

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

ASSETS	June 30, 2006		June 30, 2005		LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2006		June 30, 2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and cash equivalents (Notes 2 and 4(1))	\$ 1,198,332	2	\$ 714,761	1	Short-term borrowings (Note 4(9))	\$ 2,359,000	4	\$ 1,135,000	2
Financial assets at fair value through profit or loss - current (Notes 2, 4(2) and 5)	30,839,320	50	28,695,866	54	Short-term bills payable (Note 4(10))	2,141,551	3	-	-
Bonds purchased under resale agreements (Notes 2 and 4(3))	501,429	1	2,000	-	Financial liabilities at fair value through profit or loss (Note 4(11))	577,224	1	598,177	1
Receivable for securities provided as collateral (net of allowance for doubtful accounts)	16,676,342	27	12,229,426	23	Bonds sold under repurchase agreements (Notes 4(12) and 5)	28,531,590	46	22,275,855	42
Receivables on refinancing collateral	255	-	23,523	-	Guaranty deposited for securities lent	1,432,604	2	1,673,439	3
Notes receivable	1,878	-	2,750	-	Proceeds payable from securities lent	1,769,125	3	2,433,738	3
Accounts receivable (Note 4(4))	1,036,571	2	407,664	1	Notes payable	37,313	-	47,705	-
Prepayments	52,011	-	57,898	-	Accounts payable	135,315	-	308,561	1
Other receivables	83,874	-	89,396	-	Advance receipts	4,042	-	37,392	-
Other financial assets - current (Notes 2, 4(2) and 5)	-	-	165	-	Collections for other parties	552,520	1	297,895	1
Pledged assets - current (Note 6)	368,200	1	308,900	1	Other payables (Note 4(13))	2,374,120	4	2,128,277	5
Deferred income tax assets - current (Note 4(14))	-	-	43,651	-	Long-term liabilities - current portion (Note 4(14))	492,616	1	150,000	-
Other current assets	-	-	48,392	-	Deferred income tax liabilities - current (Note 4(16))	6,987	-	-	-
	<u>50,758,212</u>	<u>83</u>	<u>42,624,392</u>	<u>80</u>	Other financial liabilities - current (Note 4(20))	1,352,814	2	1,068,469	2
					Other current liabilities	54,573	-	1,364,311	2
						<u>41,821,394</u>	<u>67</u>	<u>33,518,819</u>	<u>62</u>
<b>Long-Term Investments</b>					<b>Long-Term Liabilities</b>				
Financial assets at fair value through profit or loss -non-current (Notes 2 and 4(2))	163,829	-	166,353	-	Long-term borrowings (Note 4(14))	-	-	491,013	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))	2,973,318	5	2,829,619.00	5		<u>27,698</u>	<u>-</u>	<u>518,711</u>	<u>1</u>
	<u>3,587,015</u>	<u>6</u>	<u>3,438,745</u>	<u>6</u>	<b>Other Liabilities</b>				
<b>Premises and Property (Notes 2, 4(6) and 6)</b>					Reserve for default loss (Note 2)	200,351	-	200,351	-
Land	2,897,641	5	2,869,525	6	Reserve for trading loss (Note 2)	154	-	12,294	-
Buildings	1,541,291	2	1,519,422	3	Guaranty deposits received (Note 5)	7,652	-	8,382	-
Equipment	546,208	1	632,528	1	Accrued pension liabilities (Notes 2 and 4(15))	16,356	-	16,758	-
Prepayment for equipment	92,079	-	56,742	-	Deferred income tax liabilities - non-current (Note 4(16))	95,361	-	73,585	-
Leasehold improvements	222,406	-	217,058	-	Other liabilities	411	-	-	-
Less: Accumulated depreciation	(1,109,578)	(2)	(1,080,194)	(2)		<u>320,285</u>	<u>-</u>	<u>311,370</u>	<u>-</u>
	<u>4,190,047</u>	<u>6</u>	<u>4,215,081</u>	<u>8</u>	<b>Total Liabilities</b>	<u>42,169,377</u>	<u>67</u>	<u>34,348,900</u>	<u>63</u>
<b>Intangible Assets</b>					<b>Stockholders' Equity</b>				
Operation franchise (Note 2)	447,710	1	529,730	1	Common stock, par value \$10 per share				
					2,000,000,000 shares authorized,				
<b>Other Assets</b>					1,364,310,500 shares issued and outstanding	13,643,105	23	13,643,105	26
Guaranty deposited for business operations	925,000	2	1,086,700	2	Stock dividends to be distributed	366,565	1	-	-
Settlement fund	288,162	-	284,569	1	Capital surplus				
Refundable deposits	288,108	-	342,818	1	Premium from stock issuance	2,598	-	2,598	-
Deferred debits	36,049	-	44,988	-	Treasury stock transactions (Note 4(18))	62,040	-	60,620	-
Leased assets (net of accumulated depreciation) (Notes 2 and 6)	741,649	-	792,506	1	Long-term investments	1,491	-	1,204	-
Others (net of allowance for doubtful accounts) (Notes 2 and 4(7))	191	1	125	-	Paid-in capital from merger (Note 1)	778,921	1	778,921	2
	<u>2,279,159</u>	<u>3</u>	<u>2,551,706</u>	<u>5</u>	Retained earnings				
<b>Brokerage accounts, net (Note 4(8))</b>	<u>984,256</u>	<u>1</u>	<u>69,321</u>	<u>-</u>	Legal reserve	1,425,492	2	1,369,099	3
					Special reserve (Note 2)	2,850,984	5	2,738,198	5
<b>TOTAL ASSETS</b>	<b>\$ 62,246,399</b>	<b>100</b>	<b>\$ 53,428,975</b>	<b>100</b>	Unappropriated earnings (Note 4(16))	853,668	1	645,467	1
					Cumulative translation adjustments (Note 2)	92,158	-	59,058	-
					Treasury stocks (Note 4(18))	-	-	(218,195)	-
					<b>Total Stockholders' Equity</b>	<u>20,077,022</u>	<u>33</u>	<u>19,080,075</u>	<u>37</u>
					<b>Significant commitments and contingencies</b>				
					<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 62,246,399</b>	<b>100</b>	<b>\$ 53,428,975</b>	<b>100</b>

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

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

	<u>Jan. 1 ~ June 30, 2006</u>		<u>Jan. 1 ~ June 30, 2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Revenues:</b>				
Brokerage commissions	\$ 1,361,960	44	\$ 835,300	38
Underwriting commissions	96,275	3	27,308	1
Gain on sale of trading securities	-	-	215,302	10
Securities management, distribution, and management fees	37,499	1	40,230	2
Interest revenue	877,721	28	671,371	31
Dividend revenue	5,987	-	9,450	-
Gain on valuation of trading securities	16,458	1	-	-
Gain on covering of borrowed securities and bonds with resale agreements	12,893	-	-	-
Gain on stock warrants issued	272,179	9	151,597	7
Futures commission revenue (Note 5)	61,249	2	48,922	2
Gain on derivative financial instruments (Note 4(20))	5,649	-	-	-
Gain on derivative financial instruments - OTC (Note 4(20))	25,029	1	-	-
Other operating revenues	109,534	4	60,647	3
Non-operating revenues	224,906	7	142,546	6
	<u>3,107,339</u>	<u>100</u>	<u>2,202,673</u>	<u>100</u>
<b>Expenses:</b>				
Brokerage fees	(90,130)	(3)	(53,550)	(2)
Brokerage and clearing fees: proprietary trading	(9,493)	-	(5,153)	-
Clearing and exchange fees: refinancing	(608)	-	(959)	-
Clearing and exchange fees: underwriting	(3,326)	-	(1,119)	-
Loss on sale of trading securities	(444,215)	(15)	-	-
Interest expense	(305,990)	(10)	(140,380)	(7)
Loss on valuation of trading securities	-	-	(63,065)	(3)
Loss on covering of borrowed securities and bonds with resale agreements	-	-	(39)	-
Loss on valuation of borrowed securities and bonds with resale agreements	(915)	-	-	-
Stock warrant issuance expense	(2,104)	-	(982)	-
Clearing and settlement expenses (Note 5)	(1,364)	-	(2,230)	-
Loss on derivative financial instruments (Note 4(20))	-	-	(100,401)	(5)
Loss on derivative financial instruments - OTC (Note 4(20))	-	-	(6,867)	-
Loss on structured notes (Note 4(20))	(9,416)	-	(12,011)	(1)
Operating expenses (Note 5)	(1,455,453)	(47)	(1,256,605)	(57)
Other operating expenses	(8,620)	-	(40,363)	(2)
Non-operating expenses	(5,748)	-	(6,281)	-
	<u>(2,337,382)</u>	<u>(75)</u>	<u>(1,690,005)</u>	<u>(77)</u>
Continuing operations income before tax	769,957	25	512,668	23
Less: Income tax expense (Notes 2 and 4(16))	353,861	11	301,346	14
Continuing operations' income after tax	416,096	14	211,322	9
Cumulative effect of changes in accounting principle	33,525	1	(12,088)	-
<b>Net income</b>	<u>\$ 449,621</u>	<u>15</u>	<u>\$ 199,234</u>	<u>9</u>
	<u>2006</u>		<u>2005</u>	
<b>Basic earnings per share</b>	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Continuing operations' income after tax	\$ 0.57	0.31	0.38	0.16
Cumulative effect of changes in accounting principle	0.02	0.02	(0.01)	(0.01)
<b>Net income</b>	<u>0.59</u>	<u>0.33</u>	<u>0.37</u>	<u>0.15</u>
<b>Pro forma data :</b>				
<b>Income from continuing operations</b>			512,668	211,322
<b>Cumulative Operations' EPS-Basic earnings per share</b>			0.38	0.16
<b>Net income</b>			512,668	211,322
<b>Basic earnings per share</b>			0.38	0.16

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

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

	<u>Jan. 1~June 30, 2006</u>	<u>Jan. 1~June 30, 2005</u>
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 449,621	\$ 199,234
Changes in assets and liabilities:		
Bad debt expense	-	246
Depreciation expense	80,748	96,626
Amortization	48,815	50,398
Loss (gain) on disposal of premises and property, net	(137)	39
Loss (gain) on valuation of trading securities	(16,458)	63,065
Excess of investment income under the equity method over cash dividends received	(52,090)	92,500
Provision for (reversal of) securities trading loss	(34,041)	(2,022)
Decrease (increase) in financial assets at fair value through profit or loss -current	6,894,104	(4,960,577)
Bonds purchased under resale agreements	2,616,080	45,000
Decrease (increase) in receivable for securities provided as collateral	(2,245,176)	2,415,607
Decrease in refinancing margin	30,983	-
Decrease (increase) in receivables on refinancing collateral	51,755	(23,398)
Decrease in notes receivable	787	755
Decrease (increase) in accounts receivable	(464,278)	486,560
Decrease (increase) in prepayment	(8,682)	63,372
Decrease in other receivables	1,366	2,419
Decrease (increase) in pledged assets - current	(19,300)	563,000
Deferred income tax assets and liabilities, net	13,697	7,693
Decrease (increase) in other financial assets	712	(165)
Decrease (increase) in other current assets	50,675	(23,846)
Increase in other assets	(66)	-
Brokerage accounts, net	(545,686)	111,467
Increase in financial liabilities at fair value through profit or loss -current	261,541	332,670
Increase (decrease) in bonds sold under repurchase agreements	(1,758,092)	4,010,225
Decrease in bills sold under repurchase agreements	(51,965)	-
Increase (decrease) in guaranty deposited for securities lent	(360,512)	290,720
Increase (decrease) in proceeds payable from securities lent	(831,988)	563,997
Increase (decrease) in notes payable	(167,955)	31,171
Increase (decrease) in accounts payable	(2,749,373)	182,003
Increase (decrease) in advance receipts	(69,598)	34,482
Increase in collections for other parties	259,914	111,694
Increase (decrease) in other payables	119,852	(212,062)
Increase in other financial liabilities	360,645	271,643
Decrease in guaranty deposits received	(120)	-
Decrease in fund for subscriptions of shares for an underwriter	(93,806)	-
<b>Net cash provided by operating activities</b>	<u>1,771,972</u>	<u>4,804,516</u>

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

	<b>Jan. 1~June 30, 2006</b>	<b>Jan. 1~June 30, 2005</b>
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale financial assets -non-current	(7,095)	(1,191)
Purchase of premises and property	(38,411)	(89,061)
Proceeds from sale of premises and property	267	4
Purchase of deferred debits and intangible assets	(1,998)	(108,928)
Decrease in guaranty deposited for business operations	324,400	63,100
Increase in settlement fund	(3,593)	(7,349)
Decrease in refundable deposits	38,208	7,144
<b>Net cash provided by (used in) investing activities</b>	<b>311,778</b>	<b>(136,281)</b>
<b>Cash flows from financing activities:</b>		
Decrease in short-term borrowings	(291,000)	(1,725,000)
Decrease in short-term bills payable	(328,017)	(2,939,160)
Increase (decrease) in long-term borrowings	(1,483,766)	144,660
Remuneration to directors and supervisors	-	(46,074)
Treasury stock transactions, net	-	(218,195)
<b>Net cash used in financing activities</b>	<b>(2,102,783)</b>	<b>(4,783,769)</b>
Decrease in cash and cash equivalents	(19,033)	(115,534)
Cash and cash equivalents, beginning of the year	1,217,365	830,295
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 1,198,332</b>	<b>\$ 714,761</b>
<b>Supplemental disclosures of cash flows information:</b>		
Cash paid during the year for interest	<b>\$ 304,590</b>	<b>\$ 130,459</b>
Cash paid during the year for income taxes	<b>\$ 104,873</b>	<b>\$ 339,863</b>
<b>Investing and financing activities with no effect on cash flows:</b>		
Cash dividend payable	<b>\$ 54,573</b>	<b>\$ 1,364,311</b>
Employee bonuses payable	<b>\$ 3</b>	<b>\$ 34,556</b>
Remuneration to directors and supervisors payable	<b>\$ 15,797</b>	<b>\$ -</b>
Current portion of long-term liabilities	<b>\$ 492,616</b>	<b>\$ 150,000</b>

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