

**Cathay Securities Corporation
Financial Statements
Together with
Independent Auditors' Report
As of June 30, 2007 and 2008**

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

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INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' report	3
Balance sheets as of June 30, 2007 and 2008	4-5
Statements of income for the six months ended June 30, 2007 and 2008	6
Statements of changes in stockholders' equity for the six months ended June 30, 2007 and 2008	7
Statements of cash flows for the six months ended June 30, 2007 and 2008	8-9
Notes to financial statements	10-61

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 June 30, 2007 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the six months ended June 30, 2007 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Securities Corporation as of June 30, 2007 and 2008, and the results of its operations and their cash flows for the six months ended June 30, 2007 and 2008 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.

We have also reviewed the consolidated financial statements of the Company as of and for the six months ended June 30, 2007 and 2008, and expressed an unqualified review report.

Ernst & Young
Taipei, Taiwan
Republic of China
July 28, 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 June 30, 2007 and 2008
(Expressed in thousands of dollars)

ASSETS	NOTES	June 30,2007		June 30,2008	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4(1),5,6	\$475,377	\$14,480	\$434,514	\$14,312
Financial assets at fair value through profit or loss - current	2,4(2),5,6,10	1,506,667	45,893	1,288,970	42,456
Receivable amount for margin loans	2,4(3)	943,591	28,742	1,196,393	39,407
Securities refinancing margin deposits	2	-	-	195	6
Accounts receivable		9	-	277	9
Accounts receivable - related parties	5	800	24	3,529	116
Prepayments		458	14	19,718	650
Other receivables		59,575	1,815	20,390	672
Other receivables- related parties		-	-	2,688	89
Restricted assets - current	6	300,000	9,138	90,000	2,964
Other current assets		503	15	1,468	48
Total current assets		<u>3,286,980</u>	<u>100,121</u>	<u>3,058,142</u>	<u>100,729</u>
Funds and investments					
Long-term investments under equity method	2,4(4)	717,306	21,849	729,505	24,028
Available-for-sale financial assets - noncurrent	2,4(5)	18	1	18	1
Total funds and investments		<u>717,324</u>	<u>21,850</u>	<u>729,523</u>	<u>24,029</u>
Property and equipment	2,4(6)				
Equipment		88,934	2,709	95,732	3,153
Prepayment for equipment		843	26	372	12
Leasehold improvement		51,853	1,579	53,024	1,747
Less: Accumulated depreciation		(59,754)	(1,820)	(89,045)	(2,933)
Net property and equipment		<u>81,876</u>	<u>2,494</u>	<u>60,083</u>	<u>1,979</u>
Intangible assets					
Other intangible assets	2,4(7),5	9,588	292	5,952	196
Other assets					
Operating deposits	4(8)	225,097	6,856	230,098	7,579
Settlement and clearance funds	4(9)	50,550	1,540	51,519	1,697
Guarantee deposits paid	5	28,326	863	68,251	2,248
Deferred income tax assets - noncurrent	2,4(15)	5,747	175	8,817	291
Total other assets		<u>309,720</u>	<u>9,434</u>	<u>358,685</u>	<u>11,815</u>
Securities brokerage debit accounts - net	4(10)	-	-	80,708	2,658
Total assets		<u>\$4,405,488</u>	<u>\$134,191</u>	<u>\$4,293,093</u>	<u>\$141,406</u>

(The exchange rate of June 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Securities Corporation
Balance sheets
As of June 30, 2007 and 2008
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	June 30,2007		June 30,2008	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,4(11),10	\$5,984	\$182	\$103,992	\$3,425
Securities financing guarantee deposits-in	2	6,029	184	20,537	676
Deposit payable for securities financing	2	6,662	203	22,690	747
Accounts payable		15,194	463	38,011	1,252
Accounts payable - related parties	5	124	4	51	2
Accounts collected in advance		1,927	59	-	-
Receipts under custody		9,083	277	4,614	152
Other payables		32,706	996	14,658	483
Other payables - related parties	5	8,418	256	-	-
Deferred income tax liabilities - current	2,4(15)	8	-	2,842	94
Other financial liabilities - current	2,10	238,315	7,259	25,064	826
Other current liabilities		20	1	8	-
Total current liabilities		<u>324,470</u>	<u>9,884</u>	<u>232,467</u>	<u>7,657</u>
Long-term liabilities					
Other long-term liabilities		633	19	653	22
Other liabilities					
Reserve for default losses	2	19,975	608	31,050	1,023
Reserve for trading losses	2	1,464	45	-	-
Guarantee deposits-in		141	4	141	4
Accrued pension liability - noncurrent	2	3,014	92	4,218	139
Total other liabilities		<u>24,594</u>	<u>749</u>	<u>35,409</u>	<u>1,166</u>
Securities brokerage credit accounts - net	4(10)	<u>11,656</u>	<u>355</u>	<u>-</u>	<u>-</u>
Total liabilities		<u>361,353</u>	<u>11,007</u>	<u>268,529</u>	<u>8,845</u>
Stockholders' equity					
Capital stock					
Common stock	4(12)	3,700,000	112,702	3,700,000	121,871
Capital surplus	4(13)	258,434	7,872	258,434	8,512
Retained earnings	4(14)				
Legal reserve		8,310	253	10,231	337
Special reserve		16,619	506	20,461	674
Unappropriated retained earnings		60,772	1,851	35,438	1,167
Total stockholders' equity		<u>4,044,135</u>	<u>123,184</u>	<u>4,024,564</u>	<u>132,561</u>
Total liabilities and stockholders' equity		<u>\$4,405,488</u>	<u>\$134,191</u>	<u>\$4,293,093</u>	<u>\$141,406</u>

(The exchange rate of June 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.83 and NT\$30.36 to US\$1.00, respectively)
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of income

For the six months ended June 30, 2007 and 2008

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

ITEMS	NOTES	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
		NT\$	US\$	NT\$	US\$
Revenue	2,5				
Brokerage commissions		\$130,556	\$3,977	\$130,395	\$4,295
Revenue from underwriting commissions		23,072	703	1,329	44
Profit from trading securities		4,737	144	-	-
Interest revenue		26,231	799	45,955	1,514
Dividend revenue		6,955	212	338	11
Profit from issuing call (put) warrants	10	6,055	185	29,511	971
Brokerage commissions for introducing futures contracts		3,470	106	12,770	421
Gain from derivative financial instruments - futures	10	9,334	284	7,536	248
Gain from derivative financial instruments - GreTai (over-the-counter)	10	-	-	174	6
Other operating revenue		1,811	55	4,297	142
Non-operating revenue and profits		19,613	597	20,711	682
Total revenue		<u>231,834</u>	<u>7,062</u>	<u>253,016</u>	<u>8,334</u>
Expenses	2,5				
Brokerage securities transaction charges		(12,173)	(371)	(10,561)	(348)
Dealing securities transaction charges		(1,261)	(39)	(1,039)	(34)
Refinancing transaction fees		(2)	-	(25)	(1)
Underwriting transaction fees		-	-	(23)	(1)
Loss from trading securities		-	-	(8,749)	(288)
Interest expense		(45)	(1)	(120)	(4)
Loss on valuation of operating securities		(4,099)	(125)	(23,263)	(766)
Expenses from issuing call (put) warrants		(64)	(2)	(2,710)	(89)
Clearing and settlement fees		(407)	(12)	(196)	(7)
Loss from derivative financial instruments - futures	10	(4,962)	(151)	(9,103)	(300)
Loss from derivative financial instruments - GreTai (over-the-counter)	10	(4,478)	(136)	-	-
Operating expenses		(166,792)	(5,081)	(200,533)	(6,605)
Non-operating expense and losses		(7,029)	(214)	(1,784)	(59)
Total expenses		<u>(201,312)</u>	<u>(6,132)</u>	<u>(258,106)</u>	<u>(8,502)</u>
Income (loss) from continuing operations before income taxes		30,522	930	(5,090)	(168)
Income tax (expense) benefit	2,4(15)	(9,578)	(292)	699	23
Net income (loss)		<u>\$20,944</u>	<u>\$638</u>	<u>\$(4,391)</u>	<u>\$(145)</u>
Earnings per share (in dollars)	4(17)				
Net income (loss)		<u>\$0.06</u>	<u>\$0.0018</u>	<u>\$(0.01)</u>	<u>\$(0.0003)</u>

(The exchange rate of June 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of changes in stockholders' equity

For the six months ended June 30, 2007 and 2008

(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, 2007	\$3,700,000	\$112,702	\$258,434	\$7,872	\$5,690	\$173	\$11,380	\$347	\$66,026	\$2,011	\$4,041,530	\$123,105
Appropriations and distributions of 2006:												
Legal reserve					2,620	80			(2,620)	(80)	-	-
Special reserve							5,239	159	(5,239)	(159)	-	-
Cash dividends									(17,757)	(541)	(17,757)	(541)
Bonus paid to employees									(582)	(18)	(582)	(18)
Net income for the six months ended June 30, 2007									20,944	638	20,944	638
Balance on June 30, 2007	<u>\$3,700,000</u>	<u>\$112,702</u>	<u>\$258,434</u>	<u>\$7,872</u>	<u>\$8,310</u>	<u>\$253</u>	<u>\$16,619</u>	<u>\$506</u>	<u>\$60,772</u>	<u>\$1,851</u>	<u>\$4,044,135</u>	<u>\$123,184</u>
Balance on January 1, 2008	\$3,700,000	\$121,871	\$258,434	\$8,512	\$8,310	\$274	\$16,619	\$547	\$59,041	\$1,945	\$4,042,404	\$133,149
Appropriations and distributions of 2007:												
Legal reserve					1,921	63			(1,921)	(63)	-	-
Special reserve							3,842	127	(3,842)	(127)	-	-
Cash dividends									(12,916)	(425)	(12,916)	(425)
Bonus paid to employees									(533)	(18)	(533)	(18)
Net loss for the six months ended June 30, 2008									(4,391)	(145)	(4,391)	(145)
Balance on June 30, 2008	<u>\$3,700,000</u>	<u>\$121,871</u>	<u>\$258,434</u>	<u>\$8,512</u>	<u>\$10,231</u>	<u>\$337</u>	<u>\$20,461</u>	<u>\$674</u>	<u>\$35,438</u>	<u>\$1,167</u>	<u>\$4,024,564</u>	<u>\$132,561</u>

(The exchange rate of June 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of cash flows

For the six months ended June 30, 2007 and 2008

(Expressed in thousands of dollars)

ITEMS	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss)	\$20,944	\$638	\$(4,391)	\$(145)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	14,530	443	15,068	496
Amortization	5,422	165	3,390	112
Loss on valuation of operating securities	4,099	125	23,263	766
Loss on valuation of open-end funds and currency market instruments	5,331	162	1,522	50
Recoveries on reserve for trading losses	(1,032)	(31)	(1,867)	(61)
Reserve for trading losses	923	28	1,635	54
Reserve for default losses	5,925	181	5,092	168
Investment income recognized by equity method in excess of cash dividends received	2,363	72	(10,005)	(330)
Loss on disposal of property and equipment	515	16	78	3
Changes in assets and liabilities				
Financial assets at fair value through profit or loss - current				
Increase in operating securities - dealing	(104,092)	(3,171)	(27,076)	(892)
Increase in operating securities - underwriting	(530,000)	(16,144)	(64,540)	(2,126)
(Increase) decrease in operating securities - hedging	(62,373)	(1,900)	11,258	371
Increase in call options - futures	-	-	(159)	(5)
(Increase) decrease in margin for futures trading - own funds	(4,508)	(137)	99,434	3,275
Decrease in derivative financial instrument assets - GreTai (over-the-counter)	-	-	640	21
Increase in receivable amount for margin loans	(191,162)	(5,823)	(142,713)	(4,701)
Decrease (increase) in securities refinancing margin deposits	443	14	(195)	(6)
(Increase) decrease in accounts receivable	(9)	-	667	22
Decrease (increase) in accounts receivable - related parties	316	10	(2,410)	(79)
Decrease (increase) in prepayments	456	14	(19,361)	(638)
Increase in other receivables	(49,492)	(1,508)	(4,007)	(132)
Increase in other receivable - related parties	-	-	(2,688)	(88)
Increase in other current assets	(492)	(15)	(941)	(31)
Decrease in cash and cash equivalents - funds for subscription of shares collected	-	-	192	6
Financial liabilities at fair value through profit or loss - current				
(Decrease) increase in liabilities for issuance of call (put) warrants	(417)	(13)	91,328	3,008
Increase in put options - futures	-	-	2,217	73
Increase (decrease) in derivative financial instrument liabilities - GreTai (over-the-counter)	169	5	(729)	(24)
Decrease in securities financing guarantee deposits-in	(5,678)	(173)	(15,292)	(504)
Decrease in deposit payable for securities financing	(6,213)	(189)	(16,856)	(555)
(Decrease) increase in accounts payable	(1,830)	(56)	26,329	867
Increase in accounts payable - related parties	53	2	15	1
Increase in accounts collected in advance	1,927	59	-	-
Increase (decrease) in receipts under custody	2,658	81	(1,666)	(55)
Increase in other payables	20,509	625	3,562	117
Increase (decrease) in other payables - related parties	1,427	43	(11,306)	(372)
Increase (decrease) in other financial liabilities - current	62,612	1,907	(133,757)	(4,406)
Increase (decrease) in other current liabilities	9	-	(207)	(7)
Net change in deferred income tax assets/liabilities	(940)	(29)	821	27
Increase (decrease) in other long-term liabilities	164	5	(216)	(7)
Increase in accrued pension liability	724	22	681	23
Net change in securities brokerage debit/credit accounts - net	18,953	577	(65,961)	(2,173)
Net cash used in operating activities	(787,766)	(23,995)	(239,151)	(7,877)

(The exchange rate of June 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statements of cash flows

For the six months ended June 30, 2007 and 2008

(Expressed in thousands of dollars)

ITEMS	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	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	487,420	14,847	520,140	17,132
Decrease (increase) in restricted assets - current	350,000	10,661	(90,000)	(2,964)
Acquisition of property and equipment	(834)	(25)	(3,720)	(123)
Disposal of property and equipment	338	10	212	7
Increase in other intangible assets	(1,934)	(59)	(3,003)	(99)
Increase in settlement and clearance funds	(3,815)	(116)	(970)	(32)
Increase in operating deposits	(10,000)	(305)	-	-
Decrease in guarantee deposits paid	9,914	302	34,000	1,120
Net cash provided by investing activities	<u>831,089</u>	<u>25,315</u>	<u>456,659</u>	<u>15,041</u>
Cash flows from financing activities				
Cash dividends	(17,757)	(541)	(12,916)	(425)
Bonus paid to employees	(582)	(18)	(533)	(18)
Net cash used in financing activities	<u>(18,339)</u>	<u>(559)</u>	<u>(13,449)</u>	<u>(443)</u>
Increase in cash and cash equivalents	24,984	761	204,059	6,721
Cash and cash equivalents at the beginning of period	<u>450,393</u>	<u>13,719</u>	<u>230,455</u>	<u>7,591</u>
Cash and cash equivalents at the end of period	<u><u>\$475,377</u></u>	<u><u>\$14,480</u></u>	<u><u>\$434,514</u></u>	<u><u>\$14,312</u></u>
Supplemental disclosure of cash flows information				
Interest paid during the period	<u>\$57</u>	<u>\$2</u>	<u>\$139</u>	<u>\$5</u>
Interest paid (excluding capitalized interest)	<u>\$57</u>	<u>\$2</u>	<u>\$139</u>	<u>\$5</u>
Income tax paid	<u><u>\$8,815</u></u>	<u><u>\$269</u></u>	<u><u>\$12,098</u></u>	<u><u>\$398</u></u>

(The exchange rate of June 30, 2007 and 2008 provided by the Federal Reserve Bank of New York was NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Notes to financial statements

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

As of June 30, 2007 and 2008

1. Organization and business scope

Cathay Securities Corporation (the "Company") was incorporated in Taipei on May 12, 2004, under the provisions of the Company Act (the "Company Act") of the Republic of China ("ROC"). The Company mainly engages in the business of securities dealing, brokerage and underwriting, margin lending and securities lending, dealing and brokerage services related to futures, and other operations approved by the authorities. As of June 30, 2008, the Company had 4 branch offices.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings Co., Ltd. As of June 30, 2007 and 2008, the Company had 194 and 245 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.

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 June 30, 2007 and 2008

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

(3) Financial assets and financial liabilities

Pursuant to the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 34 "Accounting for Financial Instruments" and "Criteria Governing the Preparation of Financial Reports by Securities Firms" the Company's financial assets are categorized as "financial assets at fair value through profit or loss", "held-to-maturity financial assets", "derivative financial assets for hedging", "investments in debt securities with no active market" or "available-for-sale financial assets". Financial assets are initially recognized at fair value. Financial liabilities are categorized as "financial liabilities at fair value through profit or loss", "derivative financial liabilities for hedging", or "financial liabilities carried at cost".

All "regular way" purchases and sales of financial assets are recorded as of the trade date (i.e. the date that the Company commits to purchase or sell the asset). "Regular way" purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as financial assets held for trading or financial assets at fair value through profit or loss. Gains and losses from changes in fair values of such assets are reflected in the income statement.

a. Open-end funds and currency market instruments

Investments in open-end funds are initially recognized at cost and valued at fair value as of the balance sheet date. The fair value of the beneficiary certificates of open-end funds are based on the net asset value of the funds as of the balance sheet date. The cost of sale is calculated using the weighted-average method.

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 June 30, 2007 and 2008

b. Operating securities

Securities purchased for resale by the dealing department are accounted for as “operating securities – dealing”, and consist of bonds, stock warrants, listed stocks, and over-the-counter (OTC) stocks.

Operating securities are valued at market value. Cost is determined using the weighted-average method. Market value is the closing market price as of the balance sheet date, 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.

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 June 30, 2007 and 2008

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

Structured notes transactions

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

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

Principal guaranteed notes transactions involve receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as "principal of structured notes". Any options purchased are recognized as "structured notes transactions", and are valued at fair value with any resulting gains or losses recognized as "gains (losses) from structured notes".

The options of the Company are 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.

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 June 30, 2007 and 2008

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

E. Derivative financial assets for hedging

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

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

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 June 30, 2007 and 2008

F. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are categorized as financial liabilities held for trading or financial liabilities at fair value through profit or loss. Gains and losses from changes in fair values of such liabilities are reflected in the income statement.

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

Issuances of call (put) warrants are accounted for and subsequently valued at fair value and recognized as “liabilities for issuance of call (put) warrants”. Repurchases of call (put) warrants previously issued are recorded as “repurchase of issued call (put) warrants”, and are deemed to be deductions to “liabilities for issuance of call (put) warrants”.

(4) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset (or a portion) is derecognized when control over the asset (or a portion) is surrendered. The transfer of a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the asset.

If a transfer of financial assets does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under a liability agreement is discharged, cancelled or matures.

When an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized in the current period income statement.

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 June 30, 2007 and 2008

(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”.

(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.

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 June 30, 2007 and 2008

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. "Accounting for Intangible Assets". Intangible assets are initially recognized at cost except intangible assets granted by the government are recognized at fair value. After initial recognition, intangible assets are carried at cost plus incremental gains following statutory revaluation less accumulated amortization and accumulated impairment losses.

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

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

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

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 June 30, 2007 and 2008

(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 June 30, 2007 and 2008

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\$6,588) 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\$6,588). 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 June 30, 2007 and 2008

(13) Pension

The Company has established a retirement plan and reserved for a retirement fund in an amount equal to 2% of total regular salaries and wages paid. Starting from December 2004, the Company has made contributions to the retirement fund, which is administered by the Employees' Retirement Fund Committee and deposited in the Committee's name in the Central Trust of China under the Labor Standards Law. The activities of the retirement fund are separated from those of the Company and therefore, they are not reflected in the accompanying financial statements.

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

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

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

(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.

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 June 30, 2007 and 2008

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

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

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

(15)Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses and not distribution of earnings.

(16)Recognition of revenue and expenses

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

- A. Brokerage commissions, profit or loss from disposal of operating securities, and relevant brokerage securities transaction charges are recognized at the transaction date.
- B. Interest revenue or expense from margin loans 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.

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 June 30, 2007 and 2008

(17) Convenience translation into US dollars

These financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these financial statements solely for the convenience of the reader using the noon buying rate of NT\$32.83 and NT\$30.36 to US\$1.00 effective on June 30, 2007 and 2008, respectively, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at these rates or any other rates of exchange.

3. Change in accounting and its effects

The company adopted the accounting principles prescribed in Article No.52 "Accounting for employee bonus and remuneration of directors " by the Accounting Research and Development Foundation on January 1, 2008.

The above change in accounting principles had no effect on the net loss and earnings per share of the Company as of June 30, 2008.

4. Breakdown of significant accounts

(1) Cash and cash equivalents

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$170	\$5	\$140	\$5
Savings accounts	114,107	3,476	150,874	4,969
Time deposits	361,100	10,999	283,500	9,338
Total	<u>\$475,7</u>	<u>\$14,480</u>	<u>\$434,514</u>	<u>\$14,312</u>
Annual interest rate of time deposits	1.39%~2.245%		1.77%-2.62%	

As of June 30, 2007 and 2008, 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 June 30, 2007 and 2008

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

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Open-end funds and currency market instruments	\$130,027	\$3,961	\$19,130	\$630
Operating securities – dealing	433,594	13,207	471,034	15,515
Operating securities – underwriting	530,014	16,144	593,677	19,555
Operating securities – hedging	99,955	3,045	82,565	2,719
Call Options - futures	-	-	159	5
Margin for futures trading – own funds	313,077	9,536	122,405	4,032
Total	\$1,506,667	\$45,893	\$1,288,970	\$42,456

See note 6 for detail of financial assets at fair value through profit or loss – current pledged to other parties as of June 30, 2007 and 2008.

A. Open-end funds and currency market instruments

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$130,391	\$3,972	\$20,000	\$659
Less : Valuation adjustment	(364)	(11)	(870)	(29)
Net	\$130,027	\$3,961	\$19,130	\$630

B. Operating securities – dealing

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$35,490	\$1,081	\$-	\$-
Real Estate Investment Trusts (REITs)	184,958	5,634	-	-
OTC stocks	-	-	155	5
OTC corporate bonds	50,000	1,523	271,614	8,946
Real Estate Asset Trust (REAT)	150,000	4,569	143,327	4,721
Emerging stocks	12,026	366	64,141	2,113
Subtotal	432,474	13,173	479,2	15,785
Add (Less) : Valuation adjustment	1,120	34	(8,203)	(270)
Net	\$433,594	\$13,207	\$471,034	\$15,515

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 June 30, 2007 and 2008

C. Operating securities - underwriting

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Real Estate Asset Trust (REAT)	\$530,000	\$16,144	\$506,423	\$16,681
OTC corporate bonds	-	-	92,850	3,058
Subtotal	530,000	16,144	599,273	19,739
Add (Less) : Valuation adjustment	14	-	(5,596)	(184)
Net	\$530,014	\$16,144	\$593,677	\$19,555

D. Operating securities - hedging

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$98,907	\$3,013	\$73,889	\$2,433
OTC stocks	-	-	22,6	7
Subtotal	98,907	3,013	96,265	3,170
Add (Less): Valuation adjustment	1,048	32	(13,700)	(451)
Net	\$99,955	\$3,045	\$82,565	\$2,719

E. Margin for futures trading - own funds

Futures trading company	June 30, 2007					
	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$312,926	\$9,532	\$151	\$4	\$313,077	\$9,536

Futures trading company	June 30, 2008					
	Account balance		Gain (loss) on outstanding futures contracts		Net account value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$122,430	\$4,033	\$(25)	\$(1)	\$122,405	\$4,032

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

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 June 30, 2007 and 2008

F. Call options - futures

See note 10.

(3) Receivable amount for margin loans

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Receivable amount for margin loans	\$943,591	\$28,742	\$1,196,393	\$39,407
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$943,591</u>	<u>\$28,742</u>	<u>\$1,196,393</u>	<u>\$39,407</u>

For the six months ended June 30, 2007 and 2008, receivable amount for margin loans had an annual interest rate of 6.60% and 3.25%~6.90%, respectively.

(4) Long-term investments under equity method

A.

Name of investee	June 30, 2007			June 30, 2008		
	NT\$	US\$	Percentage of ownership	NT\$	US\$	Percentage of ownership
Cathay Futures Co., Ltd.	<u>\$717,306</u>	<u>\$21,849</u>	99.99%	<u>\$729,505</u>	<u>\$24,028</u>	99.99%

B. Changes in investments under the equity method as of June 30, 2007 and 2008 are listed below:

Item	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$719,669	\$21,921	\$719,500	\$23,698
Investment (loss) income recognized under the equity method	(1,183)	(36)	10,713	353
Cash dividends	(1,180)	(36)	(708)	(23)
Balance on June 30	<u>\$717,306</u>	<u>\$21,849</u>	<u>\$729,505</u>	<u>\$24,028</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 June 30, 2007 and 2008

C. The investment (loss) income recognized by the equity method as of June 30, 2007 and 2008 is listed below:

Name of investee	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$(1,183)	\$(36)	\$10,713	\$353

D. The investment (loss) 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 June 30, 2007 and 2008, 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	June 30, 2007			June 30, 2008		
	NT\$	US\$	Percentage of ownership	NT\$	US\$	Percentage of ownership
Stock:						
Taiwan Futures Exchange Corporation	\$18	\$1	-	\$18	\$1	-

As of June 30, 2007 and 2008, none of the available-for-sale financial assets - noncurrent were pledged to other parties.

(6) Property and equipment

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

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 June 30, 2007 and 2008

Item	June 30, 2008					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$95,732	\$3,153	\$65,369	\$2,153	\$30,363	\$1,000
Prepayment for equipment	2	12	-	-	2	12
Leasehold improvement	53,024	1,747	23,676	780	29,348	967
Total	\$149,128	\$4,912	\$89,045	\$2,933	\$60,083	\$1,979

As of June 30, 2007 and 2008, none of the property and equipment were pledged to other parties.

(7) Other intangible assets

Item	January 1, 2007		Increase		Decrease		June 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$29,313	\$893	\$1,934	\$59	\$(1,789)	\$(55)	\$29,458	\$897
Amortization and impairment:								
Amortization	(16,2)	(495)	(5,422)	(165)	1,789	55	(19,870)	(605)
Book value	<u>\$13,076</u>	<u>\$398</u>					<u>\$9,588</u>	<u>\$292</u>
Item	January 1, 2008		Increase		Decrease		June 30, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$25,494	\$840	\$3,003	\$99	\$(12,823)	\$(423)	\$15,674	\$516
Amortization and impairment:								
Amortization	(19,155)	(631)	(3,390)	(112)	12,823	423	(9,722)	(320)
Book value	<u>\$6,339</u>	<u>\$209</u>					<u>\$5,952</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.

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 June 30, 2007 and 2008

(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\$225,097 (US\$6,856) and NT\$230,098 (US\$7,579) as of June 30, 2007 and 2008, respectively.

(9) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT\$50,550 (US\$1,540) and NT\$51,519 (US\$1,697) in settlement and clearance funds as of June 30, 2007 and 2008, respectively.

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

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Debit balance:				
Cash and cash equivalents -				
settlement amount	\$3,320	\$101	\$50	\$2
Proceeds receivable from investors	5,085	155	-	-
Clearance	1,223,085	,255	-	-
Accounts receivable - brokering	816,268	24,864	1,546,309	50,932
Subtotal	2,047,758	62,5	1,546,359	50,934
Credit balance:				
Proceeds payable to investors	2,499	76	-	-
Accounts payable - brokering	2,056,915	62,654	634,920	20,913
Clearance	-	-	830,731	27,363
Subtotal	2,059,414	62,730	1,465,651	48,276
Net	<u><u>\$(11,656)</u></u>	<u><u>\$(355)</u></u>	<u><u>\$80,708</u></u>	<u><u>\$2,658</u></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 June 30, 2007 and 2008

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

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Liabilities for issuance of call (put)				
warrants	\$1,200	\$36	\$510,600	\$16,818
Repurchase of issued call (put) warrants	(331)	(10)	(408,508)	(13,456)
Put options - futures	-	-	2,217	73
Derivative financial instrument liabilities				
- GreTai (over-the-counter)	5,115	156	(317)	(10)
Total	<u>\$5,984</u>	<u>\$182</u>	<u>\$103,992</u>	<u>\$3,425</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:

June 30, 2007 (NT\$)										
Liabilities for issuance of call										
(put) warrants										
Repurchase of issued call (put) warrants										
Gains from										
Losses from										
Market										
changes in										
price per										
value of call										
Units										
repurchased										
Repurchase										
Market										
(put)										
value										
warrants										
Name	Underlying securities	Units issued (thousands)	unit (in dollars)	Issuance amount	Market Value	(put) warrants	repurchased (thousands)	Repurchase cost	Market value	(put) warrants
Compal										
Cathay 03	Communication Inc.	20,000	\$0.06	\$13,300	\$1,200	\$12,100	5,513	\$3,690	\$331	\$(3,359)

June 30, 2007 (US\$)										
Liabilities for issuance of call										
(put) warrants										
Repurchase of issued call (put) warrants										
Gains from										
Losses from										
Market										
changes in										
price per										
value of call										
Units										
repurchased										
Repurchase										
Market										
(put)										
value										
warrants										
Name	Underlying securities	Units issued (thousands)	unit (in dollars)	Issuance amount	Market Value	(put) warrants	repurchased (thousands)	Repurchase cost	Market value	(put) warrants
Compal										
Cathay 03	Communication Inc.	20,000	\$0.002	\$405	\$36	\$369	5,513	\$112	\$10	\$(102)

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 June 30, 2007 and 2008

June 30, 2008 (NT\$)

Name	Underlying securities	Units issued (thousands)	Market price per unit (in dollars)	Liabilities for issuance of call (put)							
				Issuance amount	warrants			Repurchase of issued call (put) warrants			
					Market Value	value of call (put) warrants	Gains from changes in	Units repurchased (thousands)	Repurchase cost	Market value	Losses from changes in value of call (put) warrants
Cathay 22	AUO	20,000	\$0.020	\$17,920	\$400	\$17,520		16,389	\$5,966	\$328	\$(5,638)
Cathay 23	ASUSTEK	20,000	0.110	21,300	2,200	19,100		18,285	12,752	2,011	(10,741)
Cathay 24	INOTERA	20,000	0.010	12,940	200	12,740		16,942	7,964	169	(7,795)
Cathay 25	EPISTAR	20,000	0.030	34,640	600	34,040		18,060	12,823	542	(12,281)
Cathay 26	MIC	20,000	0.810	31,660	16,200	15,460		18,726	27,661	15,168	(12,493)
Cathay 27	MTC	20,000	0.100	46,160	2,000	44,160		19,249	36,840	1,925	(34,915)
Cathay 28	ZINWELL	20,000	0.600	39,600	12,000	27,600		18,175	47,810	10,905	(36,905)
Cathay 29	RICHTEK	20,000	0.210	9,940	4,200	5,740		17,325	9,387	3,638	(5,749)
Cathay 30	FH	20,000	0.770	19,300	15,400	3,900		18,584	32,424	14,310	(18,114)
Cathay 31	FARGLORY	20,000	0.030	42,800	600	42,200		19,559	,687	587	(,100)
Cathay 32	GINTECH	30,000	0.290	14,910	8,700	6,210		23,441	16,274	6,798	(9,476)
Cathay 33	CEC	20,000	0.030	16,520	600	15,920		18,187	9,565	546	(9,019)
Cathay 34	SEEC	20,000	0.330	27,260	6,600	20,660		19,127	14,004	6,312	(7,692)
Cathay 35	FRG	20,000	0.100	16,520	2,000	14,520		17,221	9,081	1,722	(7,359)
Cathay 36	EVAAIR	20,000	0.180	,020	3,600	33,420		18,186	10,322	3,274	(7,048)
Cathay	RT	20,000	0.320	,020	6,400	30,620		19,556	23,173	6,258	(16,915)
Cathay 38	CHONG HONG	20,000	0.600	43,400	12,000	31,400		19,710	21,889	11,826	(10,063)
Cathay 39	SSFC	20,000	0.050	16,320	1,000	15,320		19,749	9,843	988	(8,855)
Cathay 40	CPT	20,000	0.080	16,320	1,600	14,720		19,363	7,846	1,549	(6,297)
Cathay 41	GINTECH	30,000	0.060	22,380	1,800	20,580		26,071	16,827	1,564	(15,263)
Cathay 42	TRANSCEND	20,000	0.500	41,200	10,000	31,200		19,535	20,448	9,768	(10,680)
Cathay 43	ROEC	20,000	0.250	25,480	5,000	20,480		19,413	17,315	4,853	(12,462)
Cathay 44	GIGABYTE	20,000	0.380	23,080	7,600	15,480		18,641	16,078	7,084	(8,994)
Cathay 45	GEMTEK	20,000	0.810	21,500	16,200	5,300		18,418	18,640	14,919	(3,721)
Cathay 46	CHP	20,000	0.380	21,500	7,600	13,900		19,868	14,121	7,550	(6,571)
Cathay 47	COMPEQ MFG	20,000	0.200	25,880	4,000	21,880		19,955	18,860	3,991	(14,869)
Cathay 48	GCE	20,000	0.610	51,160	12,200	38,960		19,999	,838	12,199	(25,639)
Cathay 49	AMBH	20,000	0.490	38,420	9,800	28,620		19,931	25,429	9,766	(15,663)
Cathay 50	TBB	20,000	0.310	,820	6,200	31,620		18,982	20,029	5,884	(14,145)

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 June 30, 2007 and 2008

June 30, 2008 (NT\$)

		Liabilities for issuance of call (put)								
		warrants				Repurchase of issued call (put) warrants				
		Market price			Gains from			Units		Losses from
		per unit			changes in			repurchased		changes in
		(in dollars)			value of call			(put) warrants		(put) warrants
Name	Underlying securities	Units issued (thousands)	per unit (in dollars)	Issuance amount	Market Value	value of call (put) warrants	repurchased (thousands)	Repurchase cost	Market value	value of call (put) warrants
Cathay 51	INOTERA	20,000	0.600	34,440	12,000	22,440	19,919	24,110	11,951	(12,159)
Cathay 52	LHIC	20,000	0.830	,420	16,600	20,820	19,201	29,887	15,9	(13,950)
Cathay 53	PI	20,000	0.560	21,500	11,200	10,300	19,911	19,569	11,150	(8,419)
Cathay 54	HTC	20,000	0.640	21,300	12,800	8,500	19,580	15,776	12,531	(3,245)
Cathay 55	AUO	20,000	0.780	16,320	15,600	720	19,9	15,743	15,116	(627)
Cathay 56	INVENTEC	20,000	0.940	23,880	18,800	5,080	19,985	23,538	18,786	(4,752)
Cathay 57	FOXLINK	20,000	1.075	21,500	21,500	-	6,000	6,450	6,450	-
Cathay 58	EPISTAR	20,000	1.284	25,680	25,680	-	6,000	7,704	7,704	-
Cathay 59	TRIPOD	20,000	1.722	34,440	34,440	-	6,000	10,332	10,332	-
Cathay 60	ESMT	20,000	1.821	36,420	36,420	-	6,000	10,926	10,926	-
Cathay P1	MOTECH	8,000	2.610	30,648	20,880	9,768	7,607	36,532	19,854	(16,678)
Cathay P2	ALCOR MICRO	8,000	0.330	29,856	2,640	27,216	7,831	28,427	2,584	(25,843)
Cathay P3	SOLAR	7,000	0.620	26,684	4,340	22,344	5,528	5,087	3,427	(1,660)
Cathay P4	WELLYPOWER	10,000	0.650	27,270	6,500	20,770	9,779	14,206	6,356	(7,850)
Cathay P5	GMT	5,000	0.940	24,435	4,700	19,735	4,543	8,845	4,270	(4,575)
Cathay P6	E-TON SOLAR	5,000	4.110	42,055	20,550	21,505	4,771	24,046	19,609	(4,4)
Cathay P7	ALCOR MICRO	7,000	0.700	17,836	4,900	12,936	6,773	7,252	4,741	(2,511)
Cathay P8	IGS	5,000	1.950	28,865	9,750	19,115	4,649	12,265	9,066	(3,199)
Cathay P9	SOLAR	7,000	2.000	23,268	14,000	9,268	6,395	14,999	12,790	(2,209)
Cathay Q1	FIRICH	6,000	1.800	31,350	10,800	20,550	4,873	12,524	8,771	(3,753)
Cathay Q2	YTEC	10,000	1.360	20,300	13,600	6,700	9,973	19,217	13,563	(5,654)
Cathay Q3	PHISON	6,000	2.700	25,800	16,200	9,600	5,985	23,066	16,160	(6,906)
Total				\$1,411,2	\$510,600	\$900,6		\$929,397	\$408,508	\$(520,889)

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 June 30, 2007 and 2008

June 30, 2008 (US\$)

Liabilities for issuance of call (put)										
warrants										
Repurchase of issued call (put) warrants										
Gains from										
Losses from										
changes in										
Units										
changes in										
value of call										
Market price										
per unit										
Issuance										
Market										
value of call										
repurchased										
Repurchase										
Market										
value of call										
(put) warrants										
Name	Underlying securities	Units issued (thousands)	per unit (in dollars)	Issuance amount	Market Value	value of call (put) warrants	repurchased (thousands)	Repurchase cost	Market value	value of call (put) warrants
Cathay 22	AUO	20,000	\$0.0007	\$590	\$14	\$576	16,389	\$197	\$12	\$(185)
Cathay 23	ASUSTEK	20,000	0.0036	702	72	630	18,285	420	66	(354)
Cathay 24	INOTERA	20,000	0.0003	426	6	420	16,942	262	5	(257)
Cathay 25	EPISTAR	20,000	0.0010	1,141	20	1,121	18,060	422	18	(404)
Cathay 26	MIC	20,000	0.0267	1,043	534	509	18,726	911	500	(411)
Cathay 27	MTC	20,000	0.0033	1,520	66	1,454	19,249	1,214	64	(1,150)
Cathay 28	ZINWELL	20,000	0.0198	1,304	396	908	18,175	1,575	360	(1,215)
Cathay 29	RICHTEK	20,000	0.0069	327	138	189	17,325	309	120	(189)
Cathay 30	FH	20,000	0.0254	636	508	128	18,584	1,068	472	(596)
Cathay 31	FARGLORY	20,000	0.0099	1,410	20	1,390	19,559	1,241	20	(1,221)
Cathay 32	GINTECH	30,000	0.0096	491	288	203	23,441	536	225	(311)
Cathay 33	CEC	20,000	0.0010	544	20	524	18,187	315	18	(297)
Cathay 34	SEEC	20,000	0.0109	898	218	680	19,127	461	208	(253)
Cathay 35	FRG	20,000	0.0033	544	66	478	17,221	299	57	(242)
Cathay 36	EVAAIR	20,000	0.0059	1,219	118	1,101	18,186	340	107	(233)
Cathay	RT	20,000	0.0105	1,219	210	1,009	19,556	763	205	(558)
Cathay 38	CHONG HONG	20,000	0.0198	1,430	396	1,034	19,710	721	390	(331)
Cathay 39	SSFC	20,000	0.0016	538	32	506	19,749	324	32	(292)
Cathay 40	CPT	20,000	0.0026	538	52	486	19,363	258	50	(208)
Cathay 41	GINTECH	30,000	0.0020	7	60	677	26,071	554	52	(502)
Cathay 42	TRANSCEND	20,000	0.0165	1,357	330	1,027	19,535	674	322	(352)
Cathay 43	ROEC	20,000	0.0082	839	164	675	19,413	570	159	(411)
Cathay 44	GIGABYTE	20,000	0.0125	760	250	510	18,641	530	233	(297)
Cathay 45	GEMTEK	20,000	0.0267	708	534	174	18,418	614	492	(122)
Cathay 46	CHP	20,000	0.0125	708	250	458	19,868	465	248	(217)
Cathay 47	COMPEQ MFG	20,000	0.0066	852	132	720	19,955	621	132	(489)
Cathay 48	GCE	20,000	0.0201	1,685	402	1,283	19,999	1,246	402	(844)
Cathay 49	AMBH	20,000	0.0161	1,265	322	943	19,931	838	321	(517)

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 June 30, 2007 and 2008

June 30, 2008 (US\$)

		Liabilities for issuance of call (put)								
		warrants					Repurchase of issued call (put) warrants			
		Market price			Gains from		Units		Losses from	
		per unit			changes in		Repurchased		changes in	
Name	Underlying securities	Units issued (thousands)	(in dollars)	Issuance amount	Market Value	value of call (put) warrants	(thousands)	Repurchase cost	Market value	value of call (put) warrants
Cathay 50	TBB	20,000	0.0102	1,246	204	1042	18,982	660	194	(466)
Cathay 51	INOTERA	20,000	0.0198	1,134	396	738	19,919	794	394	(400)
Cathay 52	LHIC	20,000	0.0273	1,233	546	687	19,201	984	524	(460)
Cathay 53	PI	20,000	0.0184	708	368	340	19,911	645	366	(279)
Cathay 54	HTC	20,000	0.0211	702	422	280	19,580	520	413	(107)
Cathay 55	AUO	20,000	0.0257	538	514	24	19,9	519	498	(21)
Cathay 56	INVENTEC	20,000	0.0310	787	620	167	19,985	775	620	(155)
Cathay 57	FOXLINK	20,000	0.0354	708	708	-	6,000	213	212	(1)
Cathay 58	EPISTAR	20,000	0.0423	846	846	-	6,000	254	254	-
Cathay 59	TRIPOD	20,000	0.0567	1,134	1,134	-	6,000	340	340	-
Cathay 60	ESMT	20,000	0.0600	1,200	1,200	-	6,000	360	360	-
Cathay P1	MOTECH	8,000	0.0860	1,010	688	322	7,607	1,203	654	(549)
Cathay P2	ALCOR MICRO	8,000	0.0109	983	87	896	7,831	936	85	(851)
Cathay P3	SOLAR	7,000	0.0204	879	142	7	5,528	168	113	(55)
Cathay P4	WELLYPOWER	10,000	0.0214	898	214	684	9,779	468	209	(259)
Cathay P5	GMT	5,000	0.0310	805	155	650	4,543	291	141	(150)
Cathay P6	E-TON SOLAR	5,000	0.1354	1,385	677	708	4,771	792	646	(146)
Cathay P7	ALCOR MICRO	7,000	0.0231	587	161	426	6,773	239	156	(83)
Cathay P8	IGS	5,000	0.0642	951	321	630	4,649	404	298	(106)
Cathay P9	SOLAR	7,000	0.0659	766	461	305	6,395	494	421	(73)
Cathay Q1	FIRICH	6,000	0.0593	1,033	355	678	4,873	413	289	(124)
Cathay Q2	YTEC	10,000	0.0448	669	448	221	9,973	633	447	(186)
Cathay Q3	PHISON	6,000	0.0889	850	533	317	5,985	760	532	(228)
Total				\$46,483	\$16,818	\$29,665		\$30,613	\$13,456	\$(17,157)

① The call (put) warrants issued by the Company typically have contract periods of six months commencing from the date the warrants are listed (except for Cathay 36 and 59 which have contract periods of seven and eight months, 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 June 30, 2007 and 2008

- ② The call (put) warrants can be settled by delivery of securities or, at the election of the Company, in cash.
- ③ For other information related to the issuance of call (put) warrants, see note 10.

B. Derivative financial instrument liabilities - GreTai (over-the-counter).

See note 10.

(12) Capital Stock

As of June 30, 2007 and 2008, the Company's total authorized shares and the number of shares outstanding were both 370,000,000 with a par value of NT\$10 per share.

(13) Capital surplus

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

(14) Retained earnings

- A. According to the Company's articles of incorporation, the Company's annual earnings, after paying taxes, should first be used to make up accumulated losses from prior periods and contributed to required reserves. In addition, 1% should be reserved as a bonus for employee, and the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.
- B. Pursuant to the Company Act, the legal reserve can be used only to cover accumulated losses and not for distributing cash dividends. However, if the total accumulated legal reserve reaches 50% of paid-in capital, the stockholders' may resolve that not more than 50% may be used for capitalization.

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 June 30, 2007 and 2008

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.

(15)Income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income (loss) before income tax in the statements of income for the six months ended June 30, 2007 and 2008, are as follows:

Item	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Income before income (loss) taxes	\$30,522	\$930	\$(5,090)	\$(168)
Adjustments:				
Interest income taxed on a separate basis	(6,881)	(209)	(529)	(17)
Adjusted revenue and expense from dealing departments	6,739	205	11,094	365
Loss on valuation of open-end funds and currency market instruments	5,331	162	1,522	50
Unrealized loss on valuation of operating securities	4,099	125	23,263	766

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 June 30, 2007 and 2008

Item	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Unrealized (gain) loss from derivative financial instruments - GreTai (over-the-counter)	(177)	(6)	1,132	
Investment (income) loss recognized on equity method investments	1,183	36	(10,713)	(353)
Option premium for issuance of call (put) warrants	4,541	138	-	-
Gain from issuing call (put) warrants	(11,466)	(349)	(20,261)	(667)
Reserve for default losses	5,925	181	5,092	168
Others	(4,940)	(151)	(13,462)	(443)
Taxable income	34,876	1,062	(7,952)	(262)
Times: tax rates	25%	25%	25%	25%
Subtotal	8,719	266	(1,988)	(65)
Add: Tax effects under integrated income tax system	5	-	-	-
Subtotal	8,724	266	(1,988)	(65)
Tax on a separate basis	1,790	55	618	20
Deferred tax (benefit) expense	(940)	(29)	821	27
Prior year's income tax adjustment	4	-	(150)	(5)
Total income tax expense (benefit)	\$9,578	\$292	\$(699)	\$(23)

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

	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	\$9,026	\$275	\$231,302	\$7,619
b. Total deferred income tax liabilities	\$3,287	\$100	\$225,327	\$7,422

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 June 30, 2007 and 2008

c. Temporary differences:

	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Reserve for default losses	\$19,975	\$608	\$31,051	\$1,023
Provision for pensions	3,014	92	4,218	139
Unrealized loss (gain) from derivative financial instruments	3,333	102	(670)	(22)
Unrealized (gain) loss on valuation of operating securities - hedging	(1,048)	(32)	13,700	451
Loss from trading securities - hedging	1,443	44	5,298	174
Gains from changes in value of call (put) warrants	(12,100)	(369)	(900,6)	(29,665)
Losses from changes in value of call (put) warrants	8,339	254	870,942	28,687
Total	\$22,956	\$699	\$23,902	\$787

	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
d. Deferred income tax assets - current	\$3,279	\$100	\$222,485	\$7,328
Deferred income tax liabilities - current	(3,287)	(100)	(225,327)	(7,422)
Net deferred income tax liabilities - current	\$(8)	\$-	\$(2,842)	\$(94)
Deferred income tax assets - noncurrent	\$5,747	\$175	\$8,817	\$291
Net deferred income tax assets - noncurrent	\$5,747	\$175	\$8,817	\$291

C. Information related to tax imputation:

	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$5,880	\$179	\$6,049	\$199
Imputation credit account ratio	14.76%		2007 (Actual)	15.18%

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 June 30, 2007 and 2008

D. Information related to undistributed earnings:

	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
After 1998	\$39,828	\$1,213	\$39,829	\$1,312

Undistributed earnings after 1998 do not include the net income (loss) for the six months ended June 30, 2007 and 2008.

E. The Company's income tax returns have been filed and assessed by the National Tax Administration through 2004.

(16) Personnel, depreciation, depletion and amortization expenses

The Company's personnel, depreciation, depletion and amortization expenses for the six months ended June 30, 2007 and 2008 are summarized as follows:

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

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 June 30, 2007 and 2008

Item	For the six months ended June 30, 2008 (NT\$)			For the six months ended June 30, 2008 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$87,777	\$87,777	\$-	\$2,891	\$2,891
Labor & health insurance expenses	-	5,794	5,794	-	191	191
Pension expenses	-	4,773	4,773	-	157	157
Other expenses	-	4,303	4,303	-	142	142
Depreciation	-	15,068	15,068	-	496	496
Depletion	-	-	-	-	-	-
Amortization	-	3,390	3,390	-	112	112

(17) Earnings per share

For the six months ended June 30, 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	\$30,522	\$930	\$20,944	\$638	0,000	\$0.08	\$0.0024	\$0.06

For the six months ended June 30, 2008

	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 loss	\$(5,090)	\$(168)	\$(4,391)	\$(145)	0,000	\$(0.01)	\$(0.0003)	\$(0.01)

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 June 30, 2007 and 2008

(18) Earnings distribution and dividend policy

According to the Company's articles of incorporation, the Company's annual earnings, after paying taxes, should first be used to make up accumulated losses from prior periods and contributed to required reserves. In addition, 1% should be reserved as a bonus for employee, and the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

The accrual of employee bonus and remuneration of directors for the six months ended June 30, 2008 was based on 1% of net income before employee bonus and remuneration of directors less estimated reserves. However, because the Company had a loss for the period no employee bonus and remuneration of directors was accrued.

In 2007, the Company's distribution of bonus paid to employees and cash dividend were NT\$533 (US\$18) and NT\$12,916 (US\$425), respectively.

(19) Presentation of financial statements

Certain accounts in the financial statements for the six months ended June 30, 2007 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 2008.

5. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd

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 June 30, 2007 and 2008

Name	Relationship
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holdings Co., Ltd
Cathay Life Insurance Co., Ltd. (Shanghai)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Indovina Bank Limited	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Bank Life Insurance Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Bank Property Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Futures Co., Ltd.	Subsidiary of the Company
Cathay Pacific Partners Co., Ltd.	Subsidiary of Cathay Capital Management Inc.
Cathay Bond Fund and etc.	Investment Trust Funds managed by Cathay Life's equity method investee, Cathay Securities Investment Trust Co., Ltd.

(2) Transactions with related parties

Transactions with related parties less than NT\$3,000 (US\$99) will no longer be listed since 2008.

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 June 30, 2007 and 2008

A. Cash in bank

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

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

Name	Item	For the six months ended June 30, 2008		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United				
Bank Co., Ltd.	Cash in bank	\$309,516	0.1%-2.62%	\$-

Name	Item	For the six months ended June 30, 2008		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United				
Bank Co., Ltd.	Cash in bank	\$10,195	0.1%-2.62%	\$-

As of June 30, 2008, NT\$61,000 (US\$2,009) in time deposits reflected premiums received for structured notes and issuance of warrants and were recognized under guarantee deposits paid.

As of June 30, 2007 and 2008, except for NT\$300,000 (US\$9,138) and NT\$40,000 (US\$1,318) pledged as collateral for the over-draft of settlement accounts and recognized under restricted assets, the remaining negotiable certificates of deposit have

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 June 30, 2007 and 2008

not been pledged as collateral.

B. Open-end funds and currency market instruments

Name	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Bond Fund and etc.				
- Cathay Bond Fund	\$10,391	\$317	\$-	\$-

C. Accounts receivable

Name	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$600	\$18	\$-	\$-
Cathay United Bank Co., Ltd.	200	6	-	-
Total	\$800	\$24	\$-	\$-

D. Other intangible assets

Name	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$986	\$30	\$-	\$-

E. Other payables

Name	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.				
(Note)	\$8,330	\$254	\$-	\$-
Symphox Information Co., Ltd	88	2	-	-
Total	\$8,418	\$256	\$-	\$-

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

F. Revenue from underwriting commissions

Name	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$21,115	\$643	\$-	\$-
Cathay United Bank Co., Ltd.	1,824	56	-	-

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 June 30, 2007 and 2008

	\$22,939	\$699	\$-	\$-
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Terms of the transactions between the Company and related parties were comparable to general market terms.

G. Brokerage commissions for introducing futures contracts

	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$3,470	\$106	\$12,770	\$421

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

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

	For the six months ended June 30, 2007							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading - own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$407	\$12	\$574	\$17	\$124	\$4	\$313,077	\$9,536
	For the six months ended June 30, 2008							
	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.	\$-	\$-	\$-	\$-	\$-	\$-	\$122,405	\$4,032

I Rental expenses and guarantee deposits paid

	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay Life Insurance Co., Ltd.	\$8,123	\$3,785	\$10,264	\$4,710
Cathay United Bank Co., Ltd.	2,601	1,325	-	-

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 June 30, 2007 and 2008

Total	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
Name	US\$	US\$	US\$	US\$
Cathay Life Insurance Co., Ltd.	\$248	\$115	\$338	\$155
Cathay United Bank Co., Ltd.	79	41	-	-
Total	\$327	\$156	\$338	\$155

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

J. Operating expenses

Name	Description	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurance	\$881	\$27	\$-	\$-
	Other fees	1,303	40	-	-
	Subtotal	2,184	67	-	-
Cathay United Bank Co., Ltd.	Other fees	2,749	84	-	-
Cathay Century Insurance Co., Ltd.	Insurance	367	11	-	-
Symphox Information Co., Ltd.	Cable service etc.	1,054	32	-	-
Total		\$6,354	\$194	\$-	\$-

K. Non-operating revenue and profits

Name	Description	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
		NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	Rental revenue	\$1,200	\$	\$-	\$-

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 June 30, 2007 and 2008

6. Pledged assets

Item	Pledged Organization	June 30, 2007		June 30, 2008	
		NT\$	US\$	NT\$	US\$
Restricted assets-time deposits	Cathay United Bank Co., Ltd.	\$300,000	\$9,138	\$90,000	\$2,964
Operating securities-dealing	"	-	-	143,326	4,721
Operating securities-underwriting	"	-	-	506,420	16,681
Total		\$300,000	\$9,138	\$739,746	\$24,366

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

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

7. Other important matters and contingent liabilities

As of June 30, 2008, the Company requested banks to issue letters of guarantee for warrants issuance of NT\$159,000(US\$5,237).

8. Serious damages

None.

9. Subsequent events

None.

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 June 30, 2007 and 2008

10. Other important events

(1) Information related to financial instruments

	June 30, 2007			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$475,7	\$475,7	\$14,480	\$14,480
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	130,027	130,027	3,961	3,961
Operating securities - net	1,063,563	1,063,563	32,396	32,396
Receivable amount for margin loans	943,591	943,591	28,742	28,742
Receivables	60,384	60,384	1,839	1,839
Restricted assets - current	300,000	300,000	9,138	9,138
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	225,097	225,097	6,856	6,856
Settlement and clearance funds	50,550	50,550	1,540	1,540
Guarantee deposits paid	28,326	28,326	863	863
Liabilities:				
Securities financing guarantee deposits-in	6,029	6,029	184	184
Deposit payable for securities financing	6,662	6,662	203	203
Payables	56,442	56,442	1,719	1,719
Guarantee deposits-in	141	141	4	4

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 June 30, 2007 and 2008

	June 30, 2007			
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Derivative				
Assets:				
Financial assets at fair value through profit or loss - current				
Margin for futures trading - own funds	\$313,077	\$313,077	\$9,536	\$9,536
Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	1,200	1,200	36	36
Repurchase of issued call (put) warrants	(331)	(331)	(10)	(10)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	5,115	5,115	156	156
Other financial liabilities - current	238,315	238,315	7,259	7,259
June 30, 2008				
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$434,514	\$434,514	\$14,312	\$14,312
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	19,130	19,130	630	630
Operating securities - net	1,147,276	1,147,276	,789	,789
Receivable amount for margin loans	1,196,393	1,196,393	39,407	39,407
Securities refinancing margin deposits	195	195	6	6
Receivables - net	26,884	26,884	886	886
Restricted assets - current	90,000	90,000	2,964	2,964
Available-for-sale financial assets - noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,579	7,579
Settlement and clearance funds	51,519	51,519	1,697	1,697
Guarantee deposits paid	68,251	68,251	2,248	2,248

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 June 30, 2007 and 2008

	June 30, 2008			
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
Liabilities:				
Securities financing guarantee deposits-in	20,5	20,5	676	676
Deposit payable for securities financing	22,690	22,690	747	747
Payables	52,720	52,720	1,7	1,7
Guarantee deposits-in	141	141	4	4

Derivative

Assets:

Financial assets at fair value through profit or
loss – current

Call options – futures	\$159	\$159	\$5	\$5
Margin for futures trading – own funds	122,405	122,405	4,032	4,032

Liabilities:

Financial liabilities at fair value through profit
or loss – current

Liabilities for issuance of call (put) warrants	510,600	510,600	16,818	16,818
Repurchase of issued call (put) warrants	(408,508)	(408,508)	(13,456)	(13,456)
Put options-futures	2,217	2,217	73	73
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	(317)	(317)	(10)	(10)
Other financial liabilities – current	25,064	25,064	826	826

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

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 June 30, 2007 and 2008

- A. Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, receivable amount for margin loans, securities refinancing margin deposits, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities financing guarantee deposits-in, deposit payable for securities financing, payables and guarantee deposits-in.
- B. 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 June 30, 2007 and 2008:

	June 30, 2007			
	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	\$130,027	\$-	\$3,961	\$-
Operating securities – net	1,063,563	-	32,396	-
Margin for futures trading – own funds	313,077	-	9,536	-

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 June 30, 2007 and 2008

	June 30, 2007			
	Based on	Based on	Based on	Based on
	quoted	valuation	quoted	valuation
	market price	method	market price	method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Liabilities:				
Financial liabilities at fair value through profit or loss - current				
Liabilities for issuance of call (put) warrants	\$1,200	\$-	\$36	\$-
Repurchase of issued call (put) warrants	(331)	-	(10)	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	5,115	-	156
Other financial liabilities - current	-	238,315	-	7,259

	June 30, 2008			
	Based on	Based on	Based on	Based on
	quoted	valuation	quoted	valuation
	market price	method	market price	method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Assets:				
Financial assets at fair value through profit or loss - current				
Open-end funds and currency market instruments	\$19,130	\$-	\$630	\$-
Operating securities - net	1,147,276	-	,789	-
Call options - futures	159	-	5	-
Margin for futures trading - own funds	122,405	-	4,032	-

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 June 30, 2007 and 2008

	June 30, 2008			
	Based on	Based on	Based on	Based on
	quoted	valuation	quoted	valuation
	market price	method	market price	method
	(NT\$)	(NT\$)	(US\$)	(US\$)
Liabilities:				
Financial liabilities at fair value				
through profit or loss - current				
Liabilities for issuance of call				
(put) warrants	\$510,600	\$-	\$16,818	\$-
Repurchase of issued call (put)				
warrants	(408,508)	-	(13,456)	-
Put options-futures	2,217	-	73	-
Derivative financial instrument				
liabilities-GreTei				
(over-the-counter)	-	(317)	-	(10)
Other financial liabilities - current	-	25,064	-	826

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

(2) Financial risk information

A. Market risk

The Company invests in equity securities that have active public market prices. When adverse market conditions exist, the Company is exposed to market risk as prices fluctuate. Although the Company controls and quantifies its market risk by establishing stop-loss limits and measuring Value-at-Risk, evaluates its risk utilizing historical prices and controls its overall investment portfolio, it is still exposed to market risk.

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 June 30, 2007 and 2008

B. Credit risk

In accordance with the Company's policy, credit evaluations are required for all credit transactions. Credit limits are established based on customers' credit ratings. Margin ratios are also evaluated continuously to control default risk.

The counterparties to the Company's other financial assets (including cash and cash equivalents and all other current and non current investments) are all creditworthy and well-known financial institutions in the ROC. As a result, counterparty credit risk is relatively low.

C. Liquidity risk

The Company believes its working capital is sufficient for its operations and that the risk of contract defaults resulting from a lack of capital is low.

The financial assets held by the Company all have active markets and can be sold at prices approximate to fair values. As the result, the Company believes there is no significant cash flow risk.

D. Cash flow risk from interest rate fluctuations

The Company currently has no exposure to floating interest rates related to financial assets or liabilities and thus the Company believes there is no significant cash flow risk from interest rate fluctuations.

The Company also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 5 years, and as a result, the risk is relatively lower. In addition, the Company will take appropriate actions with respect to these certificates based on 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 June 30, 2007 and 2008

(3) Financial derivatives

A. Issuance of call warrants

a. Nominal principal or contract amount and credit risk

	June 30, 2007		June 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u> <u>For trading purposes</u>				
Issuance of call warrants	NT\$13,300 (US\$405)	NT\$- (US\$-)	NT\$1,411,2 (US\$46,483)	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, market risk still exists.

c. Risk from liquidity, cash flow 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 price changes of underlying securities. However, assuming strong market liquidity, the Company believes cash flow risk is low.

The call warrants issued by the Company typically have contract periods of six months starting from the date when the warrants are listed. Except for cash required for the related 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.

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 June 30, 2007 and 2008

e. Financial statement presentation of derivative financial instruments

As of June 30, 2007 and 2008, disclosure of the issuance of call (put) warrants on the balance sheet and statement of income are summarized as follows:

Balance sheet

	June 30, 2007		June 30, 2008	
	Financial liabilities at fair value through profit and loss-current		Financial liabilities at fair value through profit and loss-current	
	NT\$	US\$	NT\$	US\$
Liabilities for insurance of call (put) warrants	\$1,200	\$36	\$510,600	\$16,818
Repurchase of issued call (put) warrants	(331)	(10)	(408,508)	(13,456)
Total	\$869	\$26	\$102,092	\$3,362

Statement of income

	For the six months ended June 30, 2007		Account	Comments
	NT\$	US\$		
	Liabilities for issuance of call (put) warrants	\$5,180		
Repurchase of issued call (put) warrants				
- Loss on disposal	(10,391)	(317)	Profit (Loss) from issuing call (put) warrants	
- Gain from valuation	146	5	Profit (Loss) from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	11,120	339	Profit (Loss) from issuing call (put) warrants	
Trading securities - hedging				
- Loss on disposal	(2,283)	(70)	Loss from trading securities	
- Loss from valuation	(162)	(5)	Loss on valuation of operating securities	Fair value method
Total	\$3,610	\$110		

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 June 30, 2007 and 2008

	For the six months ended June 30, 2008		Account	Comments
	NT\$	US\$		
Liabilities for issuance of call (put) warrants	\$653,817	\$21,535	Profit (Loss) from issuing call (put) warrants	Fair value method
Repurchase of issued call (put) warrants				
- Loss on disposal	(638,382)	(21,027)	Profit (Loss) from issuing call (put) warrants	
- Loss from valuation	(362,944)	(11,955)	Profit (Loss) from issuing call (put) warrants	Fair value method
Gain from expiration of warrants issued	377,020	12,418	Profit (Loss) from issuing call (put) warrants	
Trading securities - hedging				
- Loss on disposal	(10,557)	(348)	Loss from trading securities	
- Loss from valuation	(15,423)	(508)	Loss on valuation of operating securities	Fair value method
Total	<u>\$3,531</u>	<u>\$115</u>		

B. Structured notes transactions

a. Nominal principal or contract amount and credit risk

	June 30, 2007		June 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Principal guaranteed notes	NT\$240,100 (US\$7,313)	NT\$- (US\$-)	NT\$25,800 (US\$850)	NT\$- (US\$-)

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

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 June 30, 2007 and 2008

b. Market risk

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

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

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

d. Types, purposes, and strategies for financial derivatives

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

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

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

e. Financial statement presentation of derivative financial instruments

As of June 30, 2007 and 2008, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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 June 30, 2007 and 2008

Balance sheet

	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instrument liabilities - GreTai (over-the-counter) (note)				
Structured notes transactions	\$5,115	\$156	\$(317)	\$(10)
Other financial liabilities - current				
Principal of structured notes	238,315	7,259	25,064	826

Note : Recorded as “Financial liabilities at fair value through profit or loss - current” in the balance sheet.

Statement of income

	For the six months ended June 30, 2007		For the six months ended June 30, 2008		Account	Comments
	NT\$	US\$	NT\$	US\$		
	Gain (Loss) from structured notes	\$(4,478)	\$(136)	\$174		
Trading securities - hedging						
- Gain(Loss) on disposal	4,697	143	(1,124)	(37)	Gain (Loss) from trading securities	
- Gain(Loss) from valuation	621	19	(382)	(13)	Gain (Loss) on valuation of operating securities	Fair value method
Total	\$840	26	(1,332)	(44)		

C. Futures and options transactions

As of June 30, 2007 and 2008, the Company’s unexercised futures and options were as follows:

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 June 30, 2007 and 2008

June 30, 2007

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
				Futures	TAIEX futures	Sell	20

June 30, 2008

Item	Nature of Transaction	Unexercised Futures /options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
				Futures	Mini-TAIEX	Buy	1
Options	TXO-Call	Sell	1,052	\$(781)	\$(26)	\$187	\$6
Options	TXO-Put	Buy	41	\$201	\$7	\$159	\$5
Options	TXO-Put	Sell	490	\$(1,432)	\$(47)	\$2,030	\$67

a. Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2007	
	Nominal principal/ contract amount	Credit risk
TAIEX futures	NT\$35,383 (US\$1,078)	NT\$- (US\$-)
Financial instruments	June 30, 2008	
	Nominal principal/ contract amount	Credit risk
Mini- TAIEX futures	\$396(US\$13)	\$-
TXO	\$2,414(US\$80)	\$-

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.

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 June 30, 2007 and 2008

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.

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit or loss - current ("margin for futures trading - own funds") on the balance sheet. For the six months ended June 30, 2007 and 2008, the related gain (loss) of futures and options on the statements of income were as follows:

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 June 30, 2007 and 2008

	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
	Gain from derivative financial instruments - futures			
Gain on futures contracts - realized	\$6,333	\$193	\$6,284	\$207
Gain on futures contracts - unrealized	159	5	288	9
Gain from options transactions - realized	1,830	55	552	18
Gain from options transactions - unrealized	1,012	31	412	14
Total	<u>\$9,334</u>	<u>\$284</u>	<u>\$7,536</u>	<u>\$248</u>

	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	NT\$	US\$	NT\$	US\$
	Loss from derivative financial instruments - futures			
Loss on futures contracts - realized	\$3,299	\$100	\$7,500	\$247
Loss on futures contracts - unrealized	8	-	313	10
Loss from options transactions - realized	643	20	833	28
Loss from options transactions - unrealized	1,012	31	457	15
Total	<u>\$4,962</u>	<u>\$151</u>	<u>\$9,103</u>	<u>\$300</u>