

**JIH SUN SECURITIES CO., LTD.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version of difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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**(English Translation)**  
**JIH SUN SECURITIES CO., LTD.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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**(English Translation)**  
**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Jih Sun Securities Co., Ltd.

We have audited the accompanying balance sheets of Jih Sun Securities Co., Ltd. as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards of the Republic of China. 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 the 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 Jih Sun Securities Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with the "Criteria Governing the Preparation of Financial Reports by Securities Firms", the "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants" and generally accepted accounting principles of the Republic of China.

Taipei, Taiwan, R.O.C.

January 25, 2006

The accompanying financial statements are intended only to present the financial position, results of operation and cash flows in accordance with the 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.

**JIH SUN SECURITIES CO., LTD.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2005 AND 2004**  
(expressed in thousands of New Taiwan dollars)

ASSETS	DECEMBER 31,				LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31,			
	2005		2004			2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 4)	\$ 1,501,077	3	2,394,409	5	Short-term loans (Notes 12)	\$ 4,140,000	7	3,120,000	6
Short-term investments, net (Notes 5)	870,063	2	3,259,824	6	Commercial papers payable, net (Note 13)	1,219,088	2	3,296,811	8
Investments in redeemable bonds (Notes 6)	5,758,701	10	6,793,059	14	Liabilities of bonds with repurchase agreements (Notes 14)	20,891,569	38	13,586,009	27
Operating securities - dealer (Note 7)	21,093,545	38	11,656,531	23	Liabilities for stock warrants issued (Note 15)	301,350	1	-	-
Operating securities - underwriter (Notes 8)	668,287	1	934,957	2	Repurchased stock warrants (Note 16)	( 229,091)	-	-	-
Operating securities - stock warrants	9,116	-	93	-	Put options - speculation (Note 27)	89,325	-	24,149	-
Operating securities - hedging (Note 9)	465,346	1	19,063	-	Financing securities guaranty deposits	1,724,358	3	1,724,784	3
Call options - speculation (Note 27)	27,830	-	12,783	-	Financing securities guaranteed proceeds payable	2,143,813	4	1,984,303	4
Receivables from securities financing, net	13,638,476	24	13,819,849	28	Stock borrowing payable - hedging	6,853	-	-	-
Securities refinance margin deposits	10,039	-	517	-	Liabilities of financial derivative instruments-O.T.C.(Note 27)	148,078	-	85,623	-
Receivables from securities refinance	12,651	-	600	-	Notes payable	24,730	-	22,829	-
Receivables - futures margin (Note 27)	504,011	1	625,957	1	Accounts Payable	911,985	2	946,291	2
Collateral price on borrowing stock	4,472	-	-	-	Other current liabilities (Notes 25)	2,037,518	3	1,894,838	4
Deposit on borrowing stock	4,015	-	-	-		<u>33,409,576</u>	<u>60</u>	<u>26,685,637</u>	<u>54</u>
Assets of financial derivative instruments - O.T.C. (Note 27)	136,633	-	42,577	-					
Notes Receivable	23,025	-	26,652	-	<b>LONG-TERM LIABILITIES</b>				
Accounts Receivable	867,864	2	888,059	2	Bonds payable (Note 17)	1,000,000	2	1,000,000	2
Defaulted securities	19	-	47	-	Long-term loans, net (Note 18)	1,992,880	4	4,118,505	8
Allowance for valuation loss on defaulted securities	( 19)	-	( 47)	-		<u>2,992,880</u>	<u>6</u>	<u>5,118,505</u>	<u>10</u>
Other financial assets - current (Notes 27)	235,255	-	168,045	-	<b>OTHER LIABILITIES</b>				
Time deposits pledged - current (Note 29)	490,010	1	1,857,859	4	Default indemnity reserve	200,000	-	200,000	-
Other current assets	71,979	-	54,927	-	Securities trading loss reserve	24,630	-	-	-
	<u>46,392,395</u>	<u>83</u>	<u>42,555,761</u>	<u>84</u>	Guaranty deposits-in (Note 28)	8,090	-	8,090	-
<b>LONG-TERM EQUITY INVESTMENTS (Notes 10)</b>					Accrued pension liabilities (Note 21)	66,439	-	59,610	-
Long-term investment under equity method	2,598,428	5	2,616,846	5	Collection of securities underwritten	302,857	1	178	-
Long-term investment under cost method	1,303,231	2	1,144,931	2	Other (Note 19)	28,870	-	28,870	-
	<u>3,901,659</u>	<u>7</u>	<u>3,761,777</u>	<u>7</u>		<u>630,886</u>	<u>1</u>	<u>296,748</u>	<u>-</u>
<b>PROPERTY AND EQUIPMENT (Notes 11)</b>					<b>TOTAL LIABILITIES</b>	<u>37,033,342</u>	<u>67</u>	<u>32,100,890</u>	<u>64</u>
Land	1,259,205	2	1,259,205	2	<b>STOCKHOLDERS' EQUITY</b>				
Buildings	568,404	1	568,404	1	Capital stock (Note 22)	11,572,127	21	12,072,127	24
Office equipment	992,836	2	975,073	2	Capital surplus				
Prepayment for equipment	10,302	-	72,935	-	Premium on stock issuance	1,298,456	2	2,298,456	4
Leasehold improvements	503,146	1	450,669	1	Retained earnings				
	<u>3,333,893</u>	<u>6</u>	<u>3,326,286</u>	<u>6</u>	Legal reserve	1,098,410	2	1,046,942	2
Less: Accumulated depreciation	( 1,122,410)	( 2)	( 973,615)	( 2)	Special reserve	2,930,970	5	2,784,997	5
	<u>2,211,483</u>	<u>4</u>	<u>2,352,671</u>	<u>4</u>	Unappropriated earnings (Note 24)	1,435,643	3	510,619	1
<b>OTHER ASSETS</b>					Cumulative translation adjustments (Note 10)	10,590	-	( 43,038)	-
Operating deposits	935,000	2	935,000	2	Treasury stock (Note 23)	-	-	( 59,955)	-
Securities settlement fund	385,095	1	360,648	1	<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>18,346,196</u>	<u>33</u>	<u>18,610,148</u>	<u>36</u>
Guarantee deposits paid (Notes 29)	410,088	1	166,873	-	<b>SIGNIFICANT COMMITMENTS AND CONTINGENCIES (Note 30)</b>				
Deferred debits	76,705	-	77,021	-					
Restricted assets - non-current (Note 29)	660,000	1	434,000	2					
Deferred income tax assets (Note 25)	24,367	-	24,367	-					
Overdue receivables	11,749	-	-	-					
Allowance for bad debts - overdue receivables	( 11,749)	-	-	-					
Cash and cash equivalents - collection of stock warrant's strike price	2,836	-	33	-					
Cash and cash equivalents - collection of securities underwritten	302,764	1	38	-					
	<u>2,796,855</u>	<u>6</u>	<u>1,997,980</u>	<u>5</u>					
<b>SECURITIES BROKERAGE DEBIT ACCOUNTS, NET (Note 20)</b>	<u>77,146</u>	<u>-</u>	<u>42,849</u>	<u>-</u>					
<b>TOTAL ASSETS</b>	<u>\$ 55,379,538</u>	<u>100</u>	<u>50,711,038</u>	<u>100</u>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 55,379,538</u>	<u>100</u>	<u>50,711,038</u>	<u>100</u>

(See the accompanying notes to the financial statements)

**JIH SUN SECURITIES CO., LTD.**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2005		2004	
	Amount	%	Amount	%
<b>REVENUES</b>				
Securities brokerage commissions	\$ 2,027,333	38	2,687,475	39
Underwriting commissions	64,125	1	63,492	1
Gain on sale of securities - dealer	833,440	15	385,339	6
Gain on sale of securities - stock warrants	969	-	1,020	-
Gain on sale of securities - underwriter	81,311	1	-	-
Securities registration and service fee	53,646	1	44,339	1
Interest income	1,171,199	21	1,227,770	18
Dividend income	177,714	3	154,246	2
Gain on issuance of stock warrants	68,495	1	1,206,735	18
Commission revenue for futures	187,062	3	213,368	3
Gain on future contracts -speculation	284,267	5	-	-
Gain on trading - securities - RS	2,786	-	-	-
Gain on financial derivative instruments - O.T.C.	110,713	2	15,978	-
Other operating income	123,749	2	496,214	7
Investment gain - equity method (Note 10)	993	-	88,357	1
Non-operating income	353,867	7	261,201	4
	5,541,669	100	6,845,534	100
<b>EXPENSES</b>				
Handling charges				
Brokers	121,031	2	156,244	2
Dealers	24,092	-	20,021	-
Refinancing	637	-	276	-
Loss on sale of securities - underwriter	-	-	56,612	1
Loss on sale of securities - hedging	23,535	-	766,435	11
Interest expense	222,455	4	107,187	2
Valuation loss on operating securities	4,146	-	120,928	2
Valuation loss on stock borrowing	2,381	-	774	-
Expense for warrants issued	1,263	-	3,510	-
Loss on futures contracts - speculation	-	-	588,593	8
Clearing fee	9,347	-	8,196	-
Loss on options transactions - speculation	208,071	4	53,617	1
Operating expenses	3,249,443	60	3,346,983	49
Other operating expense	5,331	-	-	-
Non-operating expenses	155,118	3	220,480	3
	4,026,850	73	5,449,856	79
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>				
<b>BEFORE INCOME TAX</b>	1,514,819	27	1,395,678	21
Income tax expense (Note 25)	78,829	1	881,000	13
<b>NET INCOME (LOSS)</b>	<b>\$ 1,435,990</b>	<b>26</b>	<b>514,678</b>	<b>8</b>
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
<b>Primary earnings (loss) per share (Note 26)</b>	<b>\$ 1.17</b>	<b>1.10</b>	<b>1.18</b>	<b>0.43</b>
<b>Adjusted</b>	<b>1.12</b>	<b>0.40</b>	<b>1.12</b>	<b>0.40</b>

(See the accompanying notes to the financial statements)

**JIH SUN SECURITIES CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
**(expressed in thousands of New Taiwan dollars)**

	Capital Surplus		Retained Earnings			Cumulative translation adjustments	Net loss not recognized as pension cost	Treasury stock	Total
	Capital stock	Premium on stock issuance	Legal reserve	Special reserve	Unappropriated earnings				
<b>Balance, January 1, 2004</b>	\$ 12,072,127	2,298,456	1,609,607	2,784,997	(562,665)	64,046	(34)	( 633,988)	17,632,546
Appropriations of prior year's earnings:									
Legal reserve used to offset losses	-	-	( 562,665)	-	562,665	-	-	-	-
Treasury stock transferred to employees	-	-	-	-	( 4,059)	-	-	574,033	569,974
Cumulative translation adjustments	-	-	-	-	-	( 107,084)	-	-	( 107,084)
Net loss not recognized as pension cost	-	-	-	-	-	-	34	-	34
Net income for January 1 to December 31, 2004	-	-	-	-	514,678	-	-	-	514,678
<b>Balance, December 31, 2004</b>	<u>12,072,127</u>	<u>2,298,456</u>	<u>1,046,942</u>	<u>2,784,997</u>	<u>510,619</u>	<u>(43,038)</u>	<u>-</u>	<u>( 59,955)</u>	<u>18,610,148</u>
Appropriations of prior year's earnings:									
Legal reserve	-	-	51,468	-	( 51,468)	-	-	-	-
Special reserve	-	-	-	145,973	( 145,973)	-	-	-	-
Cash dividend	-	-	-	-	( 294,778)	-	-	-	( 294,778)
Employee bonus	-	-	-	-	( 9,400)	-	-	-	( 9,400)
Compensation of directors an supervisors	-	-	-	-	( 9,000)	-	-	-	( 9,000)
Treasury stock transferred to employees	-	-	-	-	( 347)	-	-	59,955	59,608
Retirement of capital by cash	(1,500,000)	-	-	-	-	-	-	-	( 1,500,000)
Capital surplus transfer to capital	1,000,000	(1,000,000)	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	53,628	-	-	53,628
Net income for January 1 to December 31, 2005	-	-	-	-	1,435,990	-	-	-	1,435,990
<b>Balance, December 31, 2005</b>	<u>\$ 11,572,127</u>	<u>1,298,456</u>	<u>1,098,410</u>	<u>2,930,970</u>	<u>1,435,643</u>	<u>10,590</u>	<u>-</u>	<u>-</u>	<u>18,346,196</u>

(See the accompanying notes to the financial statements)

**JIH SUN SECURITIES CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
**(expressed in thousands of New Taiwan dollars)**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 1,435,990	514,678
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	210,795	207,489
Amortization	40,763	49,755
Fixed assets written off to expense	-	552
Bad debt expense	-	1,878
Investment (gain) loss - equity method	72,046	( 33,331)
Provision (reversal) for securities trading loss reserve	24,630	( 5,697)
Gain on sales of short-term investments	( 102,560)	-
Recovery gain on valuation of operating securities	( 112,607)	( 362,527)
Loss (recovery gain) on valuation of defaulted securities	-	( 740)
Loss on valuation of borrowing stock	2,381	-
Loss on disposal of properties	1,294	15,240
Changes in assets and liabilities		
Investments in redeemable bonds	1,034,358	( 2,544,871)
Operating securities - dealer	( 9,436,019)	( 5,388,314)
Operating securities - underwriter	380,813	( 637,820)
Operating securities - hedging	( 448,814)	1,228,522
Operating securities - stock warrants	( 9,023)	538
Receivables from securities financing, net	181,373	293,400
Call options - speculation	( 15,047)	( 6,533)
Securities refinance margin deposits	( 9,522)	1,313
Receivables from securities refinance	( 12,051)	1,433
Receivables - futures margin	121,946	( 106,493)
Stock borrowing collateral price	( 4,472)	31,475
Stock borrowing margin	( 4,015)	28,328
Assets of financial derivative instruments - O.T.C.	( 94,056)	( 42,577)
Defaulted securities	-	2,325
Deferred loss on stock warrants	-	40
Other financial assets - current	( 43,388)	76,581
Other current assets	( 17,052)	( 21,979)
Operating deposits	-	( 120,000)
Securities settlement fund	( 24,447)	( 46,884)
Deferred income tax assets - non-current	-	( 2,888)
Overdue receivables	-	-
Cash and cash equivalents - collection of securities underwritten	( 302,726)	29
Cash and cash equivalents - collection of stock warrant's strike price	( 2,803)	569
Security brokerage debit (credit) accounts, net	( 34,297)	( 3,851)
Liabilities of bonds with repurchase agreements	7,305,560	5,641,862
Liabilities for stock warrants issued	301,350	( 1,494,065)
Repurchased stock warrants	( 229,091)	894,497
Financing securities guaranty deposits	( 426)	894,615
Financing securities guaranteed proceeds payable	159,510	999,446
Put options - speculation	65,176	( 16,488)
Stock borrowing payable - hedging	4,472	( 31,475)
Liabilities of financial derivative instruments - O.T.C.	62,455	85,623
Other current liabilities	110,275	1,069,346
Accrued pension liabilities	6,829	15,852
Collection of securities underwritten	302,679	( 160)
Net cash provided by operating activities	<u>922,279</u>	<u>1,188,693</u>

**JIH SUN SECURITIES CO., LTD.**  
**STATEMENTS OF CASH FLOWS (CONT'D)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
**(expressed in thousands of New Taiwan dollars)**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in time deposits pledged - current	1,367,849	( 1,104,859)
Decrease (increase) in refundable deposits-out	( 243,215)	385,359
Increase in deferred debits	( 15,808)	( 5,988)
Decrease (increase) in restricted assets - non-current	( 226,000)	( 433,000)
Decrease (increase) in short-term investments	2,492,321	( 689,824)
Proceeds from disposal of properties	1,340	657
Acquisition of property and equipment	( 96,880)	( 355,270)
Increase in long-term equity investments	( 158,300)	( 607,301)
Long-term equity investment - capital decreased and returned	-	45,348
Net cash provided by (used in) investing activities	<u>3,121,307</u>	<u>( 2,764,878)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans	1,020,000	( 3,441,850)
Increase in commercial paper payable	( 2,077,723)	1,059,525
Increase (decrease) in long-term loans	( 2,125,625)	3,613,505
Issuance of corporate bonds	-	1,000,000
Increase in guaranty deposits-in	-	1,784
Retirement of capital by cash	( 1,500,000)	-
Cash dividend distributed	( 294,778)	-
Compensation of directors and supervisors, and employee bonus	( 18,400)	-
Treasury stock transferred to employees	59,608	569,974
Net cash provided by (used in) financing activities	<u>( 4,936,918)</u>	<u>2,802,938</u>
Net increase (decrease) in cash and cash equivalents	( 893,332)	1,226,753
Cash and cash equivalents, beginning of period	2,394,409	1,167,656
Cash and cash equivalents, end of period	<u>\$ 1,501,077</u>	<u>2,394,409</u>
<b>SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid during the year	<u>\$ 118,256</u>	<u>221,161</u>
Income tax paid during the year	<u>\$ 209,156</u>	<u>284,203</u>
<b>INVESTING AND FINANCING ACTIVITIES WITH NO EFFECT ON CASH FLOWS</b>		
Property and equipmen transfer to deferred debits	<u>\$ 24,639</u>	<u>2,129</u>

(See the accompanying notes to the financial statements)

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**

**(expressed in thousands of New Taiwan dollars, unless otherwise stated)**

**1. ORGANIZATION AND OPERATIONS**

Jih Sun Securities Co., Ltd. (the "Company") was established in December 1961 and engages in the activities of securities brokerage, securities dealing, securities underwriting, securities financing, stock transaction handling, futures dealing, and auxiliary services for futures trading and stock warrant issuance.

In order to increase market share and competitiveness, the Board of Directors on April 22, 2002, resolved that the Company as the surviving company would merge with Yuan Xin Securities Co., Ltd., and upon the resolution of the Board of Directors' meeting, the Company acquired the operating assets and operating rights of Hemei Securities Co., Ltd. and Toufen Securities Co., Ltd. As of December 31, 2004, the Company had established 51 branches.

Moreover, in order to extend the scale of operation and increase the synergy of financial institutions, the December 14, 2001, extraordinary shareholders' meeting announced an exchange of shares with "Jih Sun International Bank Ltd." and its transformation into a subsidiary of "Jih Sun Financial Holding Limited Co." by transfer of shares on February 5, 2002, the date fixed for transfer of shares.

Parent company: Jih Sun Financial Holding Limited Co.

As at December 31, 2004, the number of employees was 2,179.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The Company's financial statements were prepared in accordance with the "Criteria Governing the Preparation of Financial Reports by Securities Firms", the "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles of the Republic of China. A summary of significant accounting policies and the measurement basis is as follows:

(1) Classification of Assets and Liabilities as Current or Non-current

Current assets are those which will be converted into cash or be used up in one year. Other assets are classified as non-current assets. Current liabilities are those which will be paid off in one year. Other liabilities are classified as non-current liabilities.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(2) Cash and Cash Equivalents

Cash and cash equivalents include cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposit and cash equivalents. Cash equivalents are short-term investments which could be converted to cash anytime and which do not have a significant level of market risk related to potential interest rate changes, and include treasury bills and commercial paper with maturities of three months or less at the date of purchase.

(3) Short-term Investments and Operating Securities

Government bonds, securities listed on the stock exchange or traded over-the-counter, and unlisted open-end mutual funds are stated at cost and valued at the lower of cost or market at year-end. The specific identification method is used to compute the gain or loss upon sale of such investments. The cost of government bonds and securities sold is calculated based on the moving weighted-average cost method. The market value of short-term investments is determined based upon the average closing price for the last month of the accounting year, but for open-end funds, the market value refers to the net asset value of the fund on the balance sheet date. The market value of operating securities is determined based upon the closing price on the last day of the accounting year. Cash dividends received are recorded as investment income, while stock dividends derived from capitalization of capital reserve or retained earnings are accounted for as an increase in the number of shares held and not as investment income, and the unit cost per share is recomputed using the weighted-average method.

(4) Investments in Redeemable Bonds and Liability of Bonds with Repurchase Agreements

The financing method is adopted to account for bond transactions with terms to redeem and repurchase. Sales of bonds with repurchase terms for financing purposes are recorded as “repurchaseable bonds payable.” Upon execution of repurchase terms, the difference between the financing amount and repurchase price is recorded as interest expense. Purchases of redeemable bonds for financing purposes are recorded as “redeemable bond investments.” Upon execution of redemption terms, the difference between the resale price and financing amount is recorded as interest income.

(5) Allowances for Doubtful Accounts

Allowance for doubtful accounts is provided by assessing the collectibility of the notes and accounts receivable at year-end.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(6) Put/Call Options – Speculation

The Company primarily engages in the activities of futures dealing and futures options contracts for trading purposes, which are valued at the fair value method on the balance sheet date.

(7) Futures Margin Deposits – Dealer

Premiums paid by the Company related to futures contracts entered into for trading purposes are recognized as “futures margin deposits – dealer”. Gains or losses as a result of marking to market value of the futures contracts as of the balance sheet dates or arising from the settlement of the futures contracts are recognized as current income.

(8) Long-term Equity Investments

Long-term equity investments in common stock of companies not publicly traded and where the Company has no influence are accounted for under the cost method. Stock dividends received from capitalization of capital surplus or retained earnings are not recorded as investment income, and only memo entries are made regarding the increase in number of shares, with cost per share or book value recalculated.

I. Investments in listed (or OTC) company stocks are stated at the lower of cost or market value. When the cost exceeds market value, an allowance for investment loss account is established and recorded as a deduction from stockholders' equity.

II. Investment loss is recognized currently for investment in non-listed (non-OTC) company stocks when there is sufficient evidence indicating that the investment value is impaired and the possibility of recovery is slim.

For long-term equity investments accounted for under the equity method, investment premium or discount is amortized over five years by the straight-line method.

When received stock dividend resulting from transferring of capital surplus on retained earnings, the company did not recognize as income and merely added the number of share of stock, and recalculated the cost per share according to the method of weighted averages.

Assets and debt of the foreign subsidiary of our company and debt are converted according to the exchange rate on day of balance sheet. For the stockholder's equity, the beginning retained earnings are converted at the period's exchange rate initially, the others are converted according to historical exchange rate, income statements are converted at current period's average exchange rate, and the exchange difference resulting from converting were treated as translation adjustment and classified as the stockholder's equity item.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

For controllable invested company, the company recognize under equity method, and at the time of the half - year ended and year ended prepared the consolidated financial statement.

(9) Fixed Assets and Depreciation

Property and equipment are stated at cost and evaluated at cost less accumulated depreciation. Major additions, improvements, and replacements are capitalized, while repairs and maintenance are recorded as current expense when incurred. Gain/loss upon disposal of fixed assets is recognized currently.

Depreciation of property and equipment is calculated by the straight-line method over the estimated useful lives as stipulated by the government in the following schedule. For property and equipment still in use after full depreciation, estimated salvage value may continue to be depreciated over their estimated useful lives.

Buildings	10 to 55 years
Office equipment	3 to 10 years
Leasehold improvement	3 to 15 years

(10) Deferred Debits

Deferred charges refer to software installation costs and other unamortized expenses. Deferred debits are stated at cost and amortized by the straight-line method over three to five years.

(11) Warrants

Liabilities for stock warrants issued are stated at issuance price. Repurchased stock warrants are recorded as a contra account of such liabilities at repurchase cost. Cost of stock warrants resold is determined by the moving-average method; any resulting gain or loss is credited or charged to current income. The liabilities for stock warrants issued and repurchased stock warrants are revalued at market as of the balance sheet date; the resulting gain or loss is accounted for as “gain (or loss) on revaluation of liabilities for stock warrants issued” and “gain (or loss) on revaluation of repurchased stock warrants”, respectively. Loss on revaluation of liabilities for stock warrants issued is deferred to the extent such loss is less than the unrealized gain on the related hedge securities; revaluation loss in excess of unrealized gain on hedge securities is charged to current income.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(12) Derivative Financial Instruments – Trading

Financial instruments and non-financial instruments used in dealer or other transactions are recorded at their fair values on the balance sheets. Fluctuations in fair value, regardless of whether or not realized, are recorded as current income or loss when they occur. Gains or losses resulting from settlement of financial instruments held for trading purposes is recorded as current income or loss when they occur.

(13) Interest Rate Swaps

Assets and liabilities arising from interest rate swaps do not settle the principal, and are recorded in a memorandum when the contracts are signed. The Company measures them by fair value on the evaluation date or balance sheet date, and records the difference as gain or loss on financial derivative instruments. Receipt and payment of interest can be offset. Those contracts held for trading purposes should be evaluated on the balance sheet date. The Company uses market value as the basis for measuring fair value.

(14) Transfer Assets Exchanging of Corporate Bonds and Options

Our company disassembles the convertible company's debt into ordinary company's debt value and value of right to choose and sells investors who give different demands separately. Because the part of the bond involves the transfer of ownership, so charge to an account in the light of the way to punish general bond while taking place in trade. Is it charge to an account to close according to appointed swap-in and interest rate happened to change with net amount another, appraise in accordance with market price law.

(15) Link Goods Assets – Option

Whether appraise in accordance with fair value law, fair change of value punish in accordance with the following principles.

1.Fair value rises: The interests act as one and admit that arrange.

2.Fair value is reduced: Is it avoid dangerous position realize some individually to exceed, loss its deferred to is it rank to recognize, exceeding and avoid the dangerous position and has not realized some individually, losses act as one and admit that arranges. Deferred loss arranged to admit should is it is it act as in accordance with actual proportion issue lose to classify as to admit while punishing and avoiding the dangerous position individually.

The fair value of the right to choose is the value calculated out in accordance with the appraisal way of the right to choose.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(16) Option of Bonds

Our company makes the right to choose of bonds and divides into and avoids the dangerous trade and not avoids the dangerous trade in accordance with the purpose of their trade, store and journalize and write down the item principal with executable right to choose with the memorandum while continuing in the contract, in accordance with the appraisal of law of fair value at the end of term, classify as and act as a increase and decrease. Such as needing obtaining or person who pays bond marked because the right to choose is carried out, should is it rank to recognize in accordance with the fair market price of this bond, the market price department, in accordance with the price honoring an agreement and carrying out the interest rate and calculating.

In accordance with the appraisal of law of fair value, the change of fair value is dealt with in accordance with the following principles:

1. Fair value rises: The interests act as one and admit that arrange.
2. Fair value is reduced: Is it avoid dangerous position realize some individually to exceed, loss its deferred to is it rank to recognize, exceeding and avoid the dangerous position and has not realized some individually, losses act as one and admit that arranges.

Deferred loss arranged to admit should is it is it act as in accordance with actual proportion issue lose to classify as to admit while punishing and avoiding the dangerous position individually.

(17) Default Indemnity Reserve

In compliance with the Regulations Governing Securities Firms, the Company provides on a monthly basis a default indemnity reserve of 0.0028% of securities brokerage commissions until the balance of the reserve reaches \$200,000 thousand, and records it as other liabilities. Such reserve may only be used to cover default losses from securities brokerage or otherwise upon MOF approval.

(18) Securities Trading Loss Reserve

In compliance with the Regulations Governing Securities Firms, the Company is required to periodically provide a securities trading loss reserve at a rate of 10% of net gain on dealing in operating securities and futures contracts until the balance of the reserve reaches \$200,000 thousand. Such reserve may only be used to offset the excess of trading loss over gain.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(19) Pension Plan

The Company had a retirement plan covering all regular employees with contributions from both employer and employees. Monthly pension contributions amounting to 3% of total employee gross salaries were deposited in a designated pension fund bank account independently administered by the Pension Fund Administrative Committee. This retirement plan remained applicable until adoption of the Labor Standards Law, which was enacted on March 1, 1998.

Effective March 1998, the Company makes monthly pension contributions at 2.8% of employee gross salaries monthly (managers' contribution ratio is 4%) to a designated pension fund account with the Central Trust of China.

Commencing from December 31, 1995, the Company adopted SFAS No. 18, "Accounting for Pensions", and computed unrecognized transitional net assets or net benefit obligations when this statement was first applied. Effective in 1996, the unrecognized transitional net assets or net benefit obligations are amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits, and should be included in the net pension cost. If the average remaining service period is less than 15 years, however, the employer may elect to use 15 years for amortization purposes.

The Labor Pension Act of R.O.C. ("the Act"), effective from July 1, 2005; adopts a defined contribution pension plan. In accordance with the Act, employees of the Company (who were hired before July 1, 2005) 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. Employees who are hired by the Bank after July 1, 2005, are required to be covered by the pension plan as defined by the Act. For employees subject to this Act, the Company is required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages and deposit the contribution in a personal retirement benefit account. However, the employee retirement plan maintained by the Company has not yet been amended to conform to this Act.

Under SFAS No. 18 "Accounting for Pensions", an actuarial valuation of a pension asset or liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on difference between the accumulated benefit obligation and the fair value of plan assets. Net periodic pension cost recognized in accordance with SFAS No. 18 includes the current service cost, net transition asset or obligation, prior service cost and unrecognized gain (loss) on a pension plan which is amortized on straight-line basis over the expected average remaining service period of 15 years of the employees

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

in accordance with the rules set by the SFB. The Company contributes monthly no less than 2% of gross salary to the employee pension fund which is deposited into a designated depository account with the Central Trust of China.

Pursuant to the Act, the Company also contributes cash at the rate of 6% of gross salary of each employee to the Council of Labor Affairs. This contribution is recognized as pension expenses for the current period when the contribution is actually made.

(20) Treasury Stock

In accordance with SFAS No. 30, “Accounting for Treasury Stock”, the Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is debited for the cost of the shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus—treasury stock. Otherwise, the excess of the cost over the price is debited to capital surplus from similar treasury stock. If the capital surplus—treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus—treasury stock. If the capital surplus—treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus—treasury stock.

In addition, in accordance with SFC regulations, “treasury stock” purchased by the Company per Article 28-2 of the “Securities and Exchange Law” before the Company was transformed into a subsidiary of a Financial Holding Company was transformed into the Financial Holding Company’s shares by transfer of shares, and the shares are still recognized as “treasury stock” and deducted from stockholders’ equity.

(21) Income Tax

The Company adopted Statement of Financial Accounting Standards No. 22, “Accounting for Income Tax”, and recognizes deferred income tax liabilities for future taxable temporary differences and deferred income tax assets for future deductible temporary differences, prior year loss carryforwards, and investment tax credits. The future realization of deferred

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

income tax assets is assessed, and a valuation account, if needed, is provided accordingly. After adopting the imputation tax method, the 10% surtax on unappropriated earnings is recorded as current expense on the date of the stockholders' meeting to declare earnings distribution.

Further, the Company and the parent company, "Jih Sun Financial Holding Limited Co.", and its affiliate "Jih Sun International Bank Ltd." adopted the consolidated tax filing return principle to file the annual income tax return and make tax payment. With regard to the accounting policy under the consolidated tax filing return principle, the Company should comply with Accounting Research and Development Foundation Explanation (92) No. 240 issued on October 3, 2003. The total income tax expense and deferred income tax should be allocated reasonably and consistently to individual companies. The accrued receivable and payable between the parent company and subsidiaries are based on the consolidated tax filing return principle and should be recorded as "accounts receivable (payable)—related-party."

(22) Recognition of Revenue

Revenue is recognized when realized or deemed realizable.

(23) Assets Impairment

Commencing from the first quarter of year 2005, the Company adopted SFAS No. 35 "Accounting for Impairment of Assets." In accordance with SFAS No. 35, unless inapplicable, the recoverable amount (individual assets or cash generating units other than goodwill) of an asset is estimated and compared with carrying amount whenever there is an indication that the asset may be impaired. An impairment loss is recognized when the recoverable amount is less than the carrying amount (higher of fair market value and value in use). For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior period estimation, the carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

**3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES**

Effective first quarter, 2005, the Company adopted SFAS No. 35 "Accounting for Impairment of Assets." However, the adoption on this new accounting standard did not effect the Company's results of operating because no assets impairment was noted as of December 31, 2005.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**4. CASH AND CASH EQUIVALENTS**

	December 31,	
	2005	2004
Securities Department		
Bank deposits		
Savings accounts	\$ 197,737	68,050
Checking accounts	16,223	8,797
Time deposits	-	20,900
Commercial paper	1,287,117	2,296,662
Total	\$ 1,501,077	2,394,409

**5. SHORT-TERM INVESTMENTS, NET**

	December 31,			
	2005		2004	
	Cost	Market Value	Cost	Market Value
Beneficiary certificates	\$ 870,063	876,114	3,259,824	3,272,164

**6. INVESTMENT IN REDEEMABLE BONDS**

	December 31,	
	2005	2004
Central Government Construction Bonds	\$ 4,878,455	6,793,059
Corporate bonds	259,426	-
Financial bonds	620,820	-
Total	\$ 5,758,701	6,793,059

These bonds were made available for resale at an agreed amount of \$5,770,947 thousand and \$6,795,520 thousand after December 31, 2005 and 2004, respectively.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**7. OPERATING SECURITIES – DEALER**

	December 31,	
	2005	2004
Listed stocks and bonds	\$ 4,206,219	4,651,711
Over-the-counter stocks and bonds	521,205	169,123
Government bonds	6,191,192	3,694,328
Corporate bonds	4,806,281	2,869,892
Financial bonds	5,100,572	117,518
Emerging stocks	268,076	153,959
Subtotal	21,093,545	11,656,531
Less: Allowance for decline in value of operating securities	-	-
Net	\$ 21,093,545	11,656,531
Market value	\$ 21,435,613	11,922,654

**8. OPERATING SECURITIES – UNDERWRITER**

	December 31,	
	2005	2004
Listed stocks	\$ 343,675	400,683
Over-the-counter stocks and bonds	65,477	246,043
Corporate bonds	286,100	433,000
Unlisted stocks and bonds	24,680	21,019
Sub-total	719,932	1,100,745
Less: Allowance for decline in value of operating securities	( 51,645 )	( 165,788 )
Net	\$ 668,287	934,957
Market value	\$ 668,287	934,957

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**9. OPERATING SECURITIES – HEDGING**

	December 31,	
	2004	2003
Listed stocks	\$ 467,877	19,063
Less: Allowance for decline in value of operating securities	( 2,531 )	-
Net	<b>\$ 465,346</b>	<b>19,063</b>
Market value	<b>\$ 485,652</b>	<b>19,288</b>

**10. LONG-TERM EQUITY INVESTMENTS**

Invested company	Ownership %	Amount
December 31, 2005		
Valuation by cost method		
Taiwan Stock Exchange Corporation	2.93	\$ 586,067
Taiwan Securities Central Depository Co., Ltd.	1.58	19,434
Taiwan Futures Exchange Co., Ltd.	0.74	15,212
Fubon Securities Finance Co., Ltd.	1.97	74,542
Global Securities Finance Corporation	0.88	57,832
En Tie Securities Finance Co., Ltd.	0.24	12,444
Top Taiwan III Venture Capital Co., Ltd.	10.00	100,000
Parawin Venture Capital Corp.	6.00	60,000
Jih Sun Securities Investment Trust Co., Ltd.	10.00	74,880
Cotillion III Venture Capital Corp.	9.96	50,000
PK III Venture Corp.	9.29	65,000
Jih Sun Venture Capital Corp.	5.00	29,520
Taiwan Integrated Shareholder Service Company	2.77	8,300
Hui Yang Venture Capital Group	7.50	150,000
Subtotal		1,303,231
Valuation by equity method		
Jih Sun Futures Co., Ltd.	98.138	893,134
(original investment cost \$618,268 thousand)		
Jih Sun International Investment Holding Company Limited	100.00	1,461,236
(original investment cost \$1,795,250 thousand (US\$54,600 thousand))		
Jih Sun Securities Investment Consulting Co., Ltd.	100.00	63,179
(original investment cost \$173,600 thousand)		
Jih Sun Futures Management Co., Ltd.	100.00	180,879
(original investment cost \$200,000 thousand)		
Subtotal		2,598,428
Total		<b>\$ 3,901,659</b>

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<b>Invested company</b>	<b>Ownership %</b>	<b>Amount</b>
<b>December 31, 2004</b>		
Valuation by cost method		
Taiwan Stock Exchange Corporation	2.93	\$ 586,067
Taiwan Securities Central Depository Co., Ltd.	1.58	19,434
Taiwan Futures Exchange Co., Ltd.	0.74	15,212
Fubon Securities Finance Co., Ltd.	1.97	74,542
Global Securities Finance Corporation	0.88	57,832
En Tie Securities Finance Co., Ltd.	0.24	12,444
Top Taiwan III Venture Capital Co., Ltd.	10.00	100,000
Parawin Venture Capital Corp.	6.00	60,000
Jih Sun Securities Investment Trust Co., Ltd.	10.00	74,880
Cotillion III Venture Capital Corp.	10.00	50,000
PK III Venture Corp.	9.29	65,000
Jih Sun Securities Investment Trust Corp.	5.00	29,520
Subtotal		<u>1,144,931</u>
Valuation by equity method		
Jih Sun Futures Co., Ltd. (original investment cost \$618,268 thousand)	98.138	868,537
Jih Sun International Investment Holding Company Limited (original investment cost \$1,795,250 thousand (US\$54,600 thousand))	100.00	1,485,053
Jih Sun Securities Investment Consulting Co., Ltd. (original investment cost \$173,600 thousand)	100.00	73,595
Jih Sun Futures Management Co., Ltd. (original investment cost \$200,000 thousand)	100.00	189,661
Subtotal		<u>2,616,846</u>
Total		<u><u>\$ 3,761,777</u></u>

- (1) In January 2004, to develop foreign diversified investment and promote the development of business, the Company engaged in the capital increase of Jih Sun International Investment Holding Company Limited in the amount of \$577,740 thousand. The Company purchased all the new shares issued, and its ownership is still 100%.
- (2) Fubon Securities Finance Co., Ltd., which is one of the Company's invested companies under the cost method, approved Feb. 25, 2004, as the effective date for a capital decrease, in the proportion of every 1,000 shares becoming 634.921 shares. The cash distribution from the capital decrease received by the Company amounted to \$45,348 thousand.
- (3) For integration business operations, the Company purchase 3,000,000 shares of Jih Sun Venture Capital Corp. for \$29,520 thousand for 5% ownership, and evaluated it under the cost method in June 2004.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (4) During January and May 2005, to promote the development of business, the Company purchased 830,000 shares of Taiwan Integrated Shareholders Service Company for 8,300 thousand for 2.77% ownership and 15,000,000 shares of Hui Yang Venture Capital Group for 150,000 thousand for 7.50% ownership and both evaluated them under the cost method.
- (5) As of December 31, 2005 and 2004, the Company had received cash dividends from Jih Sun Futures Co., Ltd. amounting to \$73,039 thousand and \$55,026 thousand, respectively.
- (6) The Company uses the equity method to account for its investments in Jih Sun International Investment Holding Company Limited, Jih Sun Futures Co., Ltd., Jih Sun Securities Investment Consulting Co., Ltd., and Jih Sun Futures Management Co., Ltd. Investment gain or loss recognized during the years ended December 31, 2005 and 2004, was based on the financial statements audited by the invested companies' independent accountants with an unqualified opinion, along with cumulative translation adjustments listed as follows:

	<b>2005</b>	<b>2004</b>
Jih Sun Futures Co., Ltd.		
- gain on investment	<b>\$ 97,636</b>	<b>107,099</b>
Jih Sun International Investment Holding Company Limited		
- gain (loss) on investment	( \$ 77,445 )	6,637
- cumulative translation adjustment	53,628	( 107,084 )
Total	<b>( \$ 23,817 )</b>	<b>( 100,447 )</b>
Jih Sun Securities Investment Consulting Co., Ltd.		
- loss on investment	<b>( \$ 10,416 )</b>	<b>( 15,001 )</b>
Jih Sun Futures Management Co., Ltd.		
- gain (loss) on investment	<b>( \$ 8,782 )</b>	<b>( 10,378 )</b>

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**11. FIXED ASSETS**

<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 1,259,205	-	1,259,205
Buildings	568,404	157,327	411,077
Office equipment	992,836	663,228	329,608
Prepayment for equipment	10,302	-	10,302
Leasehold improvements	503,146	301,855	201,291
<b>Total</b>	<b>\$ 3,333,893</b>	<b>1,122,410</b>	<b>2,211,483</b>

<u>December 31, 2004</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 1,259,205	-	1,259,205
Buildings	568,404	146,344	422,060
Office equipment	975,073	569,979	405,094
Prepayment for equipment	72,935	-	72,935
Leasehold improvements	450,669	257,292	193,377
<b>Total</b>	<b>\$ 3,326,286</b>	<b>973,615</b>	<b>2,352,671</b>

As of December 31, 2005 and 2004, the total insurance coverage for the above properties amounted to approximately \$1,507,709 thousand and \$1,355,868 thousand, respectively.

**12. SHORT-TERM LOANS**

<u>Nature of the loan</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Credit line</u>	<u>Pledged assets</u>
<b>December 31, 2005</b>				
Credit loans	\$ 1,950,000	1.45%~1.87%	2,450,000	-
Mortgage loans	2,190,000	1.40%~1.70%	4,900,000	Long term investments and time deposits
<b>Total</b>	<b>\$4,140,000</b>			
<b>December 31, 2004</b>				
Credit loans	\$ 1,640,000	1.29%~1.50%	2,900,000	-
Mortgage loans	1,480,000	1.30%~1.50%	5,000,000	Long term investments and time deposits
<b>Total</b>	<b>\$ 3,120,000</b>			

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**13. COMMERCIAL PAPER PAYABLE – NET**

	December 31,	
	2005	2004
Commercial paper payable	\$ 1,230,000	3,300,000
Less: Unamortized discount	( 10,912 )	( 3,189 )
Net	<b>\$ 1,219,088</b>	<b>3,296,811</b>

The issuance period for commercial paper payable is within 365 days, and operating securities and time deposits were provided as collateral. The annual interest rates ranged from 1.03% to 1.34% and 0.742% to 1.33% during the years ended December 31, 2005 and 2004, respectively.

**14. LIABILITIES OF BONDS WITH REPURCHASE AGREEMENTS**

	December 31,	
	2005	2004
Central Government Construction Bonds	\$ 11,073,334	11,107,524
Corporate bonds	4,073,158	2,478,485
Financial bonds	5,745,077	-
Total	<b>\$ 20,891,569</b>	<b>13,586,009</b>

Based on the repurchase agreements, after December 31, 2005 and 2004, the Company is obligated to repurchase the above bonds at the sales price plus a mark-up of \$20,931,092 thousand and \$13,595,788 thousand, respectively.

**15. LIABILITIES FOR STOCK WARRANTS ISSUED**

December 31, 2005									
Name	Issuance Date	Underlying Stock	Units Issued	Issuance Price (Dollars)	Exercise Price (Dollars)	Market Value (Dollars)	Leverage Ratio	Issuance Amount	Market Value (Amount)
Jih Sun No. 56	Jun. 23, 2005	CHB	30,000,000	\$ 1.247	22.99	0.010	14.43	37,410	300
Jih Sun No. 57	Jul. 05, 2005	ASE	30,000,000	1.708	27.86	2.650	13.91	51,240	79,500
Jih Sun No. 58	Jul. 14, 2005	SiS	40,000,000	1.495	27.51	0.240	13.14	59,800	9,600
Jih Sun No. 59	Jul. 27, 2005	Farmer Bank	30,000,000	1.159	13.06	0.030	9.02	34,770	900
Jih Sun No. 60	Aug. 08, 2005	FEDS	25,000,000	1.700	25.06	0.130	11.79	42,500	3,250
Jih Sun No. 61	Aug. 15, 2005	FPC	60,000,000	0.799	55.99	0.230	6.37	47,940	13,800
Jih Sun No. 62	Aug. 24, 2005	ACER	60,000,000	0.835	77.04	1.050	7.69	50,100	63,000
Jih Sun No. 63	Sep. 07, 2005	HON HAI	60,000,000	1.474	197.60	0.900	10.31	88,440	54,000
Jih Sun No. 64	Sep. 14, 2005	FONG SHING	50,000,000	0.629	32.78	0.090	4.74	31,450	4,500
Jih Sun No. 65	Sep. 30, 2005	CMO	50,000,000	0.523	44.16	0.820	7.04	26,150	41,000
Jih Sun No. 66	Sep. 30, 2005	CMO	100,000,000	0.180	27.60	0.040	20.41	18,000	4,000
Jih Sun No. 67	Oct. 07, 2005	ASIA	30,000,000	1.134	305.20	0.550	19.23	34,020	16,500
Jih Sun No. 68	Oct. 26, 2005	CSC	100,000,000	0.373	28.65	0.110	6.99	37,300	11,000
Subtotal								559,120	<b>301,350</b>
								( 274,989 )	
								17,219	
Net								<b>\$ 301,350</b>	

Less: Loss on revaluation of liabilities for stock warrants issued

Add: Deferred loss on stock warrant

Net

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

When the warrants are exercised, the Company could choose to deliver stock or pay cash for settlement. As of Dec. 31, 2004, have no transactions of warrants.

**16. REPURCHASED STOCK WARRANTS**

	December 31, 2005		
	Repurchased Units	Amount	Market Value
Jih Sun No. 56	525,000	\$ 11	5
Jih Sun No. 57	25,405,000	38,001	67,323
Jih Sun No. 58	16,875,000	11,577	4,050
Jih Sun No. 59	70,000	2	2
Jih Sun No. 60	973,000	86	127
Jih Sun No. 61	25,777,000	7,237	5,929
Jih Sun No. 62	55,104,000	41,290	57,859
Jih Sun No. 63	51,385,000	39,629	46,247
Jih Sun No. 64	23,848,000	3,352	2,146
Jih Sun No. 65	34,325,000	14,169	28,147
Jih Sun No. 66	72,543,000	11,026	2,902
Jih Sun No. 67	19,299,000	14,241	10,614
Jih Sun No. 68	34,001,000	8,754	3,740
Subtotal		189,375	<b>229,091</b>
Add: Gain on revaluation of repurchased stock warrants		66,527	
Less: Loss on revaluation of repurchased stock warrants		( 26,811 )	
Total		<b>\$ 229,091</b>	

**17. BONDS PAYABLE/LONG-TERM LIABILITIES—CURRENT PORTION**

Guaranty Bank	Period	December 31,		Pledged Assets
		2005	2004	
Cathay United Bank	93.11.25~98.11.25	500,000	500,000	Time deposits, land and building
"	93.11.26~98.11.26	500,000	500,000	"
Net		<b>\$ 1,000,000</b>	<b>1,000,000</b>	

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

On Sep. 20, 2004, the Company's Board of Directors approved the issuance of the first local secured bonds of \$1,000,000 thousand, and received the approval of the Financial Supervisory Commission, Executive Yuan, on November 18, 2004. The main purpose of the issuance is to increase the working capital and enhance the financial structure. Due to the difference in issuing terms and maturity date, the corporate bonds were divided into A bonds and B bonds, at par value of \$10,000 thousand per share, with a total of 100 units issued, at an annual interest rate of 2.65% for a 5-year period, and issued at par value. From the issuing date, the interest is payable once a year, and the principal would be due and repayable at the end of the 5-year period.

**18. LONG-TERM LOANS, NET**

<u>Commercial paper payable</u>	<u>Period</u>	<u>Credit line</u>	<u>December 31,</u>		<u>Note</u>
			<u>2005</u>	<u>2004</u>	
Industrial Bank of Taiwan (Arranger), etc.	2004.02.11~2007.02.11	\$ 2,000,000	-	700,000	Revolving credit (Note 1)
Chiao Tung Bank (Guaranty Bank), etc.	2004.03.03-2007-03.03	1,500,000	-	590,000	(Note 2)
Chiao Tung Bank	2004.03.03-2007.03.03	300,000	-	240,000	Revolving credit
Taishin Bills Finance Corp.	2004.01.05-2007.07.08	2,000,000	2,000,000	2,000,000	"
Subtotal			2,000,000	3,530,000	
Less: Unamortized discount			( 7,120 )	( 11,495 )	
Net			\$ 1,992,880	3,518,505	
<b><u>Long-term loan</u></b>					
Industrial Bank of Taiwan (Arranger), etc.	2004.09.09-2007.02.11	1,000,000	-	600,000	Revolving credit (Note 1)
Total			\$ 1,992,880	4,118,505	
Pledged assets:					
Time deposits pledged			\$ -	306,000	

Note 1: During the contract period, the current ratio (current assets divided by current liabilities) is not less than 100%, the liability ratio (total liabilities divided by net recognized assets) is less than 300%, and the amount of net recognized assets is not less than \$15,000,000 thousand.

Note 2: In Mega Financial Holding Company's syndication period, the Company's total

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

liabilities shall not exceed 4 times net assets, and the total amount of current liabilities shall not exceed the total amount of current assets.

Note 3: The long-term liabilities' annual interest rates were 2.369% to 2.573% and 1.042% to 2.122% during 2005 and 2004, respectively.

**19. OTHER LIABILITIES – OTHER**

On August 28, 1991, the Company merged with Yeong Lin Securities Co., Pan Chiao Securities Co., Jih Chung Securities Co., and Chia Yi Securities Co. In merging, the Company assumed the assets, liabilities, and related rights and obligations of the four merged companies and reserve for land value incremental tax of \$18,174 thousand in accordance with Article 13 of the Statute for Upgrading Industries. In addition, as a result of the merger with Yeong Lin Securities Co., the reserve for land value incremental tax payable of \$7,857 thousand was transferred from capital surplus, as approved by the Kaohsiung Government. Furthermore, the Chia Yi Branch sold land on February 14, 1994, resulting in land value incremental tax payable of \$266 thousand. Further, in 2002, the Company merged with Toufen Securities Co., Ltd. and assumed all its assets and liabilities and relevant rights and obligations. Meanwhile, the Company reserved \$3,105 thousand for land value incremental tax. As of December 31, 2005 and 2004, the total land value incremental tax payable amounted to \$28,870 thousand.

**20. SECURITIES BROKERAGE DEBIT (CREDIT) ACCOUNTS – NET**

	December 31,	
	2005	2004
SECURITIES BROKERAGE DEBIT ACCOUNTS		
Cash in bank – settlement amount	\$ 135,342	14,753
Receivable price of securities purchased for customers	8,475,848	3,629,931
Receivable accounts for settlement	2,970,345	1,625,180
Settlement price	489,837	897,930
Subtotal	<u>12,071,372</u>	<u>6,167,794</u>
SECURITIES BROKERAGE CREDIT ACCOUNTS		
Price payable of securities sold for customers	8,393,550	4,352,608
Settlement accounts payable	3,600,676	1,772,337
Subtotal	<u>11,944,226</u>	<u>6,124,945</u>
Net	<u><u>\$77,146</u></u>	<u><u>42,849</u></u>

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**21. EMPLOYEE PENSION PLAN**

(1) The Company adopted SFAS No. 18, "Accounting for Pensions", for the employee pension plan from December 31, 1995. Effective from March 1, 1997, the Company was governed by the Labor Standards Law and revised its plan to comply with the requirements under this law. However, the employer contributions under the previous employee pension plan will remain payable to qualified employees under the plan. When an employee retires or resigns, the Company will return his pension fund deposit and related interest. In addition, the Pension Fund Administrative Committee will pay the pension or termination payment to the employee based upon a certain percentage (maximum is 100%) of his pension fund deposit from the "Pension Fund". Because the benefits an employee will receive depend solely on the amount contributed to the fund by the employer and the returns earned thereon, the employer does not guarantee the amount of pension benefits. The movements of the pension fund account for 2005 and 2004 are summarized as follows:

	<b>2005</b>	<b>2004</b>
Beginning balance	\$62,926	64,110
Add: Interest	979	886
Less: Current period payments	( 2,853 )	( 2,070 )
Ending balance	<b>\$61,052</b>	<b>62,926</b>

(2) Upon adoption of the Labor Standards Law, the employee pension payments under the Labor Standards Law are computed on the basis of 2 units for each of the first 15 years of service, and 1 unit for each year thereafter, up to a maximum of 45 units. Any fraction of a year less than 6 months is counted as half a year, and any fraction of a year equal to more than 6 months is counted as one year of service. Each unit of retirement payment is equal to the average salary for the six-month period prior to approved retirement.

(3) Effective from March 1998, the Company makes monthly pension contributions at 2.8% of employee gross salaries monthly (managers' contribution ratio is 4%) to a designated pension fund account at the Central Trust of China. The movements of this pension fund account for 2005 and 2004 are summarized as follows:

	<b>2005</b>	<b>2004</b>
Beginning balance	\$ 136,356	114,550
Add: Contributions	16,842	20,746
Interest	2,110	1,466
Less: Current period payments	( 1,448 )	( 406 )
Ending balance	<b>\$ 153,860</b>	<b>136,356</b>

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(4) For the years ended December 31, 2005 and 2004, the components of net pension costs were as follows:

	<u>2005</u>	<u>2004</u>
Service cost	\$ 29,978	35,122
Interest cost	8,182	5,835
Projected return on pension plan assets	( 2,110 )	( 1,466 )
Gain (loss) on pension plan assets	( 1,613 )	( 2,893 )
Gain (loss) on amortization and deferred amount	796	-
Net periodic pension cost	<u>\$ 35,233</u>	<u>36,598</u>

(5) Actuarial assumptions used and the reconciliation between pension funding status and accrued pension liabilities per books were as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	3.50%	3.50%
Future salary increase rate	3.00%	2.00%
Projected long-term rate of return on pension plan assets	2.50%	2.50%

	<u>2005</u>	<u>2004</u>
Benefit obligation		
Vested benefit obligation	( \$ 9,449 )	( 7,431 )
Non-vested benefit obligation	( 202,137 )	( 166,248 )
Accumulated benefit obligation	( 211,586 )	( 173,679 )
Effect of future salary increase	( 116,428 )	( 60,855 )
Projected benefit obligation	( 328,014 )	( 234,534 )
Fair value of pension fund assets	153,860	136,356
Funding status	( 174,154 )	( 98,178 )
Unrecognized pension income	107,715	38,568
Net pension plan liabilities	<u>( \$ 66,439 )</u>	<u>( 59,610 )</u>

As of December 31, 2005 and 2004, the vested benefit obligation for the employee pension plan amounted to \$11,360 thousand and \$8,415 thousand, respectively. For the newly adopted labor retirement plan, the pension expense is \$22,066 thousand in 2005.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**22. CAPITAL STOCK**

The Company was organized in December 1961 with an original capital of \$600 thousand, divided into 60,000 shares. Due to various capital increases and decreases over the years, as of Dec. 31, 2004 and 2005, the Company's authorized amount to \$12,200,000 thousand and paid-in capital stock amount to \$11,572,127 thousand and \$12,072,127 thousand, respectively.

**23. TREASURY STOCK**

On February 5, 2002, the Company was transformed into a subsidiary of Jih Sun Financial Holding Limited Co. According to SFC Letter Ruling No. (6) 111467, treasury stock which is converted into the stock of Jih Sun Financial Holding Limited Co. in accordance to Article 31 of Financial Holding Company Law should still be treated as the Company's treasury stock and deducted from stockholders' equity. The number of shares of treasury stock purchased by the Company prior to February 5, 2002, the date fixed for the transfer of shares, was 63,677,479 shares (purchase cost of \$779,426 thousand), which were exchanged for 91,952,189 shares of Jih Sun Financial Holding Limited Co. using a conversion rate of 1.44403.

During, 2005 and 2004, the movement of the Company's repurchased treasury stock was as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Beginning balance	6,260,410	\$ 59,955	74,351,639	633,988
Less: Transferred to employees	6,260,410	59,955	68,091,229	574,033
<b>Ending balance</b>	<u>-</u>	<u>\$ -</u>	<u>6,260,410</u>	<u>59,995</u>
<b>Transfer price</b>		<u>\$ 59,608</u>		<u>569,974</u>

According to the Securities and Exchange Law, the treasury stock shall not be pledged. Before transfer, the shareholder rights shall be suspended.

**24. EARNINGS DISTRIBUTION**

According to the Company's Articles of Incorporation, 10% of its annual net income after deduction of income tax and prior years' cumulative losses, if any, is first set aside as legal reserve, and special reserve should be provided according to related laws and regulations before distribution of stock dividends. At least 1% of the remaining balance should be distributed as employee bonuses. The remaining balance along with cumulative retained earnings is distributable earnings, which may be distributed as directors' and supervisors' compensation and stockholder bonuses according to the Board of Directors' proposal to be resolved by the

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

stockholders' meeting. Special reserve could be transferred to unappropriated earnings when related laws and regulations are modified or the relevant reasons in the laws and regulations are eliminated.

The Company's capital dividend policy is a residual-dividend policy. Based on the future capital budget, the Company first reserves cash for working capital and necessary investment, and the remaining balance is distributed as stock dividends or cash dividends. If all of the conditions are met, the Company's employees can participate in the distribution of the parent company's stock from employee bonus transferred to capital.

The company had a meeting of board of directors on April 19, 2005 replaced shareholders' power to agree earnings distribution of 2004. The related information would be announced on the Internet, such as Market Observation Post System. The earnings distribution proposal for 2005 is still pending the decision of the Company's Board of Director's. Moreover, the related information will be announced on the Internet, such as on the Market Observation Post System. Distribution of earnings per share, employee bonus and compensation of directors and supervisors were as follows:

	<b>2004</b>	
Cash dividends per share (dollar)	\$	<b>0.24</b>
Employee bonus - cash	\$	9,400
Compensation of directors and supervisors		9,000
Total	\$	<b>18,400</b>

If the above employee bonuses and remuneration to directors and supervisors were included in current expenses, then the basic earnings for 2004 per share (after tax) would be \$0.42.

**25. INCOME TAX**

(1) The Company's statutory tax rate is 25%. The Company's income tax components in 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>
Income tax payable	\$ -	551,803
Income tax payable — parent company (note)	78,137	167,873
Prepaid income tax	-	142,531
Adjustment of prior year's income tax expense and the taxable difference assessed by tax authority	692	21,681
Decrease (increase) in deferred tax assets — non-current	-	( 2,888 )
Income tax expense	\$ <b>78,829</b>	<b>881,000</b>

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The reconciliation of between income tax calculated based on the current income tax rate(25%) of income before income tax and income tax expense were as follows:

	<u>2005</u>	<u>2004</u>
Income tax of current year	\$ 70,257	862,207
Decrease (increase) in deferred tax assets	-	( 2,888 )
Adjustment of prior year's income tax expense and the taxable difference assessed by tax authority	692	21,681
10% Income tax on undistributed earnings	7,880	-
Income tax expense	<u>\$ 78,829</u>	<u>881,000</u>

(2) Reconciliation of income tax calculated based on income before income tax at the legal tax rate and the income tax of the current year is as follows:

	<u>2005</u>	<u>2004</u>
Income tax calculated based on income (loss) before income tax at legal tax rate	\$ 378,705	348,909
Income tax effect of adjustment items		
Permanent difference:		
Loss on disposal of securities	( 10,559 )	255,853
		)
Gain (loss) on investment — equity method	( 248 )	( 22,089 )
Gain on operating securities recovery	( 28,152 )	( 90,632 )
		)
Valuation loss (gain) on defaulted securities	( 7 )	( 185 )
Difference between financial and tax treatment of bonds with repurchase agreement	( 157,186 )	10,169
Difference between financial and tax treatment of stock warrants	( 13,604 )	378,906
Provision (reversal) of securities trading loss reserve	6,158	( 1,424 )
		)
Others	( 104,850 )	( 20,188 )
Subtotal	<u>70,257</u>	<u>859,319</u>
Temporary difference		
Pension difference	-	2,888
Subtotal	<u>-</u>	<u>2,888</u>

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Total	70,257	862,207
Income tax currently payable	\$ 70,257	862,207

(3) A summary of temporary differences and income tax effects of deferred tax assets and liabilities as of December 31, 2005 and 2004, is as follows:

	December 31,			
	2005		2004	
	Tax effect		Tax effect	
	— non-		— non-	
Deferred tax assets — non-current	Amount	current	Amount	current
Deductible temporary difference resulting from recognition of unrealized default indemnity loss	\$ 52,000	13,000	52,000	13,000
Deductible temporary difference resulting from provision for pension	45,468	11,367	45,468	11,367
Total	\$ 97,468	24,367	97,468	24,367

The Company's income tax returns through 2002 ( except 1996 and 2001 ) were assessed by National Tax Administration. However, the Company disagreed with the assessment for 1998 and 1999, and filed with National Tax Administration. The Company has filed for administration proceedings for the income tax returns. The Company had already estimated the amount of bond interest tax withheld that could not be stated as a deductible; subsequently, it was stated as an increase in income tax payable amounting to \$36,785 thousand. According to the compromise of the stockbroker trade association and National Tax Administration, the Company was to pay 40% of the assessed tax, and has entered into a consent agreement.

According to the tax ruling in Tai-tsi-shui Ruling Letter No. 0910458039 "The consolidated tax filing return principle which is promulgated in accordance with the Financial Holding Company Act, Article 49, and the Business Mergers and Acquisitions Act, Article 40" issued on February 12, 2003, by the Ministry of Finance, "Where a Financial Holding Company holds more than 90% of the outstanding issued shares of a domestic subsidiary, such Financial Holding Company may, for the tax year in which its such shareholding in the subsidiary has existed for the entire 12 months of the tax year, elect to be the taxpayer itself, and jointly declare and report profit-seeking enterprise income tax and the 10% tax surcharge on surplus retained earnings of a profit-seeking enterprise in accordance with the relevant provisions of the Income Tax Law." Since 2003, the Company and the parent company, "Jih Sun Financial Holding Limited Co.", and its affiliate "Jih Sun International

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Bank Ltd.” have adopted the consolidated tax filing return principle to file the annual income tax return and make tax payment in order to decrease the Group’s taxes and increase the Group’s operating efficiency.

(4) Related information on imputation tax system:

	December 31,	
	2005	2004
Balance of stockholders’ imputation credit account	\$ 6,767	31,960
	2005	2004
Estimated (actual) imputation credit ratio of earnings distribution	(estimated) 0.47%	(actual) 12.17%

(5) Related information on undistributed earnings:

	2005	2004
Undistributed earnings of 1997 and before	\$ -	396
Undistributed earnings of 1998 and after	1,435,643	510,223
Total	\$ 1,435,643	510,619

**26. EARNINGS PER SHARE**

Earnings per share are computed based on the weighted-average number of common shares outstanding. In the event of capitalization of retained earnings or capital reserve during the current year, earnings per share of prior years are adjusted retroactively in accordance with the capitalization ratio and not based upon the period such capitalized shares have been outstanding. The weighted-average number of shares outstanding during the years ended December 31, 2005 and 2004, was 1,299,744,233 and 1,187,000,620 shares, respectively. The retroactive weighted-average number of shares outstanding on Dec. 31, 2004 was 1,287,000,620 shares.

**27. FINANCIAL INSTRUMENTS**

(1) Financial Derivatives

1. Stock warrants

For information about the issued stock warrants, please refer to Notes 15 and 16.

A. Credit risk

The Company is not exposed to credit risk because the premium is collected in advance before the warrants are issued.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**B. Market risk**

Warrants are derivative financial instruments; their market risk is from price fluctuations of the underlying stock. The market risk of warrants could be hedged by adjusting the positions of warrants and hedging securities.

**C. Liquidity risk, cash-flow risk, and the uncertainty of amount and period of future cash demand**

Since hedge positions have been established for the underlying securities through existing shareholdings (upon issuance) and premiums received in advance, no significant future cash demand is expected. Furthermore, since the underlying securities held are governed by the competent authority-in-charge, the possibility of not being able to sell the underlying securities at a reasonable price is very slim. Therefore, liquidity risk is relatively low. Cash flow risk arises only from the cash demand to adjust the hedging securities positions according to changes in market pricing of the underlying securities. When market liquidity is high, cash flow risk is minimal.

**D. Purpose of issuing stock warrants, and the related strategy**

The Company issued stock warrants, for trading purposes, and the premiums received from issuance of stock warrants are recorded as liabilities, which are revalued at market price at the balance sheet date. Gain or loss resulting from revaluation or execution of the warrant is credited or charged to current income.

The Company also holds hedge positions of operating securities for trading purposes to hedge against risk resulting from investors' execution of stock warrants in exchange for the underlying securities. The Company's hedging strategy is to achieve hedging of the majority of market risk associated with such warrants.

**E. Type, purpose and strategy for holding derivative financial instruments**

The purpose of the Company's hedging strategy is to hedge most of the market risk.

**F. Financial statement presentation of derivative financial instruments**

The accounts that record the Company's warrant trading are recognized as current assets or current liabilities.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

2. Futures and options transactions

The Company started the dealership of futures and options for trading business in November 2001. As of December 31, 2005 and 2004, the futures contracts the Company held were as follows:

<u>Items</u>	<u>Transaction Type</u>	<u>Holder Seller</u>	<u>Volume</u>	<u>Contract Amount</u>	<u>Fair Value</u>	<u>Notes</u>
<b>Dec. 31, 2005</b>						
Options	Taiwan Stock Index Option -Call Option	Holder	7,000	\$ 10,788	11,479	Speculation
Options	Taiwan Stock Index Option -Put Option	Holder	14,740	16,919	16,322	"
Options	Electronics Index Option -Put Option	Holder	200	2	1	"
Options	Financial Index Option -Put Option	Holder	1,100	17	28	"
<b>Total</b>			<b>23,040</b>	<b>\$ 27,726</b>	<b>27,830</b>	
Futures	Electronics Index Futures	Seller	251	287,361	291,060	"
Futures	Financial Index Futures	Seller	50	44,774	44,700	"
Futures	Taiwan Stock Index Futures	Seller	898	1,184,517	1,184,462	"
Options	Taiwan Stock Index Option -Call Option	Seller	8,739	53,572	78,787	"
Options	Taiwan Stock Index Option -Put Option	Seller	1,758	19,353	6,323	"
Options	Electronics Index Option -Call Option	Seller	196	2,372	4,012	"
Options	Electronics Index Option -Put Option	Seller	190	910	196	"
Options	Financial Index Option -Call Option	Seller	50	-	4	"
Options	Financial Index Option -Put Option	Seller	478	5	2	"
<b>Total</b>			<b>12,610</b>	<b>\$1,592,86 4</b>	<b>1,609,546</b>	
<b>Dec. 31, 2004</b>						
Futures	Financial Index Futures	Holder	711	\$ 726,856	743,706	Speculation
Options	Call Option	Holder	1,477	7,819	10,254	"
Options	Put Option	Holder	2,269	3,885	2,009	"
Options	Call options - Stock	Holder	70	454	396	"
Options	Put options - Stock	Holder	28	173	124	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<b>Total</b>	4,555	\$	756,489
	739,187		

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<u>Items</u>	<u>Transaction Type</u>	<u>Holder Seller</u>	<u>Volume</u>	<u>Contract Amount</u>	<u>Fair Value</u>	<u>Notes</u>
Futures	Taiwan Stock Index Futures	Seller	2,012	2,425,328	2,490,051	"
Futures	Electronics Index Futures	Seller	855	771,108	789,678	"
Options	Call Option	Seller	2,691	4,547	5,953	"
Options	Put Options	Seller	474	2,624	1,331	"
Options	Call options - Stock	Seller	551	1,485	1,409	"
Options	Put options - Stock	Seller	280	1,493	911	"
<b>Total</b>			<b>6,863</b>	<b>\$3,206,58</b>	<b>3,289,333</b>	
				<b>5</b>		

The above-mentioned fair value is calculated based upon the closing price of Taiwan Stock Index Futures on the Taiwan Futures Exchange as of December 31, 2005 and 2004.

A. Credit risk

The Company's transaction counter-party for futures contracts is the Taiwan Futures Exchange, which is not expected to result in credit risk.

B. Market risk

Since the current trading futures in the Republic of China are the Taiwan Stock Index Financial Index Futures and Electronics Index Futures and the futures' price will fluctuate based upon the stock market trend, the Company has implemented stop loss points based upon the related risk, and the loss incurred should be within the expected range. Therefore, there is no significant market value risk.

C. Liquidity risk, cash-flow risk, and the uncertainty of amount and period of future cash demand

The Company has adequate operating funds; therefore, the risk of insufficient funds to fulfill contracts is low; furthermore, futures contracts and options are traded on the Futures Exchange, and each futures contract and option has its fair market value; therefore, the risk of not being able to quickly sell such contracts at fair value in the market is low.

D. Presentation of derivative financial instruments in the financial statements

Margin paid by the Company to engage in futures and options transactions was recognized under assets as futures margin deposits. As of December 31, 2005 and 2004, futures and options transactions were as follows:

	<b>December 31,</b>	
	<b>2005.12.31</b>	<b>2004.12.31</b>
Futures margin deposits	\$ 504,011	625,957
Call option - speculation	27,830	12,783

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Liabilities of put options - speculation 89,325 24,149

	<b>2005</b>	<b>2004</b>
Loss on futures contracts - speculation	\$ 284,267	(588,593)
Unrealized loss on futures contracts	( \$ 3,570 )	(66,444)
Loss on option transactions	( \$ 208,071 )	(53,617)
Unrealized gain (loss) on option transactions	( \$ 13,008 )	998

3. Interest rate swaps

A. The Company engaged in financial derivatives in the form of interest rate swaps to coordinate the bond investment position. The Company signed interest rate swap contracts for trading with banks and security companies. As of December 31, 2005 and 2004, the interest rate swap contracts held by the Company were as follows:

<b>Dec. 31, 2005</b>		<b>Nominal</b>	<b>Fixed</b>	<b>Floating</b>			
<u>Transaction counter-party</u>	<u>Transaction terms</u>	<u>principal</u>	<u>rate %</u>	<u>rate index</u>	<u>Settlement date</u>	<u>Expiration date</u>	<u>Purpose</u>
KGI Securities Co.	Short position	\$ 300,000	2.800	90 days	Once a quarter	98.5.28	Trading
(Secondary market)							
Capital Securities Corp.	"	300,000	2.750	"	"	98.5.29	"
H.S.B.C.	"	300,000	2.350	"	"	96.5.28	"
KGI Securities Co.	Long position	300,000	2.650	"	"	98.7.07	"
Chinatrust Commercial Bank	"	300,000	2.200	"	"	98.7.19	"
Chinatrust Commercial Bank	Short position	300,000	1.805	"	"	95.7.19	"
KGI Securities Co.	Long position	300,000	2.610	"	"	98.7.23	"
Barits Securities Corp.	"	300,000	2.210	"	"	96.7.26	"
Chinatrust Commercial Bank	Short position	300,000	2.240	"	"	96.7.30	"
Barits Securities Corp.	"	100,000	1.820	"	"	95.8.07	"
H.S.B.C.	Long position	300,000	2.180	"	"	96.8.13	"
H.S.B.C.	Short position	300,000	1.790	"	"	95.8.14	"
Fubon Bills Finance Co., Ltd.	Long position	200,000	2.070	"	"	96.8.20	"
Taishin International Bank	Short position	300,000	1.690	"	"	95.8.24	"
H.S.B.C.	Long position	300,000	2.025	"	"	96.9.03	"
KGI Securities Co.	"	300,000	2.580	"	"	98.10.19	"
Fubon Bills Finance Co., Ltd.	"	300,000	2.560	"	"	98.11.02	"
President Securities Corp.	"	300,000	2.090	"	"	96.11.12	"
Taishin International Bank	"	300,000	2.660	"	"	100.11.22	"
Polaris Securities Co., Ltd.	"	300,000	2.190	"	"	99.01.25	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Dec. 31, 2005		Nominal	Fixed	Floating			
<u>Transaction counter-party</u>	<u>Transaction terms</u>	<u>principal</u>	<u>rate %</u>	<u>rate index</u>	<u>Settlement date</u>	<u>Expiration date</u>	<u>Purpose</u>
Capital Securities Corp.	"	300,000	2.180	"	"	99.02.23	"
KGI Securities Co.	Long position	300,000	2.090	90 days	Once a quarter	99.03.01	Trading
				(Secondary market)			
Standard Chartered Bank	Short position	300,000	2.440	"	"	101.03.08	"
KGI Securities Co.	"	300,000	2.180	"	"	99.03.09	"
Fubon Bills Finance Co., Ltd.	"	300,000	2.230	"	"	99.03.15	"
Cathay United Bank Company Limited	"	300,000	1.705	"	"	96.03.26	"
MasterLink Securities Co.	"	300,000	1.665	"	"	96.03.30	"
Standard Chartered Bank	Long position	300,000	2.155	"	"	99.04.19	"
President Securities Corp.	"	300,000	2.1425	"	"	99.04.29	"
President Securities Corp.	"	300,000	1.620	"	"	96.05.23	"
President Securities Corp.	Short position	300,000	1.595	"	"	96.05.03	"
Chinatrust Commercial Bank	Long position	400,000	-	IF 6L<0.6%, 6L+0.003% IF 0.6% <=6L<=2.5% ,5.5% IF 6L>2.5% , 6.55%-6L	Once a half	99.10.13	"
Chinatrust Commercial Bank	"	200,000	-	IF 6L<0.6%, 6L+0.004% IF 0.6% <=6L<=2.5% ,5.5% IF 6L>2.5% , 6.55%-6L	"	99.10.13	"
Chinatrust Commercial Bank	"	500,000	-	Year1 : 3% Thereafter : 4.0009%- 6MLIBOR	"	99.04.07	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Dec. 31, 2005		Nominal	Fixed	Floating			
<u>Transaction counter-party</u>	<u>Transaction terms</u>	<u>principal</u>	<u>rate %</u>	<u>rate index</u>	<u>Settlement date</u>	<u>Expiration date</u>	<u>Purpose</u>
Standard Chartered Bank	Long position	1,000,000	1.05	CPN=2.5to2004/11 ; thereafter(6ml+0.6 %)*D/N 0.5Y:1.0%<6ml<2. 0% 2Y:1.1%<6ml<2.5 % 3Y:1.1%<6ml<3.0 % 4Y:1.1%<6ml<3.5 % 5Y:1.1%<6ml<4.0 % 6Y:1.1%<6ml<4.5 % 7Y:1.1%<6ml<5.0 %	Once a half	100.05.25	Trading
Standard Chartered Bank	"	400,000	0.43	6ml<1.05%,6ml ; 1.05%<6ml<2.10% ,3.40% ; 6ml>2.10%, 4.20%-6mL	"	98.02.16	"
H.S.B.C.	"	200,000	0.75	6ml<1.10%,6ml ; 1.10%<6ml<2.00% ,3.50% ; 6ml>2.00%, 4.70%-6ml	"	98.05.14	"
H.S.B.C.	"	200,000	0.28	6ml<1.05%,6ml ; 1.05%<6ml<2.10% ,3.40% ; 6ml>2.10%, 4.20%-6mL	"	98.02.16	"
ABN AMRO Bank	"	200,000	1.43	5.95% - 6mL	"	98.07.15	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Dec. 31, 2005		Nominal	Fixed	Floating			
<u>Transaction counter-party</u>	<u>Transaction terms</u>	<u>principal</u>	<u>rate %</u>	<u>rate index</u>	<u>Settlement date</u>	<u>Expiration date</u>	<u>Purpose</u>
H.S.B.C.	Long position	300,000	0.83	6ml<1.10%,6ml ; 1.10%<6ml<2.00% ,3.50% ; 6ml>2.00%, 5.30%-6mL	Once a half	97.12.24	Trading
Standard Chartered Bank	"	200,000	0.33	4.60% - 6ML	"	97.02.11	"
Standard Chartered Bank	"	200,000	0.21	6ml<1.05%,6ml ; 1.05%<6ml<2.10% ,3.40% ; 6ml>2.10%, 4.20%-6mL	"	98.02.16	"
Standard Chartered Bank	"	200,000	0.3	6ml<1.05%,6ml ; 1.05%<6ml<2.00% ,3.50% ; 6ml>2.00%, 4.40%-6mL	Once a quarter	98.02.16	"
H.S.B.C.	"	200,000	0.33	4.60% - 6ML	Once a half	97.02.11	"
H.S.B.C.	"	100,000	1.94	6.30% - 6ML	"	99.11.27	"
ABN AMRO Bank	"	300,000	0.53	6ml<1.10%, 6ml+0.003% ; 1.10%<6ml<2.00% ,3.8003% ; 6ml>2.00%, 4.7997%-6mL	"	98.03.03	"
H.S.B.C.	"	200,000	0.4	IF3ML<1.1%,2* 3ML-0.55% ; 1.1%<3ML<2.1%, 3.4% ; 3ML>2.1%,4.5%- 3ML	Once a quarter	98.03.04	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Dec. 31, 2005		Nominal	Fixed	Floating			
<u>Transaction counter-party</u>	<u>Transaction terms</u>	<u>principal</u>	<u>rate %</u>	<u>rate index</u>	<u>Settlement date</u>	<u>Expiration date</u>	<u>Purpose</u>
Standard Chartered Bank	Long position	200,000	0.57	6ml<1.10%, 6ml+0.005% ; 1.10%<6ml<2.00% ,3.8005% ; 6ml>2.00%, 4.7995%-6mL	Once a half	98.03.03	Trading
Taipeifubon Commercial Bank Co., Ltd	Short position	300,000	1.68	90 days (Secondary market)	Once a quarter	96.08.26	"
Taipeifubon Commercial Bank Co., Ltd	"	300,000	2.05	"	"	99.08.26	"
ABN AMRO Bank	Long position	500,000	0.82	5.20% - 6mL	Once a half	96.10.01	"
ABN AMRO Bank	"	100,000	0.73	IF6ML<1.05%,6M L; 1.05%<6ML<2.0%, 4.5%; 6ML>2.0%,5.0% -6ML	"	98.09.25	"
Taipeifubon Commercial Bank Co., Ltd	Short position	300,000	1.68	90 days (Secondary market)	Once a quarter	96.08.29	"
Taipeifubon Commercial Bank Co., Ltd	"	300,000	2.045	"	"	99.08.29	"
MasterLink Securities Co.	"	300,000	1.685	"	"	96.08.30	"
Fubon Securities Co., Ltd.	Long position	300,000	2.0425	"	"	99.08.30	"
MasterLink Securities Co.	"	300,000	2.05	"	"	99.08.30	"
Fubon Securities Co., Ltd.	Short position	300,000	1.6825	"	"	96.08.30	"
Fubon Bills Finance Co., Ltd.	Long position	300,000	2.0	"	"	99.08.31	"
Taishin International Bank	"	300,000	2.0	"	"	99.08.31	"
President Securities Corp.	"	300,000	2.02	"	"	99.09.01	"
Taipeifubon Commercial Bank Co., Ltd	"	300,000	1.63	"	"	96.09.06	"
Taipeifubon Commercial Bank Co., Ltd	"	300,000	1.63	"	"	96.09.06	"
Cathay United Bank Company Limited	Short position	300,000	2.27	"	"	99.11.08	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<b>Dec. 31, 2005</b>		<b>Nominal</b>	<b>Fixed</b>	<b>Floating</b>			
<b><u>Transaction counter-party</u></b>	<b><u>Transaction terms</u></b>	<b><u>principal</u></b>	<b><u>rate %</u></b>	<b><u>rate index</u></b>	<b><u>Settlement date</u></b>	<b><u>Expiration date</u></b>	<b><u>Purpose</u></b>
President Securities Corp.	Short position	300,000	2.265	90 days (Secondary market)	Once a quarter	99.11.08	Trading
KGI Securities Co.	"	300,000	2.195	"	"	99.11.08	"
Chinatrust Commercial Bank	"	300,000	-	1.6ML<1.05%, 6MLrate 2.1.05%<=6ML, 5%-6ML	Once a half	98.03.03	"
City Bank	Long position	500,000	0.25	6ml<=2.6%,2.6% 6ml>2.5%,max(4.9 %-6ml,0)	"	98.03.15	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Dec. 31, 2004		Nominal	Fixed	Floating				
<u>Transaction counter-party</u>	<u>Transaction terms</u>	<u>principal</u>	<u>rate %</u>	<u>rate index</u>	<u>Settlement date</u>	<u>Expiration date</u>	<u>Purpose</u>	
KGI Securities Co.	Short position	\$ 300,000	2.800	90 days	Once a quarter	98.5.28	Trading	
				(Secondary market)				
Capital Securities Corp.	"	300,000	2.750	"	"	98.5.29	"	
H.S.B.C.	"	300,000	2.350	"	"	96.5.28	"	
KGI Securities Co.	Long position	300,000	2.650	"	"	98.7.07	"	
Chinatrust Commercial Bank	"	300,000	2.200	"	"	98.7.19	"	
Chinatrust Commercial Bank	Short position	300,000	1.805	"	"	95.7.19	"	
KGI Securities Co.	Long position	300,000	2.610	"	"	98.7.23	"	
Barits Securities Corp.	"	300,000	2.210	"	"	96.7.26	"	
Chinatrust Commercial Bank	Short position	300,000	2.240	"	"	96.7.30	"	
Barits Securities Corp.	Short position	100,000	1.820	"	"	95.8.07	"	
H.S.B.C.	Long position	300,000	2.180	"	"	96.8.14	"	
H.S.B.C.	Short position	300,000	1.790	"	"	95.8.14	"	
Fubon Bills Finance Co., Ltd.	Long position	200,000	2.070	"	"	96.8.20	"	
Taishin International Bank	Short position	300,000	1.690	"	"	95.8.24	"	
H.S.B.C.	Long position	300,000	2.025	"	"	96.9.03	"	
KGI Securities Co.	"	300,000	2.580	"	"	98.10.19	"	
Fubon Bills Finance Co., Ltd.	Short position	300,000	2.560	"	"	98.11.02	"	
President Securities Corp.	"	300,000	2.090	"	"	96.11.12	"	
Taishin International Bank	Long position	300,000	2.660	"	"	100.11.22	"	

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

B. Credit risk

Credit risk arises when the transaction party is unable to follow the terms stated in the interest rate swap contract. The Company deals with banks and securities companies with good credit and uses past experience to determine the maximum remittance amount such that the transaction counter-party will not likely default on the contracts. Therefore, the credit risk of these transactions is very low.

C. Market risk

The purpose of signing interest rate swap contracts is to hedge against the interest rate and cash flow risk of net assets. Since the interest rate swap and the fair value and cash flow of the assets are highly negatively correlated, the market risk will be offset.

D. Liquidity risk, cash-flow risk, and the uncertainty of amount and period of future cash demand

The future cash demand occurs on the settlement date, and the Company receives or pays interest of nominal principal times the difference in interest rates. Since the amount is not large and there is no cash inflow or outflow of principal, there is no period of heavy future cash demand. The period of cash inflow or outflow usually is three months. An interest rate swap is a contract with a counter-party. Liquidity risk arises from early termination of contracts before expiration, and the amount of rescindable value is determined by the counter-parties of the contract.

E. Type, purpose, and strategy for holding derivative financial instruments

The Company's major operating activities in derivative financial instruments include matching transactions, structuring transactions, and hedging transactions. The Company's profit will fluctuate with the market.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

4. Convertible corporate bonds and asset swap options

A. As of December 31, 2005 and 2004, the Company's convertible corporate bonds and asset swap options not yet due were as follows:

<b>December 31, 2005</b>					
<b>Option cost</b>					
	<u>Transaction term</u>	<u>Volume</u>	<u>(Premium liabilities)</u>	<u>The notional price</u>	<u>Maturity date</u>
Short call option	Metropolitan Construction - CB1	100	<u>\$ (700)</u>	<u>(122)</u>	95.05.06
"	PVI - CB1	200	<u>\$ (1,700)</u>	<u>(679)</u>	95.10.12
"	Portwell Inc. - CB2	690	<u>\$ (2,760)</u>	<u>(26,805)</u>	96.11.14
<b>December 31, 2004</b>					
<b>Option cost</b>					
	<u>Transaction term</u>	<u>Volume</u>	<u>(Premium liabilities)</u>	<u>The notional price</u>	<u>Maturity date</u>
Short call option	Metropolitan Construction - CB1	130	<u>\$ (520)</u>	<u>(182)</u>	94.05.07
"	"	100	<u>\$ (700)</u>	<u>(471)</u>	95.05.06
"	Quanta Display Inc. - CB1	100	<u>\$ (200)</u>	<u>(61)</u>	94.04.22
"	PVI - CB1	200	<u>\$ (1,700)</u>	<u>(1,543)</u>	95.10.12
"	PANRAM International Corp. - CB1	498	<u>\$ (898)</u>	<u>(609)</u>	94.05.02
"	Portwell Inc. - CB2	1,560	<u>\$ (6,240)</u>	<u>(11,383)</u>	96.11.14
Asset swap option	Portwell Inc. - CB2	600	<u>\$ 660</u>	<u>2,460</u>	96.11.21

B. Credit risk

The Company receives premiums when natural persons buy asset swap options, so there is no credit risk with natural persons. Credit risk arises when the transaction counter-party is unable to follow the terms stated in the contract. The Company deals with banks or companies with good credit and uses past experience to determine the maximum remittance amount that the transaction counter-party will not likely default on. Therefore, credit risk is very low.

C. Market risk

The interest risk arising from asset swaps was included the interest product positions to measure market risk. Exercise and notional prices for option positions are also valued periodically.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

D. Liquidity risk, cash-flow risk, and the uncertainty of amount and period of future cash demand

The purpose of the Company engaging in convertible corporate bond asset swaps transactions is to raise the liquidity of convertible corporate bonds. For interest rate swap, the Company receives or pays interest of nominal principal times the difference in interest rates. Since the amount is not large and there is no cash inflow or outflow of principal, there is no term of heavy future cash demand.

E. Type, purpose and strategy for holding derivative financial instruments

The purpose of the Company engaging in the convertible corporate bond asset swap and option transactions is to earn a fixed price difference or to transfer the credit risk to counter-parties by dividing convertible corporate bonds into different parts to achieve the hedging purpose.

5. Structured Notes

A. Principal Amount or Contract Value

Type of Transaction	2005.12.31		
	Principal	Cost of Options	Estimated Value
Equity-linked notes	\$ 2,470	14	13
Principal guaranteed products	\$ 33,000	58	31

B. Credit risk

Before undertaking a principal guaranteed product, the Company receives the investor's premiums and so does not undertake any credit risk from investors.

C. Market risk

Market risk arises from price fluctuation of underlying securities can be hedged against by adjusting the hedging positions.

D. Liquidity risk, cash-flow risk, and the uncertainty of amount and period of future cash demand

Before undertaking a principal guaranteed product, the Company receives premiums. So there is no large future cash demand risk.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

6. Presentation of derivative financial instruments – O.T.C. in the financial statements

A. As of December 31, 2005, the Company held positions in interest rate swaps, interest options, convertible corporate bond asset swaps, and structured notes. Presentation of derivative financial instruments in the balance sheets was as follows:

	<b>December 31, 2005</b>	
	<b>Assets of financial derivative instruments - O.T.C.</b>	<b>Liabilities of financial derivative instruments - O.T.C.</b>
IRS contract value	\$ 93,803	82,153
IRS contract value – asset swap	-	864
Bond option - speculation	-	2,012
Principal guaranteed product liability- Option	-	31
Principal guaranteed product liability- Fixed income product	-	32,942
Asset of equity-linked notes - options	13	-
Liabilities of equity-linked notes - premium	-	2,470
Convertible bonds option(buy)	3,960	-
Convertible bonds option(sell)	-	27,606
Deferred loss on financial products	38,857	-

	<b>December 31, 2004</b>	
	<b>Assets of financial derivative instruments - O.T.C.</b>	<b>Liabilities of financial derivative instruments - O.T.C.</b>
IRS contract value	\$ 39,125	37,397
IRS contract value – asset swap	-	8,226
Asset swap option	2,460	-
Asset of equity-linked notes - options	725	-
Bond option - speculation	93	-
Liabilities of equity-linked notes - premium	-	40,000
Deferred loss on equity-linked notes	174	-
Put option	-	14,249

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

B. For the year ended December 31, 2005 and 2004, the Company engaged in interest rate swaps, interest options, convertible corporate bond asset swaps, and structured notes, and the related presentation of the income or loss from derivative financial instruments in the statement of income was as follows:

	<b>Gain (loss) on derivative financial instruments – O.T.C</b>	
	2005	2004
IRS contract value	\$ 101,039	(1,906)
IRS contract value – asset swap	(1,296)	801
Asset swap option	16,294	(179)
Equity-linked note – option	(1,568)	(191)
Bond option	(3,672)	291
Principal guaranteed product	(84)	17,162

2. Fair Value of Financial Instruments

<b>Financial Assets</b>	<b>December 31</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>Non-derivative Financial Instruments</b>				
Financial assets with book value equal to fair value	\$19,556,073	19,556,073	21,095,431	\$21,095,731
Short-term investment	870,063	876,114	3,259,824	3,272,164
Operating securities	22,236,294	22,608,665	12,610,644	12,723,033
Investment in redeemable bonds	5,758,701	5,770,947	6,793,059	6,795,520
Long-term equity investments				
-impossible to estimate fair value in practice	3,901,659	-	3,761,777	-
<b>Derivative Financial Instruments</b>				
Call options – speculation	27,830	27,830	12,783	12,783
Receivables – futures margin	504,011	504,011	625,957	625,957
Derivative financial instruments - O.T.C.	136,633	136,633	42,577	42,577

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<b>Financial Liabilities</b>	<b>December 31,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>Non-derivative Financial Instruments</b>				
Financial liabilities with book value equal to fair value	12,095,668	12,095,668	13,259,902	13,259,902
Liabilities of bonds with repurchase agreements	20,891,569	20,931,092	13,586,009	13,595,788
Securities payable - hedge	4,472	4,472	-	-
Long-term liabilities				
-due over one year	2,992,880	2,992,880	5,118,505	5,118,505
<b>Derivative Financial Instruments</b>				
Liabilities for stock warrants issued	301,350	301,350	-	-
Repurchased stock warrants	( 229,091 )	229,091 )	-	-
	(			
Other current liabilities – put options	89,325	89,325	24,149	24,149
Derivative financial instruments - O.T.C.	148,078	148,078	85,623	85,623

Methods and assumptions used to estimate the fair value of financial instruments are as follows:

(1) Financial assets and liabilities with fair value equal to book value:

The fair values of short-term instruments are estimated using their book value. Since such instruments will mature within a short time, book value is a reasonable basis to estimate the fair value. Short-term financial instruments comprise financial assets such as cash and cash equivalents, receivables from securities financing, receivables from refinancing guarantee, and financial liabilities, such as short-term borrowings, commercial paper payable, and securities financing guaranty deposits-in.

(2) Short-term securities, operating securities, investment in redeemable bonds, and liabilities of bonds with repurchase agreements:

The fair value of marketable securities is the market price if available. Otherwise, financial or other information is used to estimate the fair value.

(3) Long-term equity investments:

The fair values of long-term equity investments are estimated based on available market value. All of the Company's long-term equity investments are in unlisted (non-OTC) shares, and because they are not traded in the open market, their fair values cannot be

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

estimated. The original costs of these long-term equity investments were approximately \$4,090,349 thousand and \$3,932,049 thousand on December 31, 2005 and 2004, respectively, and their book values on December 31, 2005 and 2004, were approximately \$3,901,659 thousand and \$3,761,777 thousand, respectively.

(4) Long-term loans:

Interest is computed using annual floating rates, and their book values are equal to their fair value.

(5) The fair value of financial derivatives is determined by the amount that the Company will pay or receive, assuming contract termination on the balance sheet date. In general, it includes unrealized gains and losses on currently unsettled contracts.

3. Financial Instruments with Off-Balance-Sheet Credit Risk: None.

4. Information on Concentration of Credit Risk:

Since the client base of the Company is large and well diversified and there is no concentration of transactions with any single client, there is no exposure to concentration of credit risk.

**28. RELATED-PARTY TRANSACTIONS**

(1) Names of Related Parties and Their Relationship with the Company

Name of related party	Relationship with the Company
Jih Sun Holdings Co., Ltd.	Parent company of the Company
Jih Sun Futures Co., Ltd.	Investee company accounted for under the equity method
Jih Sun Securities Investment Consulting Co., Ltd.	"
Jih Sun International Bank Co., Ltd.	Its president is the spouse of the president of the Company.
Jih Sun Cresvale Securities International Limited	A third-level subsidiary of the Company

(2) Significant Transactions with Related Parties

1. In 2005 and 2004, brokerage commissions from securities trading were as follows:

Name of related party	2005		2004	
	Amount	%	Amount	%
Jih Sun International Bank Co., Ltd.	\$ 2,954	-	6,245	-

The trading terms of securities brokerage with related parties above are the same as those

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

with non-related parties.

2. The bond transactions with repurchase/resale agreements with related parties in 2005 and 2004 were as follows:

**Liabilities of bonds with repurchase agreements**

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	<u>Interest expense</u>	<u>Ending balance</u>	<u>Interest expense</u>	<u>Ending balance</u>
Jih Sun International Bank Co., Ltd.	\$ 1,866	-	485	285,000
Jih Sun Futures Co., Ltd.	113	59,138	100	-
Jih Sun Securities Investment Consulting Co., Ltd.	5	-	23	-
<b>Total</b>	<b>\$ 1,984</b>	<b>59,138</b>	<b>608</b>	<b>285,000</b>

**Investment in redeemable bonds**

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	<u>Interest revenue</u>	<u>Ending balance</u>	<u>Interest revenue</u>	<u>Ending balance</u>
Jih Sun International Bank Co., Ltd.	\$ 25,128	3,891,096	11,535	2,360,202

Terms of bond repurchase/resale agreements with related parties above are the same as those with non-related parties.

3. Rent

The rental of offices to related parties was as follows:

<u>Name of related party</u>	<u>2005</u>	<u>2004</u>
Jih Sun Futures Co., Ltd.	\$ 9,485	8,585
Jih Sun International Bank Co., Ltd.	17,580	14,610
Jih Sun Securities Investment Consulting Co., Ltd.	626	-
<b>Total</b>	<b>\$ 27,691</b>	<b>23,195</b>

The Company's renting of offices and the amounts paid were as follows:

<u>Name of related party</u>	<u>2005</u>	<u>2004</u>
Jih Sun International Bank Co., Ltd.	\$ 5,607	5,867

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The guarantee deposits received from related parties were as follows:

Name of related party	December 31,	
	2005	2004
Jih Sun Futures Co., Ltd.	\$ 2,190	2,190
Jih Sun Investment Bank Co., Ltd.	4,405	4,405
Total	\$ 6,595	6,595

4. The accounts receivable and accounts payable with related parties were as follows:

Name of Related Party	December 31,			
	2005		2004	
	Amount	%	Amount	%
Accounts Receivable				
Jih Sun Holdings Co., Ltd.	\$ 1,137	-	-	-
Jih Sun International Bank Ltd.	40	-	-	-
Jih Sun Futures Co., Ltd.	20,273	2	12,259	1
Total	\$ 21,450	2	12,259	1
Other Receivables				
Jih Sun International Bank Ltd.	\$ 11,504	1	9,107	1
Jih Sun Futures Co., Ltd.	501	-	580	-
Jih Sun Holdings Co., Ltd.	60	-	-	-
Total	\$12,065	1	9,687	1
Accounts Payable				
Jin Sun Futures Co., Ltd.	\$ -	-	610	-
Other Payables				
Jih Sun Holdings Co., Ltd. (Note)	\$ 78,137	4	167,873	9

Note: This amount was payables to parent company for the consolidated tax return.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

5. Others

(1) Other transactions between Jih Sun Futures Co., Ltd. and the Company were as follows:

	<u>2005</u>	<u>2004</u>
Securities registration and service fee (revenue from computer printing included)	\$ 480	480
Commission revenue for futures	187,062	213,368
Clearing fee	4,903	8,023
Futures margin deposits	-	625,957
Futures settlement fund (recorded as guarantee deposits paid)	52,000	55,000

(2) Other transactions between Jih Sun International Bank Ltd. and the Company were as follows:

	<u>2005</u>	<u>2004</u>
Securities registration and service fee (revenue from computer printing included)	\$ 480	480
Revenue from management fee allocated (Note)	108,893	109,007
Financial expenses	9	240
Other operating expenses (credit checking fee)	-	496

Note: Refers to the management fee for Jih Sun International Bank Co., Ltd. to deliver settlement money from customers and other related fees.

As of December 31, 2005 and 2004, the Company had a deposit balance in Jih Sun International Bank Ltd. as follows:

	<u>Ending balance</u>	<u>Max balance</u>	<u>Interest</u>	<u>Interest rate range</u>
2005	\$ 227,053	1,305,823	5,044	0.0%~1.8%
2004	469,870	3,126,387	3,930	0.0%~1.6%

As of December 31, 2005 and 2004, Jih Sun International Bank Co., Ltd. had approved a guaranteed line of credit amounting to \$1,100,000 thousand to the Company, and the loan balances were both \$0 thousand, respectively. No pledged assets were provided as of December 31, 2005 and 2004.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(3) Other transactions between Jih Sun Securities Investment Consulting Co, Ltd. and the Company were as follows:

	<b>2005</b>	<b>2004</b>
Professional fee	\$ 18,870	18,097
Magazine fee	6,528	6,302

(4) Other transactions with Jih Sun Holdings Co., Ltd. were as follows:

	<b>2005</b>	<b>2004</b>
Securities registration and service fee (revenue from computer printing included)	\$ 13,952	13,522

(5) The Company paid brokerage handling charges to Hong-Kong JS Cresvale Securities International Limited for securities trading abroad of \$372 thousand and \$87 thousand in 2005 and 2004, respectively.

**29. PLEDGED ASSETS**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Pledged assets – current	\$ 490,010	1,857,859
Pledged assets – non-current	660,000	434,000
Long-term investment in stocks	170,336	170,769
Fixed assets – land	1,259,205	1,259,205
– building (net)	411,077	422,060
Time deposits (recorded as guarantee deposits paid)	274,000	14,000
Total	\$ 3,264,628	4,157,893

**30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The Company's significant commitments and contingencies on December 31, 2005 and 2004, are summarized as follows:

- (1) As of December 31, 2005 and 2004, the Company had issued post-dated checks for future rental payments, which amounted to \$66,330 thousand and \$93,333 thousand, respectively.
- (2) As of December 31, 2005 and 2004, in connection with its securities financing activities, the Company held client-owned stocks which amounted to approximately 996,636,682 shares and 1,112,994,307 shares, respectively; stocks loaned out to clients amounted to approximately 65,780,000 shares and 74,903,000 shares, respectively, for which the Company received guarantee deposits in full from the clients.

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (3) During 1998, a client of the Company's Pan Chiao Branch filed a lawsuit against a Company employee for unauthorized stock sale of approximately \$40,103 thousand. The Company has applied to the court for sequestration to avoid the loss from employer responsibility. The Company made guarantee deposits of \$14,000 thousand to the court (recorded as guarantee deposits-out) and seized the debtor's assets.
- (4) The Company acted as the co-underwriter for Jeng-Yih Company's application for government approval to trade over the counter. Subsequently, Jeng-Yih Company stopped trading over the counter because of a significant amount of notes unpaid. Therefore, the investors have sued the directors and supervisors, the independent auditors, and the underwriters of Jeng-Yih Company for total damages of \$71,017 thousand. The litigation procedure is currently in process.
- (5) As of December 31, 2005 and 2004, the Company had applied to the court for provisional seizure in connection with protection of its rights related to collateral on defaulted securities transactions. Therefore, the Company made guarantee deposits of \$8,667 thousand and \$13,526 thousand, respectively (recorded as guarantee deposit-out) and seized the debtor's assets.
- (6) Three customers of the Tai-Chung Branch alleged that a former employee at the Tai-Chung Branch had sold their stock without permission, and stolen their bank savings. Therefore, the client requested the Company to be responsible jointly and claimed for \$132,378 thousand with interest. The litigation procedure is in process. Except the case that client Yang sued the Company for \$22,403 thousand was a controversial issue, the other two clients' claim in the early part should be considered a debt dispute between the client and the employee, and the Company should not be responsible for any compensation liability.
- (7) The company had applied to the court to its customer, Mr. Yang and Mr. Lin for requesting them to payback the financing debt resulting from purchasing stocks, amounting of \$9,902 thousand and interest related. The litigation procedure is still in process.

### **31.SIGNIFICANT OF SUBSEQUENT EVENTS**

The Company had entered an engagement with Netbroker Co.,Ltd on Dec. 22, 2005. The Company will assume Netborder's operation right and partial properties with the purchasing price \$67,011 thousand. The proposal was agreed by the Company's Board of Directors on

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Dec.12, 2005 and Shareholders' Meeting on Jan. 12, 2006.

**32. OTHERS**

(1) Summary of Employee Expense, Depreciation, Depletion and Amortization

	2005			2004		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expense						
Payroll	-	1,506,555	1,506,555	-	1,526,603	1,526,603
Insurance	-	95,262	95,262	-	90,730	90,730
Retirement	-	51,486	51,486	-	36,598	36,598
Others	-	54,261	54,261	-	51,122	51,122
Depreciation	-	210,795	210,795	-	207,489	207,489
Depletion	-	-	-	-	-	-
Amortization	-	40,763	40,763	-	49,755	49,755

(2) Limits on Financial Ratios and Conditions According to Rules on Futures Transactions

As of December 31, 2005 and 2004, disclosures related to the Company's financial ratios, as required by the Rules Governing Futures Commission Merchants, were as follows:

Article	Formula	Current Period		Previous Period		Benchmark	Result
		Calculation	Ratio	Calculation	Ratio		
17	Equities/(Liabilities – Customers' Equity in Futures Transactions – Futures Trading Loss Reserve – Default Reserve)	<u>1,740,060</u> 90,437	1,924%	<u>1,745,587</u> 15,680	11,133%	≥ 1	Meets benchmark
17	Current Assets/Current Liabilities	<u>1,780,469</u> 90,437	1,969%	<u>1,748,212</u> 15,680	11,149%	≥ 1	"
22	Equities/Minimum Paid-in Capital	<u>1,740,060</u> 400,000	435%	<u>1,745,587</u> 400,000	436%	≥ 60% ≥ 40%	"

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

22	Adjusted Net Capital/The Total Amount of Margins Required for the Non-offset Position of the Futures Customers	<u>1,345,019</u> 284,122	473%	<u>1,304,978</u> 413,855	315%	$\geq 20\%$ $\geq 15\%$	"
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**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(3) Special Risk of Futures Contracts

The Company engaged in the activities of futures dealing. Market price risk was its holding risk. The Company has implemented stop loss points based upon related risk, and the loss incurred should be within the expected range.

**33. SEGMENT FINANCIAL INFORMATION DISCLOSURE**

(1) The Company's financial information on industry segments for 2004 and 2003 is as follows:

<u>2005</u>	<u>Brokerage</u>	<u>Dealer</u>	<u>Underwriter</u>	<u>Warrants</u>	<u>Futures</u>	<u>Total</u>
Revenue	\$ 3,031,939	1,440,931	321,738	68,907	284,350	5,147,865
Segment income or loss	\$ 843,722	915,130	209,886	( 16,955 )	( 5,157 )	1,946,626
Non-operating income						384,262
General expenses						( 816,069 )
<b>Income from continuing operations</b>						<b>1,514,819</b>
Identifiable assets	\$ 17,152,743	26,980,776	668,286	491,052	571,841	45,864,698
Long-term equity investments						3,901,659
General assets						5,613,181
<b>Total assets</b>						<b>\$55,379,538</b>
Depreciation and amortization expenses	\$ 115,458	2,703	1,868	2,689	28	122,746
<u>2004</u>	<u>Brokerage</u>	<u>Dealer</u>	<u>Underwriter</u>	<u>Warrants</u>	<u>Futures</u>	<u>Total</u>
Revenue	\$ 3,933,499	1,077,556	104,801	1,293,163	5,960	6,414,979
Segment income or loss	\$ 1,596,028	815,339	( 157,867 )	233,075	( 655,385 )	1,831,190
Non-operating income						424,700
General expenses						( 860,221 )
<b>Income from continuing operations</b>						<b>( \$ 1,395,678 )</b>
Identifiable assets	\$ 17,468,169	18,499,590	934,957	-	657,803	37,510,519
Long-term equity investments						3,761,777
General assets						9,438,742
<b>Total assets</b>						<b>\$ 50,711,038</b>
Depreciation and amortization expenses	\$ 103,477	1,616	1,431	1,423	149	108,088

**JIH SUN SECURITIES CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The Company primarily engages in the activities of securities brokerage, securities dealing, securities underwriting, stock warrant issuance, futures dealing, and auxiliary services for futures trading. The above-listed segment income refers to segment income from customers outside of the Company, but it does not include the Company's non-operating income not related to the segment.

The segment income or loss refers to the balance after deducting segment cost and expenses. Such costs and expenses relate to segment income. Indirect operating costs and expenses are allocated to each segment based upon the percentage of employees, but the segment costs and expenses do not include the Company's general expenses not related to the segment.

Segment identifiable assets are based on tangible and non-tangible assets directly associated with the segment. If two or more segments use such assets, then they are allocated to each segment based upon the percentage of employees. However, the segment identifiable assets do not include the following:

1. Assets not held specifically for any one segment's operating use.
2. Long-term equity investments accounted for under the equity method and cost method.

(2) Information by geographical region and export information

There is no overseas operating unit, and the area of operations is in Taiwan. There is no overseas operating income.

(3) Information on major clients

No single client represented 10% or more of the Company's operating revenues during 2005 and 2004.

**Jih Sun Securities Co., Ltd. — Futures Department**  
**Balance Sheets**  
**December 31, 2005 and 2004**  
**(expressed in thousands of New Taiwan dollars)**

	December 31,					December 31,			
	2005		2004			2005		2004	
<u>Assets</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Liabilities and Stockholders' Equity</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Current Assets					Current Liabilities				
Cash and cash equivalents (Note 3)	\$ 1,248,322	68	1,151,466	65	Put options - speculation	\$ 89,325	5	9,604	1
Short-term investments, net	-	-	8,782	-	Other current liabilities	1,112	1	6,076	1
Call options - speculation	27,830	2	12,783	1	Total Liabilities	<u>90,437</u>	<u>6</u>	<u>15,680</u>	<u>2</u>
Receivables - futures margin (Notes 4 and 7)	504,011	27	569,780	33	Stockholders' Equity				
Other financial assets (Note 7)	226	-	5,229	-	Assigned working capital	2,400,000	130	2,400,000	135
Other current assets	80	-	172	-	Retained earnings	( 659,940 )	( 36 )	( 654,413 )	( 37 )
	<u>1,780,469</u>	<u>97</u>	<u>1,748,212</u>	<u>99</u>	Total stockholders' equity	<u>1,740,060</u>	<u>94</u>	<u>1,745,587</u>	<u>98</u>
Fixed Assets									
Office equipment	198	-	197	-					
Less: accumulated depreciation	( 170 )	-	( 142 )	-					
	<u>28</u>	<u>-</u>	<u>55</u>	<u>-</u>					
Other Assets									
Operating deposits (Note 5)	10,000	1	10,000	1					
Securities settlement fund	40,000	2	-	-					
Guarantee deposits paid	-	-	3,000	-					
	<u>50,000</u>	<u>3</u>	<u>13,000</u>	<u>1</u>					
<b>Total Assets</b>	<b><u>\$ 1,830,497</u></b>	<b><u>100</u></b>	<b><u>1,761,267</u></b>	<b><u>100</u></b>	<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 1,830,497</u></b>	<b><u>100</u></b>	<b><u>1,761,267</u></b>	<b><u>100</u></b>

(See the accompanying notes to the financial statements)

**Jih Sun Securities Co., Ltd. — Futures Department**  
**Statements of Income**  
**For the years ended December 31, 2005 and 2004**  
**(expressed in thousands of New Taiwan dollars)**

Items	2005		2004	
	Amount	%	Amount	%
Revenue				
Gain on option transactions - speculation	\$ 284,350	96	-	-
Other operating income	-	-	5,960	50
Non-operating income	11,519	4	5,952	50
	295,869	100	11,912	100
Expense				
Handling charges - dealers	7,747	3	4,975	42
Loss on futures contracts - speculation	-	-	544,981	4,575
Clearing fee (Note 7)	8,647	3	8,023	67
Loss on option contracts - speculation	189,949	64	42,932	360
Operating expense	94,182	32	66,280	556
Other operating expense	307	-	-	-
Non-operating expenses	194	-	106	1
	301,026	102	667,297	5,601
Income (loss) before income tax	( 5,157 )	( 2 )	( 655,385 )	( 5,501 )
Income tax benefit	( 371 )	-	972	8
Net income (loss)	( \$ 5,528 )	( 2 )	( 654,413 )	( 30 )

**(See the accompanying notes to the financial statements)**

**JIH SUN SECURITIES CO., LTD. – FUTURES DEPARTMENT**

**SEGMENT FINANCIAL INFORMATION DISCLOSURE**

**AS OF DECEMBER 31, 2005 and 2004**

**JIH SUN SECURITIES CO., LTD. – FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**

(expressed in thousands of New Taiwan dollars, unless otherwise stated)

**1. ORGANIZATION AND OPERATIONS**

Jih Sun Securities Co., Ltd. (the “Company”) was authorized to engage in the dealership of futures trading by the SFC in November 2001.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The Company’s financial statements were prepared in accordance with the “Criteria Governing the Preparation of Financial Statements by Futures Commission Merchants” and generally accepted accounting principles of the Republic of China. A summary of significant accounting policies and the measurement basis is as follows:

(1) Classification of Assets and Liabilities as Current or Non-current

Current assets are those which will be converted into cash or be used up in one year. Other assets are classified as non-current assets. Current liabilities are those which will be paid off in one year. Other liabilities are classified as non-current liabilities.

(2) Cash and Cash Equivalents

Cash and cash equivalents include cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposit and cash equivalents. Cash equivalents are short-term investments which could be converted to cash anytime and which do not have a significant level of market risk related to potential interest rate changes, and include treasury bills and commercial paper with maturities of three months or less at the date of purchase.

(3) Call /Put Options – Speculation

The Company primarily engages in the activities of futures dealing and futures options contracts for trading purposes, which are valued at the fair value method on the balance sheet date.

(4) Futures Margin Deposits – Dealer

Premiums paid by the Company related to futures contracts entered into for trading purposes are recognized as “futures margin deposits – dealer”. Gains or losses as a result of marking to market value of the futures contracts as of the balance sheet dates are recognized as current income. Gains or losses arising from the settlement of the future contracts are also recognized as current income.

**JIH SUN SECURITIES CO., LTD.—FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(5) Fixed Assets and Depreciation

Property and equipment are stated at cost. Except for land, depreciation is calculated by the straight-line method over estimated economic lives. Leasehold improvements should be depreciated by the straight-line method over the lease period or estimated economic lives, which is shorter. Major additions and improvements are capitalized, while repairs and maintenance are recorded as current expense when incurred.

(6) Trading Losses Reserve

A securities firm engaged in futures dealing business must, on a monthly basis, set aside 10% of the realized net profit of each month as a reserve for trading losses until the balance of the reserve reaches \$200,000 thousand. Such reserve may only be used to offset the excess of futures trading loss over gain.

(7) Inter-departmental Account

The Company engages in the activities of futures dealing. The account used to account for transactions between the securities and futures department is the inter-departmental account.

(8) Assigned Working Capital

The Company engages in the activities of futures dealing and assigns the working capital to the futures department.

(9) Recognition of Revenue

Revenue is recognized when realized or deemed realizable.

(10) Income Tax

The Company adopted Statement of Financial Accounting Standards No. 22, "Accounting for Income Tax", and recognizes deferred income tax liabilities for future taxable temporary differences and deferred income tax assets for future deductible temporary differences, prior year loss carryforwards, and investment tax credits. The future realization of deferred income tax assets is assessed, and a valuation account, if needed, is provided accordingly.

**JIH SUN SECURITIES CO., LTD. – FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**3. CASH AND CASH EQUIVALENTS**

	December 31,	
	2005	2004
Bank deposits	\$ 110,621	11,507
Commercial paper	1,137,701	1,139,959
<b>Total</b>	<b>\$1,248,322</b>	<b>1,151,466</b>

**4. FUTURES MARGIN DEPOSITS - DEALER**

	December 31,	
	2005	2004
Dealer's premium in settlement institution	\$ 504,011	569,780

**5. OPERATING DEPOSITS**

In accordance with the "Rules Governing Futures Commission Merchants", as of December 31, 2005 and 2004, the Company's futures department had provided \$10,000 thousand of time deposits as operating deposits.

**6. FINANCIAL INSTRUMENTS**

(1) Financial Derivatives:

1. Contract amount and credit risk

As of December 31, 2005 and 2004, the Company's futures contracts were as follows:

Items	Transaction Type	Holder Seller	Volume	Contract Amount	Fair Value	Notes
<b>Dec. 31, 2005</b>						
Options	Taiwan Stock Index Option -Call Option	Holder	7,000	\$ 10,788	11,479	Speculation
Options	Taiwan Stock Index Option -Put Option	Holder	14,740	16,919	16,322	"
Options	Electronics Index Option -Put Option	Holder	200	2	1	"
Options	Financial Index Option -Put Option	Holder	1,100	17	28	"
<b>Total</b>			<b>23,040</b>	<b>\$ 27,726</b>	<b>27,830</b>	

**JIH SUN SECURITIES CO., LTD.—FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Items	Transaction Type	Holder	Volume	Contract	Fair	Notes
		Seller		Amount	Value	
Futures	Electronics Index Futures	Seller	251	287,361	291,060	"
Futures	Financial Index Futures	Seller	50	44,774	44,700	"
Futures	Taiwan Stock Index Futures	Seller	898	1,184,517	1,184,462	"
Options	Taiwan Stock Index Option -Call Option	Seller	8,739	53,572	78,787	"
Options	Taiwan Stock Index Option -Put Option	Seller	1,758	19,353	6,323	"
Options	Electronics Index Option -Call Option	Seller	196	2,372	4,012	"
Options	Electronics Index Option -Put Option	Seller	190	910	196	"
Options	Financial Index Option -Call Option	Seller	50	-	4	"
Options	Financial Index Option -Put Option	Seller	478	5	2	"
Total			<b>12,610</b>	<b>\$1,592,864</b>	<b>1,609,546</b>	
Items	Transaction Type	Holder	Volume	Contract	Fair	Notes
<b>Dec. 31, 2004</b>						
Futures	Financial	Holder	711	\$ 726,856	743,706	Speculation
Options	Call Option	Holder	1,477	7,819	10,254	"
Options	Put Option	Holder	2,269	3,885	2,009	"
Options	Call options - Stock	Holder	70	454	396	"
Options	Put options - Stock	Holder	28	173	124	"
<b>Total</b>			<b>4,555</b>	<b>\$ 739,187</b>	<b>756,489</b>	
Futures	Taiwan Stock Index Futures	Seller	2,012	2,425,328	2,490,051	"
Futures	Electronics Index Futures	Seller	855	771,108	789,678	"
Options	Call Options	Seller	2,691	4,547	5,953	"
Options	Put Options	Seller	474	2,624	1,331	"
Options	Call Options - Stock	Seller	551	1,485	1,409	"
Options	Put Options - Stock	Seller	280	1,493	911	"
<b>Total</b>			<b>6,863</b>	<b>\$3,206,585</b>	<b>3,289,333</b>	

The above-mentioned fair value is calculated based upon the closing price of Taiwan Stock Index Futures on the Taiwan Futures Exchange as of December 31, 2005 and 2004.

2. Credit risk

The Company's transaction counter-party for futures contracts is the Taiwan Futures Exchange, which is not expected to result in credit risk.

**JIH SUN SECURITIES CO., LTD.—FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

3. Market risk

Since the current trading futures in the Republic of China are the Taiwan Stock Index Financial Index Futures and Electronics Index Futures and the futures' price will fluctuate based upon the stock market trend, the Company has implemented stop loss points based upon the related risk, and the loss incurred should be within the expected range. Therefore, there is no significant market value risk.

4. Liquidity risk, cash-flow risk, and the uncertainty of amount and period of future cash demand

The Company has adequate operating funds; therefore, the risk of insufficient funds to fulfill contracts is low; furthermore, futures contracts and options are traded on the Futures Exchange, and each futures contract and option has its fair market value; therefore, the risk of not being able to quickly sell such contracts at fair value in the market is low.

5. Presentation of financial derivative instruments in the financial statements

Premiums paid by the Company related to futures contracts entered into for trading purposes are recognized as assets. Gains or losses as a result of evaluation, offset and settlement are recognized as current income. Guaranty deposits made by the Company for engaging in futures trading and option contract trading were recorded under current assets as futures margin deposits and call/put options, respectively. The above futures and options are valued at their fair values on the balance sheet date.

(2) Fair Value of Financial Instruments

	December 31,			
	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial Assets</b>				
<b>Non-derivative Financial Instruments</b>				
Financial assets with book value equal to fair value	\$ 1,258,548	1,258,548	1,169,695	1,169,695
Short-term investment	-	-	8,782	8,782
<b>Derivative Financial Instruments</b>				
Call options – speculation	27,830	27,830	12,783	12,783
Futures margin deposits - dealer	504,011	504,011	569,780	569,780
<b>Financial Liabilities</b>				
<b>Non-derivative Financial Instruments</b>				
Financial liabilities with book value equal to fair value	1,112	1,112	6,076	6,076
<b>Derivative Financial Instruments</b>				
Liabilities of put options	89,325	89,325	9,604	9,604

**JIH SUN SECURITIES CO., LTD.—FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Methods and assumptions used to estimate the fair value of financial instruments are as follows:

1. Fair values of short-term instruments are estimated using their book value. Since such instruments will mature within a short time, book value is a reasonable basis to estimate the fair value. Short-term financial instruments comprise financial assets such as cash and cash equivalents, receivables, payables, operating deposits, guarantee deposits paid, and inter-departmental account – credit.
2. Short-term securities, operating securities, investment in redeemable bonds, and liabilities of bonds with repurchase agreements:

The fair value of marketable securities is the market price if available. Otherwise, financial or other information is used to estimate the fair value.

**7. RELATED-PARTY TRANSACTIONS**

(1) Names of Related Parties and Their Relationship with the Company

<u>Name of related party</u>	<u>Relationship with the Company</u>
Jih Sun Futures Co., Ltd.	Investee company accounted for under the equity method

(2) Significant Transactions with Related Parties

As of December 31, 2005 and 2004, for futures dealing, the Company's futures department made futures margin deposits amounting to \$0 thousand and \$569,780 thousand, respectively, in Jih Sun Futures Co., Ltd. During 2005 and 2004, the clearing fee amounted to \$4,903 thousand and \$8,023thousand, respectively.

**8. INFORMATION ABOUT DERIVATIVE FINANCIAL INSTRUMENTS**

For information about derivative financial instrument trading as of December 31, 2005 and 2004, please refer to note 6(1).

**JIH SUN SECURITIES CO., LTD. – FUTURES DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**9. LIMITS ON FINANCIAL RATIOS AND CONDITIONS ACCORDING TO RULES ON FUTURES TRANSACTIONS**

Article	Formula	Current Period		Previous Period		Benchmark	Result
		Calculation	Ratio	Calculation	Ratio		
17	Equities/(Liabilities – Customers' Equity in Futures Transactions – Futures Trading Loss Reserve – Default Reserve)	<u>1,740,060</u> 90,437	1,924%	<u>1,745,587</u> 15,680	11,133%	≥ 1	Meets benchmark
17	Current Assets/Current Liabilities	<u>1,780,469</u> 90,437	1,969%	<u>1,748,212</u> 15,680	11,149%	≥ 1	"
22	Equities/Minimum Paid-in Capital	<u>1,740,060</u> 400,000	435%	<u>1,745,587</u> 400,000	436%	≥ 60% ≥ 40%	"
22	Adjusted Net Capital/The Total Amount of Margins Required for the Non-offset Position of the Futures Customers	<u>1,345,019</u> 284,122	473%	<u>1,304,978</u> 413,855	315%	≥ 20% ≥ 15%	"

**10. Special Risk of Futures Contracts**

The Company engaged in the activities of futures dealing. Market price risk was its holding risk. The Company has implemented stop loss points based upon related risk, and the loss incurred should be within the expected range.