

Polaris Man Financial Futures Co., Ltd

Financial Statements for the six months ended

June 30, 2006 and 2005 and

Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese version shall prevail.

Polaris Man Financial Futures Co., Ltd

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Of Polaris Man Financial Futures Co., Ltd.

We have audited the accompanying balance sheets of Polaris Man Financial Futures Co., Ltd. as of June 30, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China and Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants. Those standards and rules 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 trial basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Polaris Man Financial Futures Co., Ltd. as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended in conformity with the Criteria Governing the Preparation of Financial Reports by Futures Firms and generally accepted accounting principles in the Republic of China.

As stated in Note III to the financial statements, effective January 1, 2006, the Company adopted the Republic of China Statement of Financial Accounting Standards (SFAS) No.34 "Accounting for Financial Instruments", SFAS No.36 "Disclosure and Presentation of Financial Instruments", and newly amended articles in related Statements. The Company adopted SFAS No.35 "Accounting for Assets Impairment" starting from January 1, 2005, and there is no effect for the statement of the Company for the six months ended June 30, 2005.

First United CPA Office  
Taipei, Taiwan  
Republic of China  
August 8, 2006

Notice to Readers

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

POLARIS MAN FINANCIAL FUTURES CO., LTD.  
Balance Sheets  
June 30, 2006 and 2005  
(In Thousands of New Taiwan Dollars)

ASSETS	Note	June 30, 2006		June 30, 2005		LIABILITIES AND STOCKHOLDERS' EQUITY	Note	June 30, 2006		June 30, 2005	
		Amount	%	Amount	%			Amount	%		
<b>CURRENT ASSETS</b>		<b>\$ 9,153,882</b>	<b>94.04</b>	<b>\$ 8,082,850</b>	<b>93.27</b>	<b>CURRENT LIABILITIES</b>		<b>\$ 8,165,008</b>	<b>83.87</b>	<b>\$ 7,365,992</b>	<b>85.02</b>
Cash and cash equivalents	II-1,IV-1	529,567	5.44	420,510	4.85	Financial liabilities at fair value through profit or loss	II-2	28,200	0.29	16,882	0.20
Financial assets at fair value through profit or loss	II-2,IV-2	640,393	6.58	459,620	5.30	Payables to customers	II-10,IV-3	7,931,210	81.47	7,131,575	82.30
Margin deposits	II-4,IV-3,V	7,959,111	81.76	7,152,044	82.54	Notes payable		4,898	0.05	3,854	0.05
Futures trading margin receivable		660	0.01	30,169	0.35	Accounts payable		28,912	0.30	30,458	0.35
Other current assets		24,151	0.25	20,507	0.23	Payable to related parties	V	27,868	0.29	25,151	0.29
						Other payables	IV-7	139,775	1.43	154,189	1.78
						Other current liabilities		4,145	0.04	3,883	0.05
<b>FUNDS AND LONG-TERM INVESTMENTS</b>		<b>35,510</b>	<b>0.36</b>	<b>35,510</b>	<b>0.41</b>	<b>OTHER LIABILITIES</b>		<b>198,335</b>	<b>2.03</b>	<b>170,575</b>	<b>1.97</b>
Available for sale financial assets - noncurrent	II-3,IV-4	35,510	0.36	35,510	0.41	Reserve for breach of contract losses	II-11	92,305	0.95	64,886	0.75
<b>FIXED ASSETS</b>	II-5,IV-5	<b>196,500</b>	<b>2.01</b>	<b>224,539</b>	<b>2.60</b>	Reserve for trading losses	II-12	27,434	0.28	5,952	0.07
Land		69,313	0.71	69,313	0.80	Accrued pension liabilities	II-13,IV-8	15,992	0.16	8,948	0.10
Buildings		38,034	0.39	38,034	0.44	Reserve for bad debts losses	II-14	62,604	0.64	90,789	1.05
Equipments		206,855	2.12	202,928	2.34	<b>TOTAL LIABILITIES</b>		<b>8,363,343</b>	<b>85.90</b>	<b>7,536,567</b>	<b>86.99</b>
Prepayment for equipments		4,213	0.04	671	0.01						
Leasehold improvements		24,529	0.25	36,788	0.43	<b>STOCKHOLDERS' EQUITY</b>		<b>1,371,880</b>	<b>14.10</b>	<b>1,128,539</b>	<b>13.01</b>
Less : accumulated depreciation		( 146,444)	( 1.50)	( 123,195)	( 1.42)	Capital stock	IV-9	722,400	7.42	645,000	7.44
<b>INTANGIBLE ASSETS</b>		<b>11,791</b>	<b>0.12</b>	<b>9,600</b>	<b>0.11</b>	Stock dividend to be distributed		79,464	0.82	77,400	0.89
Deferred pension costs		5,391	0.05	-	-	Capital surplus		46,333	0.48	46,333	0.53
Other intangible assets	II-6	6,400	0.07	9,600	0.11	Capital surplus from business merger		46,333	0.48	46,333	0.53
<b>OTHER ASSETS</b>	II-7,8,9,IV-6	<b>337,540</b>	<b>3.47</b>	<b>312,607</b>	<b>3.61</b>	Retained earnings		523,683	5.38	359,806	4.15
Operations guarantee deposits		110,000	1.13	100,000	1.15	Legal reserve		107,792	1.11	84,354	0.97
Clearing and settlement funds		141,000	1.45	137,000	1.58	Special reserve	IV-10	215,585	2.21	168,709	1.95
Refundable deposits		11,488	0.12	11,855	0.14	Unappropriated retained earnings	IV-11	200,306	2.06	106,743	1.23
Deferred charges		26,512	0.27	20,866	0.24	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$ 9,735,223</b>	<b>100.00</b>	<b>\$ 8,665,106</b>	<b>100.00</b>
Deferred income tax assets - noncurrent		48,540	0.50	42,886	0.50						
<b>TOTAL ASSETS</b>		<b>\$ 9,735,223</b>	<b>100.00</b>	<b>\$ 8,665,106</b>	<b>100.00</b>						

Note: The accompanying notes are integral part of the financial statements.

POLARIS MAN FINANCIAL FUTURES CO., LTD.  
 Statements of Income  
 For the six months ended June 30, 2006 and 2005  
 (In Thousands of New Taiwan Dollars, Except Amounts Per Share)

Descriptions	Note	2006		2005	
		Amount	%	Amount	%
<b>REVENUES</b>	II-16				
Brokerage		\$ 733,817	76.86	\$ 607,377	83.50
Clearance fee from consignment		1,224	0.13	662	0.09
Gain on disposal of derivative financial instruments, net	IV-3	150,792	15.79	66,099	9.09
Futures advisory fees		11	-	19	-
Other operating revenues		218	0.02	346	0.05
Nonoperating revenues		68,772	7.20	52,859	7.27
<b>Total Revenues</b>		<u>954,834</u>	<u>100.00</u>	<u>727,362</u>	<u>100.00</u>
<b>EXPENSES</b>	II-16				
Brokerage		( 81,257)	( 8.51)	( 75,161)	( 10.33)
Futures proprietary fee		( 3,027)	( 0.32)	( 722)	( 0.10)
Futures commission		( 202,432)	( 21.20)	( 167,115)	( 22.98)
Clearance fee		( 57,588)	( 6.03)	( 52,773)	( 7.26)
Operating expenses		( 369,330)	( 38.68)	( 295,755)	( 40.66)
Nonoperating expenses and losses		( 6,680)	( 0.70)	( 8,348)	( 1.14)
<b>Total Expenses</b>		<u>( 720,314)</u>	<u>( 75.44)</u>	<u>( 599,874)</u>	<u>( 82.47)</u>
Net income before income tax		234,520	24.56	127,488	17.53
Income tax expenses	II-15, IV-12	( 40,323)	( 4.22)	( 21,963)	( 3.02)
Net income before cumulative effect of changes in accounting principles		194,197	20.34	105,525	14.51
Cumulative effect of changes in accounting principles, net of tax expense of NT\$0		72	0.01	-	-
<b>Net income</b>		<u>\$ 194,269</u>	<u>20.35</u>	<u>\$ 105,525</u>	<u>14.51</u>
<b>Earnings per share</b>	II-19, IV-13				
Earnings per share before cumulative effect of changes in accounting principles		<u>\$ 2.69</u>		<u>\$ 1.46</u>	
Earnings per share for cumulative effect of changes in accounting principles		<u>-</u>		<u>-</u>	
Earnings per share (net of tax)		<u>\$ 2.69</u>		<u>\$ 1.46</u>	

Note: The accompanying notes are integral part of the financial statements.

POLARIS MAN FINANCIAL FUTURES CO., LTD.  
 Statements of Changes in Stockholders' Equity  
 For the six months ended June 30, 2006 and 2005  
 (In Thousands of New Taiwan Dollars)

Item	Capital stock	Capital surplus	Retained Earnings			Total
			Legal reserve	Special reserve	Unappropriated retained earnings	
Balance, Jan 1, 2005	\$ 645,000	\$ 46,333	\$ 62,192	\$ 124,384	\$ 222,660	\$ 1,100,569
Legal reserve			22,162		( 22,162)	-
Special reserve				44,325	( 44,325)	-
Distribution of bonus to employees					( 155)	( 155)
Distribution of cash dividend					( 77,400)	( 77,400)
Stock dividend to be distributed	77,400				( 77,400)	-
Net Income for the six months ended June 30, 2005					105,525	105,525
Balance June 30, 2005	<u>\$ 722,400</u>	<u>\$ 46,333</u>	<u>\$ 84,354</u>	<u>\$ 168,709</u>	<u>\$ 106,743</u>	<u>\$ 1,128,539</u>
Balance Jan 1, 2006	\$ 722,400	\$ 46,333	\$ 84,354	\$ 168,709	\$ 235,597	\$ 1,257,393
Legal reserve			23,438		( 23,438)	-
Special reserve				46,876	( 46,876)	-
Distribution of bonus to employees					( 159)	( 159)
Distribution of remuneration to directors					( 159)	( 159)
Distribution of cash dividend					( 79,464)	( 79,464)
Stock dividend to be distributed	79,464				( 79,464)	-
Net Income for the six months ended June 30, 2006					194,269	194,269
Balance, June 30, 2006	<u>\$ 801,864</u>	<u>\$ 46,333</u>	<u>\$ 107,792</u>	<u>\$ 215,585</u>	<u>\$ 200,306</u>	<u>\$ 1,371,880</u>

Note: The accompanying notes are integral part of the financial statements.

POLARIS MAN FINANCIAL FUTURES CO., LTD.  
 Statements of Cash Flows  
 For the six months ended June 30, 2006 and 2005  
 (In Thousands of New Taiwan Dollars)

	2006	2005
Cash flows from operating activities		
Net income	\$ 194,269	\$ 105,525
Cumulative effect of changes in accounting principles	( 72)	-
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,231	19,161
Depletion and amortization	8,186	7,070
Valuation loss on financial instruments	194	-
Loss (Gain) on disposal of investment	16	( 1,243)
Reserve for breach of contract losses	14,701	12,160
Reserve for trading losses	15,846	5,699
Loss (Gain) on disposal of fixed assets	-	4,126
(Increase) decrease in option-nonhedging	( 8,259)	( 157,295)
(Increase) decrease in deposits with other futures brokerages	( 184,869)	( 16,268)
(Increase) decrease in margin deposits	( 1,445,564)	( 580,712)
(Increase) decrease in futures trading margin receivable	275	( 27,710)
(Increase) decrease in notes receivable	-	2,044
(Increase) decrease in accounts receivable	68	163
(Increase) decrease in other receivables	( 1,367)	( 2,648)
(Increase) decrease in prepayment	( 8,586)	( 2,601)
(Increase) decrease in deferred income tax assets-noncurrent	( 8,097)	( 3,826)
(Increase) decrease in other current assets	( 7)	-
Increase (decrease) in put option liabilities	( 4,824)	( 12,798)
Increase (decrease) in payables to customers	1,429,342	569,114
Increase (decrease) in notes payable	4,327	3,723
Increase (decrease) in accounts payable-non-related party	( 6,309)	8,518
Increase (decrease) in accounts payable-related party	12,774	3,927
Increase (decrease) in income tax payables	39,737	( 32,129)
Increase (decrease) in other accounts payable	10,564	( 17,540)
Increase (decrease) in other current liabilities	1,591	1,203
Increase (decrease) in accrued pension liabilities	1,815	1,525
Net cash provided by (used in )operating activities	80,982	( 110,812)

(Continued from preceding page)

Cash flows from investing activities		
(Increase) decrease in financial assets at fair value through profit or loss	50,056	18,143
Acquisition of fixed assets	( 13,195)	( 38,413)
Disposal of fixed assets	-	480
Decrease (increase) in operations guarantee deposits	( 10,000)	-
Decrease (increase) in clearing and settlement funds	4,000	( 3,000)
Decrease (increase) in refundable deposits	( 638)	19,042
Decrease (increase) in deferred charges	( 1,490)	( 1,169)
Net cash provided by (used in) investing activities	<u>28,733</u>	<u>( 4,917)</u>
Cash flows from financing activities		
Employees bonus paid	( 159)	-
Directors remuneration paid	( 159)	-
Cash dividend paid	( 63,570)	-
Net cash provided by (used in) financing activities	<u>( 63,888)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	45,827	( 115,729)
Cash and cash equivalents at the beginning of the year	<u>483,740</u>	<u>536,239</u>
Cash and cash equivalents at the six months ended	<u>\$ 529,567</u>	<u>\$ 420,510</u>
Supplemental Disclosures of cash flow information		
Interest paid	<u>\$ 6,065</u>	<u>\$ 1,683</u>
Income tax paid	<u>\$ 8,743</u>	<u>\$ 57,919</u>
Investing and financing activities affecting both cash and non-cash items		
Distribution of cash dividend	\$ 79,464	\$ 77,400
Distribution of bonus to employees	159	155
Distribution of remuneration to directors	159	-
Less: other payables	( 15,894)	( 77,555)
Cash paid	<u>\$ 63,888</u>	<u>\$ -</u>

Note: The accompanying notes are integral part of the financial statements.

POLARIS MAN FINANCIAL FUTURES CO., LTD.

Notes to Financial Statements

June 30, 2006 and 2005

(Amounts expressed in thousands of New Taiwan dollars,  
except where otherwise specified, per share, and par value)

I. History and Organization

Polaris Man Financial Futures Co., Ltd. (hereinafter referred to as “the Company”) was officially incorporated on April 9, 1997 under the Company Law and other relevant regulations in the Republic of China (“R.O.C.”). The Company was formerly known as “Polaris Futures Co., Ltd.”. In order to expand its business scale and upgrade its operating efficiency, the Company merged with “Refco Taiwan Co., Ltd.” on September 1, 2003 and was renamed as “Polaris Refco Futures Co., Ltd.”. In the end of 2005, in the account of the changes of foreign shareholders, the Extraordinary shareholders’ meeting was held on February 15, 2006 and resolved to change its name to “Polaris Man Financial Futures Co., Ltd.” approved by the Ministry of Economics. As of June 30, 2006, the Company has established four branches.

The Company is a futures dealer primarily engaging in the following business:

1. Futures brokerage and futures proprietary merchant;
2. Futures consultation services.
3. Securities investment consultation services.

As of June 30, 2006 and 2005, the Company had 273 and 285 employees, respectively.

II. Summary of Significant Accounting Policies

The financial statements are presented in conformity with the Criteria Governing the Preparation of Financial Reports by Futures Firms and accounting principles generally accepted in R.O.C.

The significant accounting policies are summarized as follows:

1. Cash and cash equivalents

Cash and cash equivalents shall include cash on hand, demand deposit, revolving funds and short-term investment and highly current investment that simultaneously possess the following attributes:

- (1) They can be converted into a certain amount of cash at any time.
- (2) They will become due soon (normally due within three months from the day of investment) while change in the interest rate will have little influence on the value.

## 2. Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets/ liabilities held for trading and those at the time initially recognized at fair value through profit or loss. When initially recognized, financial instruments are initially measured by the fair value and transaction cost (or measured by the fair value and transaction cost incurred as expenses), and subsequently measured at fair value and changes in fair value are recognized in profit or loss.

A regular way purchase or sale of financial assets is accounted for using trade date accounting.

The Company's financial instruments and important accounting policies are summarized as follows:

- (1) Financial assets at fair value through profit or loss - current: which consist of one of the following:
  - (1) financial assets for trading.
  - (2) financial assets except for those that designated as hedged items in hedge accounting, which at the time of initial recognition were designated as assets to be measured at fair value through profit or loss.

The following financial instruments shall be classified as financial assets held for trading:

- A. instruments acquired primarily for the purpose of sale in the near term.
- B. assets that are part of a group of distinct financial product portfolios under comprehensive management, where there is evidence that in the near term the group is in fact being managed for short-term profit.
- C. derivative financial assets, except those that are designated and effective hedging instruments.

Financial assets for trading shall be stated under their respective categories, according to trading purpose, as securities, open-end funds, or monetary-market instruments held through a brokerage, or as call option contracts or future trading margins-proprietary funds.

Future trading margins-proprietary funds refer to the guarantee deposits and premiums collected from futures proprietary merchants and the spread calculated based on the market prices every day.

Call options refer to a futures commission merchant paying a premium for purchasing option contracts or futures option contracts.

(2) Financial liabilities at fair value through profit or loss - current: which consist of one of the following:

- (1) financial liabilities for trading.
- (2) financial liabilities, except for those designated as hedged items in hedge accounting, which at the time of initial recognition were designated as assets to be measured at fair value through profit or loss.

The following financial instruments shall be classified as financial liabilities held for trading:

- A. Liabilities incurred primarily for the purpose of repurchase in the near term.
- B. Liabilities that are part of a group of distinct financial product portfolios under comprehensive management, where there is evidence that in the near term the group is in fact being managed for short-term profit.
- C. Derivative financial liabilities, except for those that are designated and effective hedging instruments.

Put option liabilities means a futures commission merchant collects a premium for selling option contracts or futures option contracts, which is valued at fair value.

(3) Financial assets or liabilities at fair value through profit of loss are measured at fair value with the changes in fair value recognized in current income. Except for that the emerging stocks are measured at cost, the publicly traded stocks are measured by the closing price on balance-sheet date. The open-end funds are measured by the net assets value on balance-sheet date.

(4) Financial instruments at fair value through profit or loss shall be classified according to liquidity as current or non-current. Those that are non-current shall be reclassified as "financial assets at fair value through profit or loss – non-current" under "funds and the investment" and "financial liabilities at fair value through profit or loss – non-current" under "long-term liabilities".

(5) Financial instruments initially recognized with those at fair value through profit or loss cannot be reclassified into other categories; the financial instruments not initially recognized as those at fair value through profit or loss cannot be reclassified into that category neither.

### 3. Available-for-sale financial assets

Regulations required otherwise, available-for-sale financial assets shall be measured at fair value, and the changes of gain or loss are recognized in equity. Fair values for beneficiary certificates of open-end funds and publicly traded stocks are determined using the net assets value and the closing-price at the balance sheet date, respectively. Unlisted stocks with immaterial influence are valued at the cost.

### 4. Margin deposits

Margin deposits refers to the guarantee deposits and premiums collected from the futures customer and the spread calculated based on the market prices every day. Under Article 71 of the Futures Trading Law, a futures commission merchant shall not withdraw any funds from the segregated customer margin account, unless one of the following situations occurs:

- (1) instructions from the futures customer to deliver the excess margins or premiums;
- (2) payment for the futures customer of the margins/premiums due and/or settlement balance to foreign futures trading houses;
- (3) payment for the futures customer of brokerage commissions, interests, or other transaction fees payable to the futures commission merchant; or
- (4) other items being approved by the competent authorities.

Margin deposits consist of

- (1) Cash in bank: which is the balance of the margin deposit account that a futures commission merchant opens as exclusive customer margin/premium account in a banking institution, and deposits its futures customers' margins or premiums into such an exclusive account.
- (2) Closing balance in the clearinghouse: which is the clearing balance that a futures commission merchant with qualified clearing membership transfers its customers' margins or premiums to the clearinghouse.
- (3) Closing balance in other qualified futures commission merchants: which is the clearing balance that a futures commission merchant with unqualified clearing membership transfers its customers' margins or premiums to qualified futures commission merchants.

### 5. Fixed assets

Fixed assets are stated at cost. The major improvement, renewal and addition, which

can prolong the service life of fixed assets, are counted as capital expenditures and recorded as fixed assets. Expenditures on regular repairs and maintenance are recorded as expenses.

Fixed assets are depreciated according to the service life set forth in the "Fixed Asset Service Life Span" promulgated by the Executive Yuan (the Cabinet), amortized using the average method, with one-year residual value. Depreciation for renewal and addition is amortized according to the fixed assets' service life. Major improvement is depreciated based on the remaining service lives of fixed assets. While assets are continually in use after the expiration of its service lives, the residual values are depreciated continually. The gain (loss) in disposal of assets is recognized as non-operating revenue (expenditure) in the period of sale or disposal.

6. Other intangible assets

Acquired from the dissolved Company Refco Taiwan's business rights due to business merger. It is amortized using the straight-line method.

7. Operations guarantee deposits

Under Article 14 of Rules Governing Futures Commission Merchants, a futures broker shall, after completing incorporation registration, lodge NT\$50 million in a financial institution designated by the competent authority. An additional of NT\$10 million shall be lodged for each branch established. The Company has so far set up four branches. Under the same article, a futures proprietary merchant shall lodge NT\$10 million in the said financial institution. And, under Article 11 of Rules Governing Futures Consultation Enterprise shall lodge NT\$10 million.

8. Clearing and settlement funds

Under Article 4, Paragraph 3 of Taiwan Futures Exchange Corporation Criteria for Clearing Membership, before carrying out clearing and settlement operations, the clearing member shall make a deposit to the clearing and settlement fund equal to 20% of its paid-in capital or designated operating funds, but of an amount no more than NT\$40 million. After carrying out clearing and settlement operations, the clearing member shall make deposits to the clearing and settlement fund by the method and in the amount prescribed by the Taiwan Futures Exchange Corporation constantly. Each time the clearing member consigns an introducing broker or each time such an introducing broker establishes an additional branch, the clearing member shall make an additional clearing and settlement fund deposit of NT\$1 million with the Taiwan Futures Exchange Corporation.

9. Deferred charges

The computer software is amortized equally over three years.

10. Payables to customers

Payables to customers are margins and premiums received by the Company from customers. The balances of payables to customers' accounts are adjusted daily by marking the closing positions to market for each future trader. A negative margin account balance is recognized as a receivable and the loss is offset only against the balance of his/her own margin deposits.

11. Reserve for breach of contract losses

Under Rules Governing Futures Commission Merchants, the Company engages in futures brokerage business, shall on a monthly basis set aside 2% of the futures brokerage commission income as reserve for breach of contract losses. The reserve shall not be used except for the purpose of covering the losses arising from customers' futures trading or for the purposes approved by the competent authority. When the accumulated reserve for breach of contract losses reaches the amount of minimum paid-in capital, operation funds or working capital required by law, no additional reserve for each breach of contract losses is required to be set aside.

12. Reserve for trading losses

Under Rules Governing Futures Commission Merchants, the Company engaging in futures proprietary business shall on a monthly basis set aside 10% from the realized net profit of each month as the reserve for trading losses. The reserve for trading losses shall not be used for purposes other than covering the trading loss amount in excess of the trading profit amount. When the accumulated trading loss reserve reaches the amount of minimum paid-in capital, operation funds, or working capital required by law, no additional reserve for trading losses is required to be set aside.

13. Pension

The Company complies with SFAS No.18 "Accounting for pensions" to conduct the actuarial calculation. The Company commenced to recognize the pension cost effective from January 1, 1999, and since October 1998, the Company has made monthly contributions, 2% of salaries, to a pension fund in accordance with the Labor Law. The fund is administered by a pension plan committee and under its name in the Central Trust of China.

Labor Pension Act has been enforced as of July 1, 2005 and applied the defined-contribution scheme. Upon enforcement of the Act, employees may choose to apply the retirement plan referred to in the "Labor Standard Law", or to apply the pension system referred to in the Act and retain the seniority record. To the applicable employees, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

#### 14. Reserve for bad debts losses

According to the related regulations prescribed by the competent authority, futures commission merchants shall make appropriate provisions, within 4 years starting from July 1, 1999 for bad debt at 3% of sales turnover of the principal lines on a monthly basis. In the event of no bad debt available for offset in a month, the sum shall be converted into "reserve for loss in bad debts" at the end of the month. The Company has not needed to appropriate allowance for bad debts since July 1, 2003.

In case of debit balance occurred by payables to customers (i.e., payables to customers appear to be negative, with excessive loss), it shall be entered as "receivables from deposits with other futures brokers" and the reserve for bad debts shall be amortized in full. In the event a futures trader defaults and the futures dealer completes the procedures required under "Guidelines for Futures commission Merchants in Reporting Default by Principals", the allowance shall be taken to directly offset the reserve for bad debts after the case is referred to the board of directors and informed to the supervisors. In the event the offset dead credit is retrieved after being entered as loss, the retrieved amount shall be entered as gain in the year of retrieval.

#### 15. Income Tax

In accordance with SFAS No. 22 "Accounting for Income Taxes", interperiod tax allocation is applied whereby a deferred tax liability is recognized for temporary differences that will result in taxable amounts in future years; a deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years. Valuation allowance is provided based on the expected realizability of the deferred tax assets.

#### 16. Revenue, cost and expense

Revenue is recognized when it is realized or realizable and it is earned; the relevant cost is matching with the revenue and recognized as occurred. Expense accounted by accrual basis shall be recognized as expense in the current period when it occurs.

17. Accounting estimate

Preparing the Company's financial statements in conformity with the ROC generally accepted accounting principles requires the management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

18. Distinguish between current and non-current assets and liabilities

The Company only engages in futures business, Assets or liabilities are expected to be converted into cash or to be repaid within 12 months from the balance sheet date are classified as current and the others are non-current.

19. Earning per common share

The calculation of earnings per common share was based on the weighted-average number of the Company's common shares outstanding during the applicable periods. The shares increased by unallocated earnings or capital reserve is calculated through retroactive adjustment.

20. Impairment of assets

Effective from January 1, 2005, the Company adopted SFAS No.35 "Accounting for Asset Impairment". According to SFAS No.35, the Company assesses at each balance date whether there is any indications that an asset (individual asset or cash generation units) other than goodwill may have be impaired and estimates its recoverable amount. If the recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount, and the reduction should be recognized as impairment loss.

The accumulated impairment loss of an asset (other than goodwill) recognized in prior years should be reversed if, subsequently, it may no longer exist or may have decreased. The carrying amount of an asset (other than goodwill) after the reversal of impairment loss should not exceed the carrying amount that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in the prior year.

If the recoverable value of the unit where the goodwill belonging to, is less then the carrying value of the unit, on an annual test basis, the Company shall recognize an impairment loss.

### III. Cause and impact of accounting principles change:

- (1) Effective from January 1, 2006, the Company adopted the SFAS No.34 "Accounting for Financial Instruments", and No.36 "Disclosure and Presentation of Financial Instruments". With the adoption of those financial statements, financial assets and liabilities (including derivatives) were classified appropriately. The adjustment of the carrying amounts of the financial instruments categorized as the financial assets or liabilities at fair value through profit or loss and the derivatives that meet the criteria for hedge accounting were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustment of the carrying amounts of those categorized as financial assets carried at cost, available-for-sale financial assets were recognized under shareholders' equity. As of January 1, 2006, the cumulative effect of change in accounting principle amounted to \$72 (net of tax).
- (2) The Company has adopted SFAS No.35 "Accounting for Asset Impairment" starting from January 1, 2005, and there is no effect on the application of the statement as of and for the six months ended June 30, 2005.

### IV. Explanations on major accounts

#### 1. Cash and cash equivalents

	June. 30, 2006	June. 30, 2005
Petty cash	\$ 85	\$ 199
Checking account deposit	290	358
Demand deposit	86,543	45,058
Time deposit	433,411	306,200
Foreign currency deposit	9,238	68,695
Total	<u>\$ 529,567</u>	<u>\$ 420,510</u>

The aforementioned items have been free of any restrictions in disbursement.

#### 2. Financial assets at fair value through profit or loss - current

	June. 30, 2006	June. 30, 2005
Financial assets held for trading		
Open-end funds	\$ 4,806	\$ 10,000
Call option contracts	20,388	170,256
Future trading margins - proprietary funds	615,199	279,364
Total	<u>\$ 640,393</u>	<u>\$ 459,620</u>

- (1) The beneficiary certificate of the mutual fund stated at lower of cost or market prices on June 30, 2005, call option contracts, and future trading margins-proprietary funds were reclassified to financial assets held for trading in accordance with the letter No.16 in 2005 of ROC Accounting Research and Development Board and SFAS No.34.
- (2) Future trading margins-proprietary funds were the operating fund of futures proprietary business.
- (3) The above financial assets were provided to be free of any pledges or collateral.

### 3. Margin deposits

	June 30, 2006	June 30, 2005
Customer margin deposit-Cash in banks	\$ 6,192,067	\$ 5,656,476
Customer margin deposit-clearinghouse	1,277,101	1,184,946
Customer margin deposit-Other FCMs	489,943	310,622
Total	<u>\$ 7,959,111</u>	<u>\$ 7,152,044</u>

Differences between margin deposits and payables to customers are described as follows:

	June 30, 2006	June 30, 2005
Balance of margin deposits	\$ 7,959,111	\$ 7,152,044
Plus:		
Futures trading margin receivable - default	0	28,185
Minus:		
Accrued service charge	( 22,889)	( 44,106)
Accrued interest income	( 3,358)	( 1,244)
Futures trading tax	( 1,654)	( 3,281)
Deposits from unknown customers	0	( 23)
Balance of payables to customers	<u>\$ 7,931,210</u>	<u>\$ 7,131,575</u>

### 4. Available-for-sale financial assets - non-current

- (1) As of June 30, 2006

Investees	Shares (in thousands)	Amount	Ownership	Remark
Taiwan Futures Exchange Corporation	3,401	<u>\$ 35,510</u>	1.7%	-

(2) As of June 30, 2005

Investees	Shares (in thousands)	Amount	Ownership	Remark
Taiwan Futures Exchange Corporation	3,401	\$ 35,510	1.7%	-

(3) The Company has no material influences on Taiwan Futures Exchange Corporation which is not a listed company and the carrying amount of the assets is valued at cost.

(4) As of June 30, 2006 and 2005, Available-for-sale financial assets were not pledged or mortgaged.

## 5. Fixed assets

(1) As of June 30, 2006

	Cost	Accumulated depreciation	Balance
Land	\$ 69,313		\$ 69,313
Buildings	38,034	\$ 1,598	36,436
Computer communication equipment	189,187	128,621	60,566
Office equipment	10,844	5,168	5,676
Transportation equipment	6,824	1,676	5,148
Prepayment for equipment	4,213	0	4,213
Leasehold improvement	24,529	9,381	15,148
Total	<u>\$ 342,944</u>	<u>\$ 146,444</u>	<u>\$ 196,500</u>

(2) As of June 30, 2005

	Cost	Accumulated depreciation	Balance
Land	\$ 69,313		\$ 69,313
Buildings	38,034	\$ 542	37,492
Computer communication equipment	190,217	106,096	84,121
Office equipment	10,134	4,062	6,072
Transportation equipment	2,577	923	1,654
Prepayment for equipment	671	0	671
Leasehold improvement	36,788	11,572	25,216
Total	<u>\$ 347,734</u>	<u>\$ 123,195</u>	<u>\$ 224,539</u>

(3) The Company has provided land and buildings as collateral for the credit-line as of June 30, 2006 and June 30, 2005.

(4) Insurance

Insurance	June 30, 2006	June 30, 2005	Remark
Building	\$ 32,000	\$ -	2006 fire insurance (including comprehensive insurance)
Computer and office equipment	88,500	56,000	2006 fire insurance (including comprehensive insurance) and 2005 fire insurance (including comprehensive insurance)
Leasehold improvement	24,500	20,500	2006 fire insurance (including comprehensive insurance) and 2005 fire insurance (including comprehensive insurance)
Total	<u>\$ 145,000</u>	<u>\$ 76,500</u>	

A. The comprehensive insurances for 2006 consisted of explosion insurance, earthquake insurance, flood insurance and suspended operation insurance, smoke insurance, automatic fire-fighting equipment leakage insurance and strike, riot, civil disturbance and intentional deterioration insurances.

B. The comprehensive insurances for 2005 consisted of explosion insurance, earthquake insurance, flood insurance and suspended operation insurance.

C. The Company is covered by the public accidental liability insurance in 2006 and 2005.

6. Other assets

	June 30, 2006	June 30, 2005
Operations guarantee deposits	\$ 110,000	\$ 100,000
Clearing and settlement funds	141,000	137,000
Refundable deposits	11,488	11,855
Deferred charges	26,512	20,866
Deferred income tax assets- noncurrent	48,540	42,886
Total	<u>\$ 337,540</u>	<u>\$ 312,607</u>

7. Other payables

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Salary payable	\$ 10,181	\$ 9,302
Bonus payable	36,299	25,092
Rental payable	0	197
Interest payable	170	272
Labor and health insurance payable	2,657	2,149
Marketing expense payables	8,852	102
Other expenses payable	12,374	6,598
Income tax payable	46,131	27,270
Dividend payable	15,894	77,400
Other payables	7,217	5,807
Total	<u>\$ 139,775</u>	<u>\$ 154,189</u>

8. Accrued pension liabilities

The Company has recognized the pensions cost in accordance with the SFAS No.18 "Accounting for Pensions" since January 1, 1999. For the six months ended June 30, 2006 and 2005, the pension cost were \$1,940 and \$2,707, respectively. As of June 30, 2006 and 2005 the balances of pension benefits deposited with the Central Trust of China were \$10,197 and \$9,634, respectively.

Labor Pension Act has been enforced on July 1, 2005 and adopts the defined-contribution scheme. The net pension cost contributed and recognized by the Company according to the Act for the six months ended June 30, 2006 was \$4,599. The accrued pension liability booked as of June 30, 2006 was \$776.

9. Capital

Date	Registered capital	Paid-in capital	Par value	Remarks
Apr. 9, 1997	\$ 200,000	\$ 200,000	\$ 10	Initial capital upon founding
Feb. 9, 1998	500,000	500,000	10	Capital increased in cash 30,000,000 shares
May 27, 1998	600,000	600,000	10	Capital increased in cash 10,000,000 shares
Jul. 22, 1999	615,000	615,000	10	Capital increased in cash 1,500,000 shares
Aug. 26, 2000	630,000	630,000	10	Capital increased in cash 1,500,000 shares

Sept. 1, 2003	1,095,800	1,095,800	10 Capital increased 46,580,000 shares due to business merger
Nov. 19, 2003	645,000	645,000	10 Retirement of stock capital 45,080,000 shares
Aug. 31,2005	722,400	722,400	10 Earnings converted for capital increase by 7,740,000 shares

The appropriation of stock dividends in the amount of \$79,464 had been resolved in general shareholders' meetings and approved by the SFB on July 28, 2006. As of August 7, 2006, the board of directors has not set the ex-dividend date for stock dividends.

#### 10. Special reserve

Under Article 18 of Rules Governing Futures Commission Merchants issued by FSC of the Financial Supervisory Commission, Executive Yuan, the futures commission merchants shall set aside an amount equal to 20% of its after-tax net income as special reserve, provided that this shall not be required if the accumulated amount reaches the paid-in capital amount. The special reserve shall not be used for purposes other than covering the losses of the Company or, when the special reserve reaches 50% of the amount of paid-in capital, half of it may be capitaized.

#### 11. Distribution of retained earnings

- (1) According to the Company's Articles of Incorporation, the after-tax net income shall first be used to offset the accumulated deficits, then 10% is set aside as a legal reserve and 20% is set aside as a special reserve, the remaining amount after deducting the above from the current year's earnings with the prior years' unappropriated earnings shall be distributed in the following order :
  - A. Set aside 0.01%~2% as directors' and supervisors' remuneration; and
  - B. Set aside 0.01%~10% as employees' bonus; and
  - C. The remaining balance shall be distributed as dividends to shareholders.
- (2) The policy of the Company's dividend distribution, is to maintain the long-term financial planning and continuous development and steady operation growth as to maximize the profit of shareholders, complies with:
  - A. As least 50% of current year's unappropriated earnings shall be distributed as shareholders' dividends annually.

B. Dividends are distributed based on the current year's profitability and the future needs of the Company. This principle is applied for the stability of the Company's operations and financing requirements. At least 30% of the dividend distributed must be in the form of cash.

- (3) After the imputation system was enforced in 1998, when the Company's earnings are not distributed is subject to additional 10% income tax. There will be no more levy imposed if the earnings are not distributed in subsequent years.
- (4) The retained earnings for the year ended 2005 appropriated as employees bonus and directors and supervisors' remuneration are disclosed as follows. Information relating to the appropriation of the Company's 2005 earnings as proposed by the Board of directors and resolved by the shareholders is published on the "Market Observation Post System" at the website of the Taiwan stock Exchange.

	The actual distribution of number of shares resolved by the meeting of shareholders	Distribution of number of shares determined by the Board of Directors	Difference	Reason of difference
1. Distribution				
(1) Employee bonus – cash dividend	\$ 159	\$ 159	0	-
(2) Employee bonus – stock dividend				
(a) Number of shares	0	0	0	-
(b) Amount	0	0	0	-
(c) Percentage of number of shares outstanding at the end of the current year	0	0	0	-
(3) Directors' and supervisors' remuneration	159	159	0	-
2. Earnings per share			0	
(1) Original earnings per share	\$ 3.24	\$ 3.24	0	-
(2) Imputed earnings per share	\$ 3.24	\$ 3.24	0	-

## 12. Income tax

- (1) The Company's income tax returns through 2003 have been assessed by the National Tax Administration (NTA). Additional income tax of \$1,025 were levied by the NTA for 1998 and 1999. The Company accrued appropriate tax provisions in 2005 and filed an appeal to the Taiwan High Court which is still under review.
- (2) The Company already filed its business income tax return for the year 2005 and 2004 on time, which is being reviewed by the NTA.

- (3) The income tax payables for the years ended June 30, 2006 and 2005 were estimated as follows:

Items	Six months ended June 30	
	2006	2005
Income tax on net profit before tax, at tax rate according to income tax law, ROC	\$ 58,620	\$ 31,862
Cumulative effect of changes in Accounting principles	18	-
Permanent differences:		
Bill interest levied separately	( 41)	( 30)
Valuation Loss for financial instruments	49	-
Gains on Securities transaction exempted from tax under Article 4-1 of Income Tax Law, ROC	( 14)	( 311)
Gains on futures transaction exempted from tax under Article 4-2 of Income Tax Law, ROC	( 17,362)	( 1,264)
Gains on futures transaction which is unrealized in the prior year and closed in the current year	1,933	6,848
Losses on option contracts which is unrealized in the prior year and closed in the current year	( 874)	( 3,998)
Losses on opened futures transaction in the current year	( 2,172)	7,902
Gains on opened option contracts in the current year	-	( 13,024)
Losses on opened option contracts in the current year	2,150	-
Income tax expense in the current period	42,307	27,985
Adjustment to income tax expenses in the prior period	( 2,482)	( 6,022)
10% tax on undistributed retained earning	498	-
Income tax expense	40,323	21,963
Adjustment to temporary differences:		
Unrealized losses on foreign exchange in the prior period	( 413)	( 1,039)
Unrealized gains on foreign exchange in the prior period	583	186
Unrealized losses on foreign exchange in the current year	14	476
Unrealized gains on foreign exchange in the current year	( 124)	( 419)
Unrealized trading losses	3,962	1,425
Unrealized breach of contract losses	3,675	3,040
Differences in finance and taxation of employees' welfare	-	( 233)
Differences in pension cost and appropriation	460	391
Adjustment to income tax expenses in the prior period	2,482	6,022
Prepaid Income tax	( 5,344)	( 4,542)
Income tax payable	\$ 45,618	\$ 27,270

(4) Effect of deferred income tax

A. Deferred income tax assets and liabilities were as follows:

	June 30, 2006	June 30, 2005
(A) Total deferred income tax assets	\$ 48,554	\$ 43,362
(B) Total deferred income tax liabilities	124	419
(C) Temporary differences (tax) arising from deferred income tax assets or liabilities		
• Payable provisional difference incurred by ( recognition of unrealized gains in foreign exchange	( 124)	( 419)
• Deductible provisional difference incurred by recognition of unrealized losses in foreign exchange	14	476
• Deductible provisional difference incurred by recognition of employees' welfare under tax law	-	233
• Deductible provisional differences incurred by recognition of unrealized trading losses	6,859	1,488
• Deductible provisional difference incurred by recognition of unrealized losses in breach of contract	23,076	16,222
• Deductible provisional differences incurred by recognition of unrealized bad debts losses	15,651	22,697
• Deductible provisional differences incurred by recognition of pension cost under SFAS No. 18	2,954	2,246

B.

Items	June 30, 2006		June 30, 2005	
	Current	Noncurrent	Current	Noncurrent
Deferred income tax assets	\$ 14	\$ 48,540	\$ 476	\$ 42,886
Deferred income tax liabilities	( 124)	-	( 419)	-
Net deferred income tax assets (liabilities)	<u>(\$ 110)</u>	<u>\$ 48,540</u>	<u>\$ 57</u>	<u>\$ 42,886</u>

(5) Information of imputation credit account ("ICA")

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Expected (actual) available ICA	<u>\$ 97,534</u>	<u>\$ 113,331</u>
Expected (actual) ratio of ICA	<u>33.70%</u>	<u>33.33%</u>

(6) Information of unappropriated retained earnings:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Before 1997	<u>\$ 1,021</u>	<u>\$ 1,021</u>
After 1998	<u>199,285</u>	<u>105,722</u>
Total	<u>\$ 200,306</u>	<u>\$ 106,743</u>

13. Earnings per share

	<u>Six months ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Income before cumulative effect of changes in accounting principles	<u>\$ 194,197</u>	<u>\$ 105,525</u>
Cumulative effect of changes in accounting principles net of tax expense	<u>72</u>	<u>-</u>
Net income after tax	<u>\$ 194,269</u>	<u>\$ 105,525</u>
Weighted-average number of common shares outstanding (thousand shares)	<u>72,240</u>	<u>64,500</u>
Weighted-average number of common shares outstanding (thousand shares)- retroactive upon adjustment	<u>72,240</u>	<u>72,240</u>
EPS (in dollars)-retroactive upon adjustment		
Earnings per share before cumulative effect of changes in accounting principle	<u>\$ 2.69</u>	<u>\$ 1.46</u>
Earnings per share for cumulative effect of changes in accounting principle	<u>-</u>	<u>-</u>
Earnings per share after tax	<u>\$ 2.69</u>	<u>\$ 1.46</u>

14. Expenses relating to employment, depreciation and amortization for the six months ended 2006 and 2005 disclosed by function were as follows:

Function Character	Six months ended June 30, 2006			Six months ended June 30, 2005		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employment						
Payroll	-	\$ 146,157	\$ 146,157	-	\$ 121,562	\$ 121,562
Labor and health insurance	-	6,335	6,335	-	6,144	6,144
Pension	-	6,539	6,539	-	2,707	2,707
Others	-	3,783	3,783	-	3,626	3,626
Depreciation	-	15,231	15,231	-	19,161	19,161
Amortization	-	8,186	8,186	-	7,070	7,070

#### 15. Reclassifications

Upon the adoption of SFAS No.34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to conform to the presentation of financial statements as of and for the six months ended June 30, 2006 for purpose of comparison. The previous issued financial statements as of and for the six months ended June 30, 2005 need not be restated.

#### V. Transactions with related parties

##### 1. Names and relationships of related parties

Names of related parties	Relationship with the Company
Polaris Securities Co., Ltd.	The Company's parent Company
Apex International Financial Engineering Res. & Tech. Co., Ltd.	Substantial related party
Polaris International Investment Trust Co., Ltd. – Polaris Silicon Valley Fund ("Silicon Valley Fund")	Substantial related party
Polaris International Investment Trust Co., Ltd. – Polaris Small Medium Cap Fund ("Small Medium Cap Fund")	Substantial related party
Polaris International Investment Trust Co., Ltd. – Polaris Taiwan Top 50 Tracker Fund ("Top 50 Tracker Fund")	Substantial related party

Names of related parties	Relationship with the Company
Polaris International Investment Trust Co., Ltd. – Polaris Taiwan Stock Exchange Capitalization Weighted Stock Index Fund (“TSE Capitalization Weighted Stock Index Fund”)	Substantial related party
Polaris International Investment Trust Co., Ltd. – Polaris Various strategic Fund (“Various strategic Fund”)	Substantial related party
Kwong Fong Industries Corp. Refco Global Holdings, LLC Refco Global Holdings, LLC Taiwan Branch (Note)	Both chairmen are related parties The Company’s director The USA headquarters is the Company’s director.
Man Financial (S) Pte Ltd Taiwan Branch	Substantial related party
Polaris Public Relations Consultants Ltd.	Substantial related party
Polaris Securities (Hong Kong) Limited	100% shareholding held by Polaris Securities Co., Ltd.
Polaris-Propime Securities Investment Advisor Co., Ltd.	100% shareholding held by Polaris Securities Co., Ltd.
Rosenthal Collins Group Ltd.	The chairman is the same as the Company’s
Apex Investment Co., Ltd.	Substantial related party
Yoing Investment Co., Ltd.	Substantial related party
Polaris Research Institute	The Company donated one-third of paid-in fund of the Institute.
Chinese Taipei Skating Union	The Chairperson is the Chairman of Board of the Company.
Bank of Overseas Chinese Ho Ming-Yu	Substantial related party A relative of the Company’s chairman
Pai Wen-Cheng	The Chairman of Polaris Securities Co., Ltd.
Pai Che-Yu	A relative of the parent Company’s chairman
Pai Che-Ren	A relative of the parent Company’s chairman
Ho Ming-Hong	The Chairman of the Company

Note: The Company's related party, Refco Global Holdings, LLC Taiwan Branch, applied for dissolution on January 16, 2006 and the application was approved by the competent authority on Feb. 6, 2006.

2. Transactions with the related parties

(1) Brokerage Revenue

Name of related party	For the six months ended June 30			
	2006		2005	
	Amount	%	Amount	%
Others	\$ 5,894	0.80%	\$ 4,623	0.76%

There is no significant difference between related parties and nonrelated parties on brokerage.

(2) Futures introducing broker commissions and sub-agent futures trading commissions paid by the Company to related parties as follows:

Name of related party	For the six months ended June 30			
	2006		2005	
	Amount	%	Amount	%
Polaris Securities Co., Ltd.	\$ 119,825	59.19%	\$ 105,020	62.84%
Refco Global Holdings, LLC Taiwan Branch	-	-	35,601	21.30%
Bank of Overseas Chinese	-	-	280	0.17%
Polaris Securities (Hong Kong) Limited	722	0.36%	101	0.06%
Man Future LLC Taiwan Branch	55,337	27.34%	-	-
Total	\$ 175,884	86.89%	\$ 141,002	84.37%

There is no significant difference between related parties and non-related parties on futures broker commissions and sub-agent futures trading commissions paid by the Company.

(3) Error entry revenues received by the Company from related parties as follows:

Items	Name of related party	For the six months ended June 30			
		2006		2005	
		Amount	%	Amount	%
Error enter revenues	Polaris Securities Co., Ltd.	\$ 21	9.71%	\$ 11	3.18%

#### (4) leasehold Properties

Lessor	Premises in leasehold	Deposits	Rent expense Six months ended June 30	
			2006	2005
Polaris Securities Co., Ltd.	5F-1, 151, Chongcheng 4th Rd., Kaohsiun, and 2F, 420, Fu Xing N. Rd., Taipei, and B1, No.69 Sec.2, Tunhua S.Rd., Taipei	\$ 100	\$ 372	\$ 1,892
Kwong Fong Industries Corp.	5F-1, 2, Tunhua S. Rd., Taipei	-	-	3,964

- A. On leasehold between the Company and associated parties, rentals have been set at general market rates and paid on a monthly basis. The transaction condition makes no difference for third parties.
- B. The office lease between the Company and Kwong Fong Industries Corp. has been terminated in October 2005, and the Company had collected the deposit refund in the amount of NT\$1,928 in November 2005.
- C. The office lease between the Company and Polar Securities Co. in Fu-Xing North Road had been terminated in May 2005.

#### (5) Credits and liabilities

Items	Name of related party	June 30, 2006		June 30, 2005	
		Amount	%	Amount	%
Margin deposits - USD	Refco Global Holdings, LLC Taiwan Branch	-	-	\$ 208,253	2.91%
Margin deposits - JPY	Refco Global Holdings, LLC Taiwan Branch	-	-	32,576	0.46%
Margin deposits - HKD	Polaris Securities (Hong Kong) Limited	\$ 12,760	0.16%	3,978	0.06%
Margin deposits - USD	Man Financial (S) Pte Ltd. Taiwan Branch	306,606	3.85%	-	-
Margin deposits - JPY	Man Financial (S) Pte Ltd. Taiwan Branch	25,951	0.33%	-	-
Margin deposits - GBP	Man Financial (S) Pte Ltd. Taiwan Branch	3,042	0.04%	-	-
Margin deposits - EUR	Man Financial (S) Pte Ltd. Taiwan Branch	245	-	-	-
		<u>\$ 348,604</u>	<u>4.38%</u>	<u>\$ 244,807</u>	<u>3.43%</u>
Futures trading margins-proprietary funds-USD	Refco Global Holdings, LLC Taiwan Branch	-	-	\$ 24,011	8.59%
Futures trading margins-proprietary funds-JPY	Refco Global Holdings, LLC Taiwan Branch	-	-	831	0.30%
Futures trading margins-proprietary funds-HKD	Polaris Securities (Hong Kong) Limited	\$ 3,965	0.64%	-	-
Futures trading margins-proprietary funds-USD	Man Financial (S) Pte Ltd. Taiwan Branch	74,706	12.14%	-	-
Futures trading margins-proprietary funds-JPY	Man Financial (S) Pte Ltd. Taiwan Branch	6,618	1.08%	-	-
		<u>\$ 85,289</u>	<u>13.86%</u>	<u>\$ 24,842</u>	<u>8.89%</u>

Items	Name of related party	June 30, 2006		June 30, 2005	
		Amount	%	Amount	%
Prepaid expenses	Polaris Securities Co., Ltd.	\$ 300	2.82%	\$ 300	4.30%
Accounts receivable	Polaris Securities Co., Ltd.	-	-	\$ 32	76.19%
Interest receivable	Refco Global Holdings, LLC Taiwan Branch	-	-	\$ 864	13.06%
Other receivable (dividend withhold tax)	Man Financial (S) Pte Ltd. Taiwan Branch	\$ 5,704	42.45%	-	-
Payables to customers	Top 50 Tracker Fund	\$ 62,594	0.79%	\$ 8,517	0.12%
	Ho Ming-Hong	128,564	1.62%	43,301	0.61%
	Ho Ming-Yu	106,520	1.34%	13,459	0.19%
	Pai Wen-Cheng	46,924	0.59%	8,029	0.11%
	Others	54,413	0.68%	44,864	0.62%
			\$ 399,015	5.02%	\$ 118,170
Notes payable	Polaris Securities Co., Ltd.	\$ 360	7.35%	\$ 300	8.44%
Accounts payable	Polaris Securities Co., Ltd.	\$ 22,543	39.70%	\$ 20,250	36.22%
	Refco Global Holdings, LLC Taiwan Branch	-	-	4,870	8.71%
	Man Financial (S) Pte Ltd. Taiwan Branch	5,325	9.38%	-	-
	Bank of Overseas Chinese	-	-	31	0.06%
			\$ 27,868	49.08%	\$ 25,151

(6) Others

Accounting title	Name of related party	Six months ended Jun 30			
		2006		2005	
		Amount	%	Amount	%
Computing information fee	Apex International Financial Engineering Res. & Tech. Co., Ltd.	\$ 222	0.67%	\$ 222	0.85%
Marketing fee	Polaris Public Relations Consultants Limited	2,400	16.27%	1,800	15.27%
Interest revenue	Refco Global Holdings, LLC Taiwan Branch	-	-	2,117	4.00%
	Singapore Man	498	0.82%	-	-
	Bank of Overseas Chinese	8,007	13.13%	-	-
Professional fee	Polaris Securities Co., Ltd.	59	0.95%	28	1.45%
	Polaris-Propime Securities Investment Advisor Co., Ltd.	-	-	58	3.01%
Donation	Polaris Research Institute	700	97.22%	1,000	100%
Bank deposits-proprietary trading	Bank of Overseas Chinese	165,090	25.78%	50	0.01%

VI. Pledged Assets: Please refer to note IV-6.

VII. Significant Commitments and contingencies:

The Company entered into a Real Estate Purchase Agreement (the "Agreement") with Yuanta Core Pacific Securities Co., Ltd. ("Yuanta Core Pacific") in November 2004. Under the Agreement, the Company shall pay Yuanta Core Pacific NT\$134,510 for its real estate located at 10F, No. 65 & 67, Sec. 2, Tunhua S. Road, Taipei (leased to third party at present). Both parties agreed to sign the acquisition deed when Yuanta Core Pacific cancel its leasing contract with its tenant or the contract expiration whichever is earlier. The Company has paid NT\$7,200 to Yuanta Core Pacific as the security deposit while signing the Agreement. In the event of a default by the Company, Yuanta Core Pacific may retain the said security deposit as default compensation. On the contrary, Yuanta Core Pacific against the Agreement shall return the said security deposit and pay NT\$13,200 to the Company as default penalty.

VIII. Significant losses due to major disasters: Nil.

IX. Disclosure of information as related to investment in derivative financial instruments

1. Derivative financial instruments

(1) As of June 30, 2006 and 2005 the unexpired futures and option contracts are shown as follows:

A. As of June 30, 2006

Items	Trading category	Open position		Amount paid for (received from) premium	Fair value
		Buy / Sell	Number of contracts		
Futures contract	MiNi-TAIEX Index Futures	Buy	609	\$ 199,414	\$ 202,614
		Sell	90	28,770	29,385
	Finance Sector Index Futures	Buy	4	3,758	3,815
		Sell	116	103,623	110,367
	Electronic Sector Index Futures	Sell	112	122,293	124,544
		TAIEX Futures	Buy	405	529,381
	TAIFEX Gold Futures	Sell	43	55,467	56,158
		Buy	170	305,705	323,371
	Japanese Yen Futures	Sell	222	311,941	323,630
		Buy	2	7,067	7,165
	Hang Seng Index Futures	Buy	1	3,381	3,381
	Nikkei Index Futures	Buy	8	17,371	17,379
	Gasoline Futures	Buy	2	1,761	1,851
Nature Rubber Futures	Buy	2	873	868	
Option contract	TAIEX options and equity options	Buy	4194	25,215	20,388
		Sell	2,985	24,427	28,200

B. As of June 30, 2005

Items	Trading category	Open position		Amount paid for (received from) premium	Fair value
		Buy / Sell	Number of contracts		
Futures contract	MiNi-TAIEX Index Futures	Sell	171	\$ 52,536	\$ 52,284
		Buy	39	12,095	12,088
	Finance sector index Futures	Sell	10	9,202	9,460
		Buy	12	11,325	11,532
	Electronic sector index Futures	Sell	5	4,466	5,004
		Buy	5	4,828	5,054
	Stock price index Futures	Sell	675	795,290	822,542
Buy		321	402,203	397,976	
Option contract	TAIEX options and equity options	Buy	8,060	126,714	170,256
		Sell	6,613	25,437	16,882

2. Fair values of financial instruments

	June 30, 2006		June 30, 2005	
	Book value	Fair value	Book value	Fair value
<u>Non-derivative instruments</u>				
Financial assets				
Cash and cash equivalents	\$ 529,567	\$ 529,567	\$ 420,510	\$ 420,510
Financial assets at fair value through profit or loss-current				
Open-end funds	4,806	4,806	10,000	10,026
Derivative financial instrument	635,887	635,887	449,620	449,620
Available-for-sale financial assets-noncurrent	35,510	35,510	35,510	35,510
Refundable Deposits	11,488	11,488	11,855	11,855
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial instrument	28,200	28,200	16,882	16,882
<u>Derivative instruments</u>				
Future trading margins-proprietary funds	615,199	615,199	279,364	279,364
Call Option – nonhedging	20,388	20,388	170,256	170,256
Put Option Liabilities	28,200	28,200	16,882	16,882

The methods and assumptions used to evaluate the fair values of each class of financial instruments were as follows:

- (1) Short-term financial instruments are stated at their carrying value on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. Those in such category include cash and cash equivalents, notes and accounts receivable, margin deposits, other receivable, operations guarantee deposits, clearing and settlement funds, refundable deposits, payables to customers, notes and accounts payable, income tax payable, other payables and accrued pension liabilities.
  - (2) Quoted market prices, if available, are utilized as estimates of the fair value of financial assets and liabilities. If no quoted market prices for the financial instruments, the fair value has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
3. As of June 30, 2006, the fair value of the financial instruments, which were based on quoted market value in active market or pricing model, were as follows:

	June 30, 2006	
	Quoted Market value in active market	Pricing model
<u>Financial assets</u>		
<u>Financial assets at fair value through profit or loss-current</u>		
Open-end funds	\$ 4,806	-
Derivative financial instrument		
Call option contracts	20,388	-
Future trading margins-proprietary funds	-	\$ 615,199
Total	<u>\$ 25,194</u>	<u>\$ 615,199</u>
<u>Financial liabilities</u>		
<u>Financial liabilities at fair value through profit or loss-current</u>		
Derivative financial instrument		
Put option liabilities	\$ 28,200	-

4. All the financial assets are not pledged.
5. The amount arising from the accounting principle change was \$8,689 for the six months ended June 30, 2006.

## 6. Financial Risk Information

### (1) Market risk

The major risk of the futures and options trading undertaken by the Company is the market risk arising from the fluctuations in the market prices of the underlying securities. All the proprietary trading are evaluated at the fair market price enhance with the hedging policy to reduce the risk exposures. Trading strategies consist of the market diversification in order to avoid a single market risk. Maximum loss \$3,000 will be incurred if market index prices and the prices of the underlying securities move in opposite directions up to 1% during a trading day.

### (2) Credit risk

All the Company's proprietary trading including futures, options and stocks were traded in the official exchanges through daily settlement mechanism. No significant credit risk is expected to arise.

### (3) Liquidity risk

The Company is primary engaged in the public standardized transactions and the liquidity risk is assessed to be remote except for market making purpose.

As a market maker, cash settlement is usually adopted which permits the long and short to pay the net cash value of the position on the delivery date such as index option and avoid all risk by utilizing the put-call parity theory and hold up to the contract expiration.

If a physical delivery is required, the stop-loss mechanism has been established to control the risk at minimum level.

## 7. The significant information of credit risk

The Company's trading positions are widely diversify not only the counterparties but also the markets. Complied with the applicable regulations and strict self-disciplines to monitor the margin and control the risk on a daily basis.

X. Restrictions and enforcement of the Company's various financial ratios under ROC Futures Trading Law:

Art	Calculation formula	Current period		Prior period		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	<u>Shareholders' equity</u>	1,371,880	439.15%	1,128,539	337.73%	≥ 100%	Satisfactory to requirements
	Total liabilities – Payables to customers – Reserve for trading losses – Reserve for breach of contract losses	8,363,343 – 7,931,210 – 27,434 –92,305		7,536,567 – 7,131,575 – 5,952 – 64,886			
17	<u>Current assets</u>	9,153,882	112.11%	8,082,850	109.73%	≥ 100%	Satisfactory to requirements
	<u>Current liabilities</u>	8,165,008		7,365,992			
22	<u>Shareholders' equity</u>	1,371,880	207.86%	1,128,539	174.97%	≥ 60%	Satisfactory to requirements
	Minimum paid-in capital	660,000		645,000			
22	<u>Post-adjustment net capital</u>	1,048,589	91.72%	713,750	58.45%	≥ 20%	Satisfactory to requirements
	Total customer margin deposits required for futures traders, not yet offset	1,143,235		1,221,150			

XI. Unique risks to FCM's services:

1. Specific risk of futures brokerage business

The Company's business lines include brokerage business acting as an agent for trading of futures contracts and future option contracts. The Company, when consigned to proceed the futures trading, should collect the trading margin deposits from clients. When trading margin deposits is not enough to pay off the loss, the Company runs the risk of significant out-of-account financing risks. As a countermeasure, the Company, in line with trading of individual customers, is closely watchful of the margin deposits to maintain a certain level and, as necessary, requests that the customers pay additional margin deposits or reduce trading values so as to control such risks.

2. Specific risk of futures proprietary trading business

The Company's proprietary trading business is to deal with futures or option contracts with its own fund. The major risk is the market risk for the open position. Supervising the leverage level, evaluating the open positions, and real-time electronic programming monitoring are implemented to control the risks under the tolerable limitation.

XII. Segment information:

1. Departmental information

(1) For the six months ended June 30, 2006

Items	Futures Brokerage Business		Futures Proprietary Trading Business		Total	
	Amount	%	Amount	%	Amount	%
Profit or loss contributed by segment						
Segment revenues						
Brokerage	\$ 733,817	92	-	-	\$ 733,817	77
Clearance fee from consignment	1,224	-	-	-	1,224	-
Derivative financial instrument's profit	-	-	\$ 150,792	98	150,792	16
Futures advisory fees	11	-	-	-	11	-
Other operating revenues	218	-	-	-	218	-
Nonoperating revenues	65,093	8	3,237	2	68,330	7
Total	800,363	100	154,029	100	954,392	100
Segment expenses						
Brokerage	( 81,257)	( 10)	( 3,027)	( 2)	( 84,284)	( 9)
Futures commission	( 200,914)	( 25)	( 1,518)	( 1)	( 202,432)	( 21)
Clearance fee	( 55,397)	( 7)	( 2,191)	( 1)	( 57,588)	( 6)
Payroll	( 129,739)	( 16)	( 22,560)	( 15)	( 152,299)	( 16)
Depreciation and amortization	( 23,051)	( 3)	( 366)	-	( 23,417)	( 2)
Other operating expenses	( 65,642)	( 8)	( 22,426)	( 15)	( 88,068)	( 9)
Nonoperating expenses and losses	( 6,632)	( 1)	( 48)	-	( 6,680)	( 1)
Total	( 562,632)	( 70)	( 52,136)	( 34)	( 614,768)	( 64)
Profit for each segment	237,731	30	101,893	66	339,624	36
Revenues and expenses were indirectly occurred by each segment						
Various revenues					442	-
Administrative expenses					( 105,546)	( 11)
Interest expenses					-	-
Other expenses					-	-
Total					( 105,104)	( 11)
Income before income tax					234,520	25
Income tax expense					( 40,323)	( 4)
Cumulative effect of changes in accounting principles					72	-
Net income					\$ 194,269	21

## (2) For the six months ended June 30, 2005

Items	Futures Brokerage Business		Futures Proprietary Trading Business		Total	
	Amount	%	Amount	%	Amount	%
Profit or loss contributed by segment						
Segment revenues						
Brokerage	\$ 607,377	93	-	-	\$ 607,377	84
Clearance fee from consignment	662	-	-	-	662	-
Derivative financial instrument profit	-	-	\$ 66,099	95	66,099	9
Futures advisory fees	19	-	-	-	19	-
Other operating revenues	346	-	-	-	346	-
Nonoperating revenues	48,336	7	3,332	5	51,668	7
Total	656,740	100	69,431	100	726,171	100
Segment expenses						
Brokerage	( 75,161)	( 12)	( 722)	( 1)	( 75,883)	( 10)
Futures commission	( 166,747)	( 25)	( 368)	( 1)	( 167,115)	( 23)
Clearance fee	( 52,218)	( 8)	( 555)	( 1)	( 52,773)	( 7)
Payroll	( 83,045)	( 13)	( 12,120)	( 17)	( 95,165)	( 13)
Depreciation and amortization	( 3,214)	-	( 458)	( 1)	( 3,672)	( 1)
Other operating expenses	( 80,327)	( 12)	( 25,092)	( 36)	( 105,419)	( 15)
Nonoperating expenses and losses	( 1,452)	-	( 188)	-	( 1,640)	-
Total	( 462,164)	( 70)	( 39,503)	( 57)	( 501,667)	( 69)
Profit for each segment	194,576	30	29,928	43	224,504	31
Revenues and expenses were indirectly occurred by each segment						
Various revenues					1,191	-
Administrative expenses					( 91,500)	( 13)
Interest expenses					( 1,955)	-
Other expenses					( 4,752)	( 1)
Total					( 97,016)	( 14)
Income before income tax					127,488	17
Income tax expense					( 21,963)	( 3)
Net income					\$ 105,525	14

## 2. Financial information about departments

In accordance with SFAS No.23 "Interim Financial Reporting and Disclosures", an enterprise is not required to comply with SFAS No.20 "Disclosure of Segment Financial Information" when preparing interim financial statements.

### XIII. Significant subsequent events

The capital increase from the retained earnings in the amount of \$79,464 had been resolved in general shareholders' meetings and authorized by the SFB on July 28, 2006. As of August 7, 2006, the board of directors has not set the record date of ex-right.

### XIV. Others

1. Please refer to note VII in relation to the Company entered into a real estate purchase agreement with Yuanta Core Pacific Securities Co., Ltd.
2. The shareholder holding 20% shares of the Company, Refco Global Holdings, LLC has been auctioned by the U.S. court and acquired by Man Group. The transferring of the rights is still in process as of August 7, 2006.
3. The Company entered into a commercial contract with Man Financial (S) Pte Ltd. on Feb. 6, 2006. Man Financial (S) Pte Ltd. licensed the Company to use its trademark in the Company's name unconditionally. Therefore, the Company has renamed as "Polaris Man Financial Futures Co., Ltd." after obtaining approval from the competent authority. Man Financial (S) Pte Ltd. have the first priority for the settlement of the Company's foreign futures trading, and the Company also provide Man Group with the services related to futures trading in Taiwan.