

CAPITAL SECURITIES CORPORATION
BALANCE SHEETS
September 30, 2006 and 2005
(New Taiwan Dollars in Thousands, Except Share Data)

| ASSETS | (Unaudited) September 30, 2006 | | (Unaudited) September 30, 2005 | | LIABILITIES AND STOCKHOLDERS' EQUITY | (Unaudited) September 30, 2006 | | (Unaudited) September 30, 2005 | |
|---|-----------------------------------|------------|-----------------------------------|------------|---|-----------------------------------|------------|-----------------------------------|------------|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| Current Assets | | | | | Current Liabilities | | | | |
| Cash and cash equivalents (Notes 2 and 4(1)) | \$ 1,400,986 | 2 | \$ 1,108,139 | 2 | Short-term borrowings (Note 4(9)) | \$ 1,225,000 | 2 | \$ 2,742,000 | 5 |
| Financial assets at fair value through profit or loss - current (Notes 2, 4(2) and 5) | 31,224,896 | 52 | 25,474,120 | 47 | Short-term bills payable (Note 4(10)) | 971,856 | 2 | 1,789,629 | 3 |
| Bonds purchased under resale agreements (Notes 2 and 4(3)) | 1,517,276 | 2 | 1,478,352 | 3 | Financial liabilities at fair value through profit or loss (Note 4(11)) | 175,234 | - | 1,660,435 | 3 |
| Receivable for securities provided as collateral (net of allowance for doubtful accounts) | 15,390,290 | 26 | 13,004,738 | 24 | Bonds sold under repurchase agreements (Notes 4(12) and 5) | 30,173,621 | 49 | 19,993,350 | 37 |
| Refinancing margin | 3,637 | - | 35,986 | - | Guaranty deposited for securities lent | 1,719,319 | 3 | 1,343,007 | 3 |
| Receivables on refinancing collateral | 8,201 | - | 45,006 | - | Proceeds payable from securities lent | 2,256,252 | 4 | 1,817,515 | 4 |
| Notes receivable | 3,574 | - | 2,055 | - | Notes payable | 26,827 | - | 29,740 | - |
| Accounts receivable (Note 4(4)) | 665,296 | 1 | 456,626 | 1 | Accounts payable | 110,356 | - | 282,553 | 1 |
| Prepayments | 84,425 | - | 41,908 | - | Advance receipts | 5,659 | - | 9,022 | - |
| Other receivables | 82,686 | - | 89,110 | - | Collections for other parties | 621,409 | 1 | 487,493 | 1 |
| Pledged assets - current (Note 6) | 338,300 | 1 | 388,900 | 1 | Other payables (Note 4(13)) | 2,511,463 | 4 | 2,130,563 | 4 |
| Deferred income tax assets - current (Note 4(16)) | 10,954 | - | 10,730 | - | Long-term liabilities - current portion (Note 4(14)) | 494,822 | 1 | - | - |
| Other current assets | - | - | 16,475 | - | Other financial liabilities - current (Note 4(20)) | 889,983 | 1 | 1,184,987 | 2 |
| | <u>50,730,521</u> | <u>84</u> | <u>42,152,145</u> | <u>78</u> | Other current liabilities | 54,573 | - | - | - |
| | | | | | | <u>41,236,374</u> | <u>67</u> | <u>33,470,294</u> | <u>63</u> |
| Long-Term Investments | | | | | Long-Term Liabilities | | | | |
| Financial assets at fair value through profit or loss -non-current (Notes 2 and 4(2)) | 164,031 | - | 404,562 | 1 | Long-term borrowings (Note 4(14)) | - | - | 493,698 | 1 |
| Available-for-sale financial assets -non-current (Notes 2 and 4(2)) | 449,868 | 1 | 442,773 | 1 | Reserve for land appreciation tax | 27,698 | - | 27,698 | - |
| Long-term equity investments accounted for under the equity method (Notes 2 and 4(5)) | 3,031,304 | 5 | 2,931,721 | 5 | | <u>27,698</u> | <u>-</u> | <u>521,396</u> | <u>1</u> |
| | <u>3,645,203</u> | <u>6</u> | <u>3,779,056</u> | <u>7</u> | Other Liabilities | | | | |
| Premises and Property (Notes 2, 4(6) and 6) | | | | | Reserve for default loss (Note 2) | 200,351 | - | 200,351 | - |
| Land | 2,897,641 | 5 | 2,892,261 | 5 | Reserve for trading loss (Note 2) | 5,447 | - | 34,323 | - |
| Buildings | 1,541,491 | 2 | 1,536,317 | 3 | Guaranty deposits received (Note 5) | 7,652 | - | 7,772 | - |
| Equipment | 634,671 | 1 | 642,496 | 2 | Accrued pension liabilities (Notes 2 and 4(15)) | 16,356 | - | 16,758 | - |
| Prepayment for equipment | 52,475 | - | 62,593 | - | Deferred income tax liabilities - non-current (Note 4(16)) | 103,704 | - | 93,473 | - |
| Leasehold improvements | 222,599 | - | 220,613 | - | | <u>333,510</u> | <u>-</u> | <u>352,677</u> | <u>-</u> |
| Less: Accumulated depreciation | (1,148,580) | (2) | (1,128,155) | (2) | Total Liabilities | <u>41,597,582</u> | <u>67</u> | <u>34,344,367</u> | <u>64</u> |
| | <u>4,200,297</u> | <u>6</u> | <u>4,226,125</u> | <u>8</u> | Stockholders' Equity | | | | |
| Intangible Assets | | | | | Common stock, par value \$10 per share | | | | |
| Operation franchise (Note 2) | 429,804 | 1 | 501,653 | 1 | 2,000,000,000 shares authorized, | | | | |
| | | | | | 1,400,967,000 shares issued and outstanding (Note 4(17)) | 14,009,670 | 23 | 13,643,105 | 25 |
| Other Assets | | | | | Capital surplus | | | | |
| Guaranty deposited for business operations | 914,000 | 1 | 1,336,900 | 2 | Premium from stock issuance | 2,598 | - | 2,598 | - |
| Settlement fund | 288,162 | - | 284,569 | 1 | Treasury stock transactions (Note 4(18)) | 62,040 | - | 62,040 | - |
| Refundable deposits | 288,780 | - | 345,212 | 1 | Long-term investments | 1,491 | - | 1,204 | - |
| Deferred debits | 31,557 | - | 38,531 | - | Paid-in capital from merger (Note 1) | 778,921 | 1 | 778,921 | 1 |
| Leased assets (net of accumulated depreciation) (Notes 2 and 6) | 740,047 | 1 | 754,316 | 1 | Retained earnings | | | | |
| Others (net of allowance for doubtful accounts) (Notes 2 and 4(7)) | 290 | - | 125 | - | Legal reserve | 1,425,492 | 2 | 1,369,099 | 3 |
| | <u>2,262,836</u> | <u>2</u> | <u>2,759,653</u> | <u>5</u> | Special reserve (Note 2) | 2,850,984 | 5 | 2,738,198 | 5 |
| Brokerage accounts, net (Note 4(8)) | 679,901 | 1 | 553,523 | 1 | Unappropriated earnings (Notes 4(16) and 4(17)) | 1,097,141 | 2 | 905,177 | 2 |
| | | | | | Cumulative translation adjustments (Note 2) | 122,643 | - | 127,446 | - |
| TOTAL ASSETS | <u>\$ 61,948,562</u> | <u>100</u> | <u>\$ 53,972,155</u> | <u>100</u> | Total Stockholders' Equity | <u>20,350,980</u> | <u>33</u> | <u>19,627,788</u> | <u>36</u> |
| | | | | | Significant commitments and contingencies | | | | |
| | | | | | TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 61,948,562</u> | <u>100</u> | <u>\$ 53,972,155</u> | <u>100</u> |

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF INCOME
Years Ended September 30, 2006 and 2005
(New Taiwan Dollars in Thousands, Except Share and Per Share Data)

| | (Unaudited) | | (Unaudited) | |
|--|------------------------|------------------|------------------------|------------------|
| | Jan. 1 ~ Sep. 30, 2006 | | Jan. 1 ~ Sep. 30, 2005 | |
| | Amount | % | Amount | % |
| Revenues: | | | | |
| Brokerage commissions | \$ 1,867,826 | 43 | \$ 1,342,636 | 37 |
| Underwriting commissions | 126,757 | 3 | 71,007 | 2 |
| Gain on sale of trading securities | - | - | 402,365 | 11 |
| Securities management, distribution, and management fees | 58,028 | 1 | 58,202 | 2 |
| Interest revenue | 1,286,345 | 29 | 1,008,747 | 28 |
| Dividend revenue | 67,075 | 2 | 98,273 | 3 |
| Gain on valuation of trading securities | 76,655 | 2 | - | - |
| Gain on covering of borrowed securities and bonds with resale agreements | 7,780 | - | 7,967 | - |
| Gain on stock warrants issued | 357,839 | 8 | 274,292 | 7 |
| Futures commission revenue (Note 5) | 87,248 | 2 | 74,596 | 2 |
| Gain on derivative financial instruments (Note 4(20)) | - | - | - | - |
| Gain on derivative financial instruments - OTC (Note 4(20)) | - | 1 | 109 | - |
| Other operating revenues | 134,138 | 3 | 96,381 | 3 |
| Non-operating revenues | 305,005 | 7 | 199,968 | 5 |
| | <u>4,374,696</u> | <u>100</u> | <u>3,634,543</u> | <u>100</u> |
| Expenses: | | | | |
| Brokerage fees | 124,251 | 3 | 86,058 | 2 |
| Brokerage and clearing fees: proprietary trading | 11,445 | - | 9,258 | - |
| Clearing and exchange fees: refinancing | 785 | - | 1,314 | - |
| Clearing and exchange fees: underwriting | 4,381 | - | 1,607 | - |
| Loss on sale of trading securities | 426,966 | 10 | - | - |
| Interest expense | 435,944 | 10 | 231,354 | 6 |
| Loss on valuation of trading securities | - | - | 115,970 | 3 |
| Stock warrant issuance expense | 3,395 | - | 3,052 | - |
| Clearing and settlement expenses (Note 5) | 1,447 | - | 2,978 | - |
| Loss on derivative financial instruments (Note 4(20)) | 11,523 | - | 134,814 | 4 |
| Loss on derivative financial instruments - OTC (Note 4(20)) | 49,620 | 1 | - | - |
| Loss on structured notes (Note 4(20)) | 15,818 | - | 14,197 | - |
| Operating expenses (Note 5) | 2,199,894 | 52 | 2,072,804 | 57 |
| Other operating expenses | 11,624 | - | 45,688 | 1 |
| Non-operating expenses | 6,588 | - | 5,323 | - |
| | <u>3,303,681</u> | <u>76</u> | <u>2,724,417</u> | <u>73</u> |
| Continuing operations income before tax | 1,071,015 | 24 | 910,126 | 27 |
| Less: Income tax expense (Notes 2 and 4(16)) | 411,447 | 9 | 439,095 | 12 |
| Continuing operations' income after tax | 659,568 | 15 | 471,031 | 15 |
| Cumulative effect of changes in accounting principle | 33,525 | 1 | (12,088) | - |
| Net income | \$ 693,093 | 16 | \$ 458,943 | 15 |
| | 2006 | | 2005 | |
| | Before Tax | After Tax | Before Tax | After Tax |
| Basic earnings per share (Note 4(19)) | | | | |
| Continuing operations' income after tax | \$ 0.77 | 0.47 | 0.67 | 0.35 |
| Cumulative effect of changes in accounting principle | 0.02 | 0.02 | (0.01) | (0.01) |
| Net income | 0.79 | 0.49 | 0.66 | 0.34 |
| Diluted earnings per share | - | - | 0.64 | 0.33 |
| Pro forma data : | | | | |
| Income from continuing operations | | | 910,126 | 471,031 |
| Cumulative Operations' EPS-Basic earnings per share | | | 0.67 | 0.35 |
| Net income | | | 910,126 | 471,031 |
| Basic earnings per share | | | 0.67 | 0.35 |

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2006 and 2005
(New Taiwan Dollars in Thousands)

| | <u>Jan. 1~Sep. 30, 2006</u> | <u>Jan. 1~Sep. 30, 2005</u> |
|---|-----------------------------|-----------------------------|
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities: | | |
| Net income | \$ 693,093 | \$ 458,943 |
| Changes in assets and liabilities: | | |
| Bad debt expense | - | 246 |
| Depreciation expense | 122,292 | 143,882 |
| Amortization | 72,346 | 85,352 |
| Loss (gain) on disposal of premises and property, net | (356) | 139 |
| Loss (gain) on valuation of trading securities | (76,655) | 115,970 |
| Excess of investment income under the equity method over cash dividends received | (69,428) | 81,582 |
| Provision for (reversal of) securities trading loss | (28,748) | 20,007 |
| Decrease (increase) in financial assets at fair value through profit or loss -current | 6,568,524 | (2,029,945) |
| Bonds purchased under resale agreements | 1,600,233 | (1,431,352) |
| Decrease (increase) in receivable for securities provided as collateral | (959,124) | 1,640,295 |
| Decrease in refinancing margin | 27,346 | (35,986) |
| Decrease (increase) in receivables on refinancing collateral | 43,809 | (44,881) |
| Decrease in notes receivable | (909) | 1,450 |
| Decrease (increase) in accounts receivable | (93,003) | 437,598 |
| Decrease (increase) in prepayment | (41,096) | 79,362 |
| Decrease in other receivables | 2,554 | 2,705 |
| Decrease in pledged assets - current | 10,600 | 483,000 |
| Deferred income tax assets and liabilities, net | (6,064) | 37,706 |
| Decrease (increase) in other financial assets | 712 | (185) |
| Decrease (increase) in other current assets | 50,675 | 8,071 |
| Increase in other assets | (165) | - |
| Brokerage accounts, net | (241,331) | (372,735) |
| Increase in financial liabilities at fair value through profit or loss -current | (140,449) | 1,394,928 |
| Increase (decrease) in bonds sold under repurchase agreements | (116,061) | 1,727,720 |
| Decrease in bills sold under repurchase agreements | (51,965) | - |
| Increase (decrease) in guaranty deposited for securities lent | (73,797) | (39,712) |
| Increase (decrease) in proceeds payable from securities lent | (344,861) | (52,225) |
| Increase (decrease) in notes payable | (178,441) | 13,206 |
| Increase (decrease) in accounts payable | (2,774,332) | 155,995 |
| Increase (decrease) in advance receipts | (67,981) | 6,112 |
| Increase in collections for other parties | 328,803 | 301,292 |
| Increase (decrease) in other payables | 272,992 | (175,220) |
| Increase (decrease) in other financial liabilities | (102,186) | 388,346 |
| Decrease in guaranty deposits received | (120) | (610) |
| Decrease in other liabilities | (94,217) | - |
| Net cash provided by operating activities | <u>4,332,690</u> | <u>3,401,056</u> |

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS (CONT'D)
Years Ended September 30, 2006 and 2005
(New Taiwan Dollars in Thousands)

| | <u>Jan. 1-Sep. 30, 2006</u> | <u>Jan. 1-Sep. 30, 2005</u> |
|---|-----------------------------|-----------------------------|
| | (Unaudited) | (Unaudited) |
| Cash flows from investing activities: | | |
| Purchase of available-for-sale financial assets -non-current | (7,095) | (1,191) |
| Purchase of premises and property | (90,325) | (108,059) |
| Proceeds from sale of premises and property | 2,208 | 55 |
| Purchase of deferred debits and intangible assets | (3,131) | (110,611) |
| Decrease (increase) in guaranty deposited for business operations | 335,400 | (187,100) |
| Increase in settlement fund | (3,593) | (7,349) |
| Decrease in refundable deposits | 37,536 | 4,750 |
| Net cash provided by (used in) investing activities | <u>271,000</u> | <u>(409,505)</u> |
| Cash flows from financing activities: | | |
| Decrease in short-term borrowings | (1,425,000) | (118,000) |
| Decrease in short-term bills payable | (1,497,712) | (1,149,531) |
| Decrease in long-term borrowings | (1,481,560) | (2,655) |
| Cash dividend | - | (1,364,311) |
| Employee bonuses | - | (34,556) |
| Remuneration to directors and supervisors | (15,797) | (46,074) |
| Treasury stock transactions, net | - | 1,420 |
| Net cash used in financing activities | <u>(4,420,069)</u> | <u>(2,713,707)</u> |
| Decrease in cash and cash equivalents | 183,621 | 277,844 |
| Cash and cash equivalents, beginning of the year | 1,217,365 | 830,295 |
| Cash and cash equivalents, end of the year | <u>\$ 1,400,986</u> | <u>\$ 1,108,139</u> |
| Supplemental disclosures of cash flows information: | | |
| Cash paid during the year for interest | <u>\$ 432,130</u> | <u>\$ 215,554</u> |
| Cash paid during the year for income taxes | <u>\$ 58,941</u> | <u>\$ 179,832</u> |
| Investing and financing activities with no effect on cash flows: | | |
| Cash dividend payable | <u>\$ 54,573</u> | <u>\$ -</u> |
| Employee bonuses payable | <u>\$ 3</u> | <u>\$ -</u> |
| Current portion of long-term liabilities | <u>\$ 494,822</u> | <u>\$ -</u> |

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