344	344
Restricted assets - current	650,000	650,000	19,945	19,945
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,600	6,600
Settlement and clearance funds	46,734	46,734	1,434	1,434
Guarantee deposits paid	38,239	38,239	1,173	1,173
Liabilities:				
Securities financing guarantee deposits-in	11,707	11,707	359	359
Deposit payable for securities financing	12,875	12,875	395	395
Payables	36,282	36,282	1,114	1,114
Guarantee deposits-in	141	141	4	4

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

	December 31, 2006			
	Carrying			Carrying
	amount	Fair value	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	\$308,568	\$308,568	\$9,468	\$9,468
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	4,200	4,200	129	129
Repurchase of issued call (put) warrants	(2,914)	(2,914)	(90)	(90)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	4,946	4,946	152	152
Other financial liabilities – current	175,703	175,703	5,392	5,392
December 31, 2007				
	Carrying			Carrying
	amount	Fair value	amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$230,455	\$230,455	\$7,106	\$7,106
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	540,791	540,791	16,676	16,676
Operating securities – net	1,090,181	1,090,181	33,616	33,616
Receivable amount for margin loans	1,053,680	1,053,680	32,491	32,491
Receivables - net	18,446	18,446	569	569
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,097	230,097	7,095	7,095
Settlement and clearance funds	50,550	50,550	1,559	1,559
Guarantee deposits paid	102,251	102,251	3,153	3,153

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

	December 31, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Liabilities:				
Securities financing guarantee deposits-in	35,828	35,828	1,105	1,105
Deposit payable for securities financing	39,545	39,545	1,219	1,219
Payables	34,121	34,121	1,052	1,052
Guarantee deposits-in	141	141	4	4
 Derivative				
Assets:				
Financial assets at fair value through profit or loss - current				
Margin for futures trading - own funds	\$221,839	\$221,839	\$6,840	\$6,840
Derivative financial instrument assets				
-Gre Tai (over - the - counter)	640	640	20	20
 Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	130,200	130,200	4,015	4,015
Repurchase of issued call (put) warrants	(119,436)	(119,436)	(3,683)	(3,683)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	413	413	13	13
Other financial liabilities - current	158,821	158,821	4,897	4,897

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

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

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

	December 31, 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 or loss – current				
Open-end funds and currency market instruments	\$622,779	\$-	\$19,109	\$-
Operating securities – net	371,197	-	11,390	-
Margin for futures trading – own funds	308,568	-	9,468	-
Liabilities:				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	4,200	-	129	-
Repurchase of issued call (put) warrants	(2,914)	-	(90)	-
Derivative financial instrument liabilities - GreTei (over-the-counter)	-	4,946	-	152
Other financial liabilities – current	-	175,703	-	5,392

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

	December 31, 2007			
	Based on quoted market price	Based on valuation method	Based on quoted market price	Based on valuation method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Assets:				
Financial assets at fair value				
through profit or loss – current				
Open-end funds and currency				
market instruments	\$540,791	\$-	\$16,676	\$-
Operating securities – net	1,090,181	-	33,616	-
Margin for futures trading –				
own funds	221,839	-	6,840	-
Derivative financial				
instrument assets – Gre Tai				
(over –the – counter)	-	640	-	20
Liabilities:				
Financial liabilities at fair value				
through profit or loss – current				
Liabilities for issuance of call				
(put) warrants	130,200	-	4,015	-
Repurchase of issued call (put)				
warrants	(119,436)	-	(3,683)	-
Derivative financial				
instrument liabilities-GreTei				
(over-the-counter)	-	413	-	13
Other financial liabilities – current	-	158,821	-	4,897

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

(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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements (continued)

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

As of December 31, 2006 and 2007

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

(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

<u>Financial instruments</u>	<u>December 31, 2006</u>		<u>December 31, 2007</u>	
	<u>Nominal principal /contract amount</u>	<u>Credit risk</u>	<u>Nominal principal /contract amount</u>	<u>Credit risk</u>
<u>For trading purposes</u>				
Issuance of call warrants	NT\$11,120 (US\$341)	NT\$- (US\$-)	NT\$377,020 (US\$11,625)	NT\$- (US\$-)

The Company collects premium from investors when issuing call warrants. Therefore, the Company believes it does not have any credit risk with respect to investors.

b. Market risk

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

c. Liquidity risk, cash flow risk and future cash requirements

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

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 December 31, 2007, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

Balance sheet

	December 31, 2006	
	Financial liabilities at fair value through profit and loss-current	
	NT\$	US\$
Liabilities for insurance of call (put) warrants	\$4,200	\$129
Repurchase of issued call (put) warrants	(2,914)	(90)
Total	\$1,286	\$39
	December 31, 2007	
	Financial liabilities at fair value through profit or loss-current	
	NT\$	US\$
Liabilities for issuance of call (put) warrants	\$130,200	\$4,015
Repurchase of issued call (put) warrants	(119,436)	(3,683)
Total	\$10,764	\$332

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

Statement of income

	<u>For the year ended December 31, 2006</u>		<u>Comments</u>
	<u>Profit from issuing</u>		
	<u>call (put) warrants</u>		
	<u>NT\$</u>	<u>US\$</u>	
Liabilities for issuance of call (put) warrants	\$6,920	\$212	Fair value method
Repurchase of issued call (put) warrants			
- Loss on disposal	(1,865)	(57)	
- Gain from valuation	(3,505)	(107)	Fair value method
Total	\$1,550	\$48	
	<u>For the year ended December 31, 2007</u>		<u>Comments</u>
	<u>Profit from issuing</u>		
	<u>call (put) warrants</u>		
	<u>NT\$</u>	<u>US\$</u>	
Liabilities for issuance of call (put) warrants	\$239,900	\$7,398	Fair value method
Repurchase of issued call (put) warrants			
- Loss on disposal	(93,512)	(2,884)	
- Gain from valuation	(154,440)	(4,762)	Fair value method
Gain from expiration of warrants issued	24,420	753	
Total	\$16,368	\$505	

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	<u>December 31, 2006</u>		<u>December 31, 2007</u>	
	<u>Nominal</u>		<u>Nominal</u>	
<u>Financial instruments</u>	<u>principal</u>	<u>Credit</u>	<u>principal</u>	<u>Credit</u>
	<u>/contract</u>	<u>risk</u>	<u>/contract</u>	<u>risk</u>
	<u>amount</u>		<u>amount</u>	
<u>For trading purposes</u>				
Equity-linked notes	NT\$-	NT\$-	NT\$10,000	NT\$-
	(US\$-)	(US\$-)	(US\$308)	(US\$-)
Principal guaranteed notes	NT\$177,900	NT\$-	NT\$149,300	NT\$-
	(US\$5,459)	(US\$-)	(US\$4,604)	(US\$-)

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

The Company's credit risk arises from a breach of contract by a counterparty. The Company believes it is not exposed to credit risk because contract amounts are collected in advance of structured notes being issued.

b. Market risk

In structured notes transactions, the Company receives proceeds from investors on the contract date and makes its investments pursuant to the contract. The Company invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, the Company believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

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

In structured notes transactions, the Company receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. In order to provide investors with the ability for early redemption, the Company considers liquidity risk when investing in fixed income securities. As a result, the Company does not expect any significant cash requirements at expiration of the contract.

d. Types, purposes, and strategies for financial derivatives

The structured notes transactions of the Company can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. Proceeds received by investors consist of returns from the fixed income products and value of the options at expiration.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

e. Financial statement presentation of derivative financial instruments

As of December 31, 2006 and 2007, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

Balance sheet

	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instrument assets -				
GreTai (over-the-counter) (note 1)				
Structured notes transactions	\$-	\$-	\$640	\$20
Derivative financial instrument liabilities -				
GreTai (over-the-counter) (note 2)	4,946	152	413	13
Structured notes transactions				
Other financial liabilities - current				
Principal of structured notes	175,703	5,392	158,821	4,897

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 year ended December 31, 2006		For the year ended December 31, 2007		Comments
	NT\$	US\$	NT\$	US\$	
Loss from derivative financial instruments - Gre Tai (over the counter)					
Loss from structured notes	\$12,345	\$379	\$4,902	\$151	Fair value method

C. Futures and options transactions

As of December 31, 2006 and 2007, all of the Company's futures and options transactions were exercised.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

a. Nominal principal or contract amount and credit risk

The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

b. Market risk

The Company's market risk from futures and options transactions arises from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, the Company believes it can limit its losses to within an expected range. However, market risk still exists.

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

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

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

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2006 and 2007

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “financial assets at fair value through profit or loss – current (“margin for futures trading – own funds”) on the balance sheet. For the years ended December 31, 2006 and 2007, the related gain (loss) of futures and options on the statements of income were as follows:

	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Gain from derivative financial instruments – futures				
Gain on futures contracts - realized	\$12,327	\$378	\$14,959	\$461
Gain on futures contracts - unrealized	799	25	967	30
Gain from options transactions - realized	1,942	60	5,811	179
Gain from options transactions - unrealized	1,246	38	1,448	45
Total	\$16,314	\$501	\$23,185	\$715
	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT\$	US\$	NT\$	US\$
Loss from derivative financial instruments – futures				
Loss on futures contracts - realized	\$6,701	\$206	\$6,332	\$195
Loss on futures contracts - unrealized	799	24	967	30
Loss from options transactions - realized	916	28	1,416	44
Loss from options transactions - unrealized	1,246	38	1,448	44
Total	\$9,662	\$296	\$10,163	\$313