

Polaris Man Financial Futures Co., Ltd

Financial Statements for the years ended

2006 and 2005

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-language financial statements shall prevail.

Polaris Man Financial Futures Co., Ltd

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Polaris Man Financial Futures Co., Ltd. as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' 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 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 position of Polaris Man Financial Futures Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with 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 years ended December 31, 2005.

First Horwath & Company, CPAs  
Taipei, Taiwan  
Republic of China  
January 29, 2007

#### 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 jurisdictions. 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

December 31, 2006 and 2005

(In Thousands of New Taiwan Dollars)

ASSETS	Note	December 31, 2006		December 31, 2005		LIABILITIES AND STOCKHOLDERS' EQUITY	Note	December 31, 2006		December 31, 2005	
		Amount	%	Amount	%			Amount	%		
CURRENT ASSETS		\$ 10,118,330	95	\$ 7,509,939	93	CURRENT LIABILITIES		\$ 8,968,095	84	\$ 6,661,912	82
Cash and cash equivalents	II-1,IV-1	770,684	7	483,740	6	Financial liabilities at fair value through profit or loss	II-2, IX	111,807	1	33,024	-
Financial assets at fair value through profit or loss	II-2,IV-2	635,020	6	497,457	6	Payables to customers	II-10,IV-3, V	8,665,363	81	6,501,868	81
Margin deposits	II-4,IV-3,V	8,691,375	82	6,513,547	81	Notes payable		0	-	571	-
Futures trading margin receivable		220	-	935	-	Accounts payable		22,642	-	35,221	-
Other current assets		21,031	-	14,260	-	Payable to related parties	V	15,798	-	15,094	-
						Other payables	IV-7	144,821	2	73,580	1
						Other current liabilities		7,664	-	2,554	-
FUNDS AND LONG-TERM INVESTMENTS-NONCURRENT	II-3,IV-4	35,510	-	35,510	-	OTHER LIABILITIES		221,208	2	165,972	2
Available for sale financial assets		35,510	-	35,510	-	Reserve for breach of contract losses	II-11	104,867	1	77,604	1
FIXED ASSETS	II-5,IV-5	191,262	2	198,536	3	Reserve for trading losses	II-12	34,632	-	11,587	-
Land		69,313	1	69,313	1	Accrued pension liabilities	II-13,IV-8	19,105	-	14,177	-
Buildings		38,034	-	38,034	-	Reserve for bad debts losses	II-14	62,604	1	62,604	1
Equipments		217,663	2	199,716	3	TOTAL LIABILITIES		9,189,303	86	6,827,884	84
Prepayment for equipments		671	-	771	-						
Leasehold improvements		25,971	-	21,915	-	STOCKHOLDERS' EQUITY		1,509,820	14	1,257,393	16
Less : accumulated depreciation		( 160,390)	( 1)	( 131,213)	(1)	Capital stock	IV-9	801,864	8	722,400	9
INTANGIBLE ASSETS	II-6	11,381	-	13,391	-	Capital surplus		46,333	-	46,333	1
Deferred pension costs	II-13,IV-8	6,581	-	5,391	-	Capital surplus from business merger		46,333	-	46,333	1
Other intangible assets		4,800	-	8,000	-	Retained earnings		661,623	6	488,660	6
OTHER ASSETS	II-7,8,9,IV-6	342,640	3	327,901	4	Legal reserve		107,792	1	84,354	1
Operations guarantee deposits		110,000	1	100,000	1	Special reserve	IV-10	215,585	2	168,709	2
Clearing and settlement funds		140,000	1	145,000	2	Unappropriated retained earnings	IV-11	338,246	3	235,597	3
Refundable deposits		11,584	-	10,850	-						
Deferred charges		27,095	-	31,608	-	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 10,699,123	100	\$ 8,085,277	100
Deferred income tax assets - noncurrent		53,961	1	40,443	1						
TOTAL ASSETS		\$ 10,699,123	100	\$ 8,085,277	100						

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

## POLARIS MAN FINANCIAL FUTURES CO., LTD.

## Statements of Income

For the years ended December 31, 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		\$ 1,358,912	77	\$ 1,242,346	81
Clearance fee from consignment		2,397	-	1,652	-
Gain on disposal of derivative financial instruments, net		235,195	13	162,949	11
Futures advisory fees		17	-	35	-
Other operating revenues		469	-	870	-
Nonoperating revenues		179,686	10	117,627	8
<b>Total Revenues</b>		<u>1,776,676</u>	<u>100</u>	<u>1,525,479</u>	<u>100</u>
<b>EXPENSES</b>	II-16				
Brokerage		( 145,415)	( 8)	( 164,217)	( 11)
Futures proprietary fee		( 5,964)	-	( 1,688)	-
Futures commission		( 376,804)	( 21)	( 327,010)	( 21)
Clearance fee		( 103,534)	( 6)	( 115,401)	( 8)
Operating expenses		( 710,302)	( 40)	( 622,019)	( 41)
Nonoperating expenses and losses		( 27,082)	( 2)	( 12,248)	( 1)
<b>Total Expenses</b>		<u>( 1,369,101)</u>	<u>( 77)</u>	<u>( 1,242,583)</u>	<u>( 82)</u>
Net income before income tax		407,575	23	282,896	18
Income tax expenses	II-15, IV-12	( 75,438)	( 4)	( 48,517)	( 3)
Net income before cumulative effect of changes in accounting principles		332,137	19	234,379	15
Cumulative effect of changes in accounting principles, net of tax expense of NT\$0		72	-	-	-
<b>Net income</b>		<u>\$ 332,209</u>	<u>19</u>	<u>\$ 234,379</u>	<u>15</u>
<b>Earnings per share</b>	II-19, IV-13				
Earnings per share before cumulative effect of changes in accounting principles		\$ 4.14		\$ 2.92	
Earnings per share for cumulative effect of changes in accounting principles		-		-	
<b>Earnings per share (net of tax)</b>		<u>\$ 4.14</u>		<u>\$ 2.92</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 years ended December 31, 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 year ended Dec. 31, 2005					234,379	234,379
Balance, December 31, 2005	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 year ended Dec. 31, 2006					332,209	332,209
Balance, December 31, 2006	\$ 801,864	\$ 46,333	\$ 107,792	\$ 215,585	\$ 338,246	\$ 1,509,820

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

## POLARIS MAN FINANCIAL FUTURES CO., LTD.

## Statements of Cash Flows

For the years ended December 31, 2006 and 2005

(In Thousands of New Taiwan Dollars)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Net income	\$ 332,209	\$ 234,379
Cumulative effect of changes in accounting principles	( 72)	-
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	29,308	35,780
Depletion and amortization	16,809	15,984
Loss of uncollectible accounts	-	699
Loss (Gain) on disposal of investment	333	( 1,287)
Reserve for breach of contract losses	27,263	24,878
Reserve for trading losses	23,045	11,588
Gain from reversal of trading losses	-	( 253)
Loss (Gain) on disposal of fixed assets	-	5,032
(Increase) decrease in option-nonhedging	( 14,436)	831
(Increase) decrease in deposits with other futures brokerages	( 178,127)	( 167,232)
(Increase) decrease in margin deposits	( 2,177,828)	57,785
(Increase) decrease in futures trading margin receivable	715	824
(Increase) decrease in notes receivable	-	2,144
(Increase) decrease in accounts receivable	28	60
(Increase) decrease in other receivables	( 1,494)	( 1,377)
(Increase) decrease in prepayment	( 5,082)	2,324
(Increase) decrease in deferred income tax assets-noncurrent	( 13,694)	( 2,645)
(Increase) decrease in other current assets	( 47)	1,316
Increase (decrease) in put option liabilities	78,783	3,345
Increase (decrease) in payables to customers	2,163,495	( 88,778)
Increase (decrease) in notes payable	( 571)	440
Increase (decrease) in accounts payable-non-related party	( 12,578)	13,281
Increase (decrease) in accounts payable-related party	704	( 6,130)
Increase (decrease) in income tax payables	45,725	( 53,006)
Increase (decrease) in other accounts payable	25,515	128
Increase (decrease) in other current liabilities	5,111	( 127)
Increase (decrease) in accrued pension liabilities	4,928	6,753
Net cash provided by (used in ) operating activities	<u>350,042</u>	<u>96,736</u>

(Continued from preceding page)

Cash flows from investing activities		
(Increase) decrease in financial assets at fair value through profit or loss	54,739	( 26,813)
Acquisition of fixed assets	( 21,627)	( 33,927)
Disposal of fixed assets	-	4,474
Decrease (increase) in deferred pension cost	( 1,190)	( 5,391)
Decrease (income) in operations guarantee deposits	( 10,000)	-
Decrease (increase) in clearing and settlement funds	5,000	( 11,000)
Decrease (increase) in refundable deposits	( 734)	20,047
Decrease (increase) in deferred charges	( 9,504)	( 19,225)
Net cash provided by (used in) investing activities	<u>16,684</u>	<u>( 71,835)</u>
Cash flows from financing activities		
Employees bonus paid	( 159)	-
Directors remuneration paid	( 159)	-
Cash dividend paid	( 79,464)	( 77,400)
Net cash provided by (used in) financing activities	<u>( 79,782)</u>	<u>( 77,400)</u>
Net increase (decrease) in cash and cash equivalents	286,944	( 52,499)
Cash and cash equivalents at the beginning of the year	<u>483,740</u>	<u>536,239</u>
Cash and cash equivalents at the end of the year	<u>\$ 770,684</u>	<u>\$ 483,740</u>
Supplemental Disclosures of cash flow information		
Interest paid	<u>\$ 22,908</u>	<u>\$ 4,661</u>
Income tax paid	<u>\$ 40,178</u>	<u>\$ 103,845</u>

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

POLARIS MAN FINANCIAL FUTURES CO., LTD.

Notes to Financial Statements

December 31, 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 December 31, 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;

As of December 31, 2006 and 2005, the Company had 266 and 265 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:
  - A. financial assets for trading.
  - B. 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:

- A. financial liabilities for trading.
- B. 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 customer. 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 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 customer 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. Classification of 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 year ended December 31, 2005.

#### IV. Explanations on major accounts

##### 1. Cash and cash equivalents

	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2005</u>
Cash	\$ 118	\$ 166
Chenking account deposit	719	305
Demand deposit	51,912	82,617
Time deposit	337,900	328,101
Foreign currency deposit	13,237	2,737
Bill with repurchase terms	366,798	69,814
Total	<u>\$ 770,684</u>	<u>\$ 483,740</u>

- (1) The bills with repurchase terms shall be void from December 25, 2006 to January 3, 2007 and from December 21, 2005 to January 5, 2006 at the interest rate of 1.61% and 1.36%, respectively.

- (2) The aforementioned items have been free of any restriction in disbursement.

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

	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2005</u>
Financial assets held for trading		
Open-end funds	-	\$ 55,000
Call option contracts	\$ 26,565	12,129
Futures trading margins - proprietary funds	608,455	430,328
Total	<u>\$ 635,020</u>	<u>\$ 497,457</u>

- (1) The beneficiary certificate of the mutual fund stated at lower of cost or market prices on December 31, 2005, call option contracts, and futures 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

	Dec. 31, 2006	Dec. 31, 2005
Customer margin deposit-Cash in banks	\$ 5,953,525	\$ 5,018,985
Customer margin deposit-clearinghouse	2,177,857	1,096,884
Customer margin deposit-Other FCMs	559,993	397,678
Total	<u>\$ 8,691,375</u>	<u>\$ 6,513,547</u>

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

	Dec. 31, 2006	Dec. 31, 2005
Balance of margin deposits	\$ 8,691,375	\$ 6,513,547
Minus:		
Accrued service charge and interest income	( 22,073)	( 9,502)
Futures trading tax	( 1,810)	( 2,177)
Incorrect desposits from customers	( 2,129)	-
Balance of payables to customers	<u>\$ 8,665,363</u>	<u>\$ 6,501,868</u>

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

(1) As of December 31, 2006

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

(2) As of December 31, 2005

Investees	Shares (in thousands)	Amount	Ownership	Remark
Taiwan Futures Exchange Corporation	3,401	<u>\$35,510</u>	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 December 31, 2006 and 2005, Available for sale financial assets were not pledged or mortgaged.

## 5. Fixed assets

### (1) As of December 31, 2006

	Cost	Accumulated depreciation	Balance
Land	\$ 69,313		\$ 69,313
Buildings	38,034	\$ 2,126	35,908
Computer communication equipments	195,675	138,771	56,904
Office equipments	12,414	6,029	6,385
Transportation equipments	9,574	2,429	7,145
Prepayment for equipments	671	-	671
Leasehold improvements	25,971	11,035	14,936
Total	<u>\$ 351,652</u>	<u>\$ 160,390</u>	<u>\$ 191,262</u>

### (2) As of December 31, 2005

	Cost	Accumulated depreciation	Balance
Land	\$ 69,313		\$ 69,313
Buildings	38,034	\$ 1,070	36,964
Computer communication equipments	186,040	116,598	69,442
Office equipments	10,556	4,476	6,080
Transportation equipments	3,120	1,158	1,962
Prepayment for equipments	771	-	771
Leasehold improvements	21,915	7,911	14,004
Total	<u>\$ 329,749</u>	<u>\$ 131,213</u>	<u>\$ 198,536</u>

(3) The Company has provided land and buildings as collateral for the credit-line as of December 31, 2006 and 2005.

(4) Insurance

Insurance	Dec. 31, 2006	Dec. 31, 2005	Remark
Building	\$ 32,000	\$ 32,000	2006 fire insurance (including comprehensive insurance)
Computer and office equipment	91,200	88,500	2006 fire insurance (including comprehensive insurance) and 2005 fire insurance (including comprehensive insurance)
Leasehold improvement	28,300	24,500	2006 fire insurance (including comprehensive insurance) and 2005 fire insurance(including comprehensive insurance)
Total	\$ 151,500	\$ 145,000	

- 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

	Dec. 31, 2006	Dec. 31, 2005
Operations guarantee deposits	\$ 110,000	\$ 100,000
Clearing and settlement funds	140,000	145,000
Refundable deposits	11,584	10,850
Deferred charges	27,095	31,608
Deferred income tax assets - noncurrent	53,961	40,443
Total	\$ 342,640	\$ 327,901

7. Other payables

	Dec. 31, 2006	Dec. 31, 2005
Salary payable	\$ 10,894	\$ 10,195
Bonus payable	43,782	36,305
Interest payable	2,500	-
Labor and health insurance payable	2,549	2,603
Service fees payable	2,369	1,365
Marketing expenses payables	5,249	4,426
Other expenses payable	6,900	6,261
Income tax payable	52,118	6,395
Other payables	18,460	6,030
Total	\$ 144,821	\$ 73,580

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. According to the Statement, the Company discloses the relevant information about assets and liabilities as following:

(1) Reconciliation of plan funded status to balance sheet amounts

	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2005</u>
Benefit obligation		
Vested benefit obligation	\$ 1,251	\$ 1,220
Non-vested benefit obligation	27,292	22,045
Accumulated benefit obligation	28,543	23,265
Additional benefits based on future salaries	17,936	12,748
Projected benefit obligation	46,479	36,013
Fair value of plan asset	( 10,244)	( 9,919)
Funded status	36,235	26,094
Unrecognized transitional benefit obligation	( 260)	( 297)
Unrecognized prior service cost	( 9,552)	( 10,083)
Unrecognized net pension gains or losses	( 14,705)	( 7,760)
Additional Minimum pension liability	6,581	5,391
Accrued pension cost	<u>\$ 18,299</u>	<u>\$ 13,345</u>

(2) Components of net periodic pension costs are specified as following:

	<u>2006</u>	<u>2005</u>
Service cost	\$ 1,888	\$ 3,321
Interest cost	1,350	751
Expected return on plan assets	( 273)	( 230)
Amortization of net transition obligation	37	37
Amortization of prior service cost	531	531
Amortization of pension gains or losses	347	( 390)
Net periodic pension cost	<u>\$ 3,880</u>	<u>\$ 4,020</u>

(3) Until Dec. 31, 2006 and 2005, the vested benefit was \$1,251 and \$1,220 in accordance with the Company’s rules governing retirement of employees.

(4) The assumptions for years 2006 and 2005 with respect to calculation of benefit obligation and expected rate of return on plan asset:

	<u>2006</u>	<u>2005</u>
Discount rate	3.75%	3.75%
Rate of increase in compensation	3.00%	2.50%
Expected rate of return on plan assets	2.75%	2.75%

- (5) As of December 31, 2006 and 2005, the balance of pension benefits deposited with the Central Turst of China were \$10,244 and \$9,919, respectively.
- (6) Labor Pension Act (the "Act") has been enforced as of July 1, 2005 and adopts the defined-contribution scheme. The net pension cost contributed and recognized by the Company according to the Act as of December 31, 2006 and 2005 was \$9,619 and \$3,853. The accrued pension liability booked as of December 31, 2006 and 2005 was \$806 and \$832.

## 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
Sep. 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
Sep. 11, 2006	801,864	801,864	10	Earnings converted for capital increase by 7,946,000 shares

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

## 12. Income tax

- (1) The Company's income tax returns through 2004 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 on time, which is being reviewed by the NTA.
- (3) The income tax payables for years ended December 31, 2006 and 2005 were estimated as follows:

Items	2006	2005
Income tax on net profit before tax, at tax rate according to income tax law, ROC	\$ 101,884	\$ 70,714
Cumulative effect of changes in Accounting principles	18	-
Permanent differences:		
Bill interest levied separately	( 344)	( 89)
Adjustment for failure to comply with tax laws	70	264
Gains or losses on Securities transaction exempted from tax under Article 4-1 of Income Tax Law, ROC	84	( 322)
Gains on futures transaction exempted from tax under Article 4-2 of Income Tax Law, ROC	( 20,351)	( 15,721)
Gains on dividend exempted from tax under Article 42 of Income Tax Law	( 1,862)	( 1,955)
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)
Gains on opened futures transaction in the current year	( 12,031)	( 1,933)
Losses on opened option contracts in the current year	8,911	873
Income tax expenses in the current period	<u>77,438</u>	<u>54,681</u>
Adjustment of income tax expenses in the prior period	( 2,482)	( 6,164)
10% tax on undistributed retained earning	482	-
Income tax expense	<u>75,438</u>	<u>48,517</u>
Adjustment of 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	188	413
Unrealized gains on foreign exchange in the current year	( 13)	( 583)
Unrealized trading losses	5,761	2,834
Unrealized (realized) bad debt losses	-	( 7,046)
Unrealized breach of contract losses	6,816	6,219
Differences in finance and taxation of employees' welfare	-	( 466)
Differences in pension cost and appropriation	941	638
Adjustment of income tax expenses in the prior period	2,482	6,677
Income tax prepaid	( 40,178)	( 49,955)
Income tax payable	<u>\$ 51,605</u>	<u>\$ 6,395</u>

(4) Effect of deferred income tax

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

	<u>Dec 31, 2006</u>	<u>Dec. 31, 2005</u>
(A) Total deferred income tax assets	\$ 54,149	\$ 40,443
(B) Total deferred income tax liabilities	( 13)	( 170)
(C) Temporary differences (tax) arising from deferred income tax assets or liabilities		
• Payable provisional difference incurred by recognition ( of unrealized gains in foreign exchange	( 13)	( 583)
• Deductible provisional difference incurred by recognition of unrealized losses in foreign exchange	188	413
• Deductible provisional differences incurred by recognition of unrealized trading losses	8,659	2,897
• Deductible provisional difference incurred by recognition of unrealized losses in breach of contract	26,216	19,401
• Deductible provisional differences incurred by recognition of unrealized bad debts losses	15,651	15,651
• Deductible provisional differences incurred by recognition of pension cost under ROC SFAS No. 18	3,435	2,494

B.

Items	<u>Dec. 31, 2006</u>		<u>Dec. 31, 2005</u>	
	Current	Noncurrent	Current	Noncurrent
Deferred income tax assets	\$ 188	\$ 53,961	\$ 413	\$ 40,443
Deferred income tax liabilities	( 13)	-	( 583)	-
Net deferred income tax assets (liabilities)	<u>\$ 175</u>	<u>\$ 53,961</u>	<u>(\$ 170)</u>	<u>\$ 40,443</u>

(5) Information related to imputation credit account ("ICA")

	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2005</u>
Expected (actual) available ICA	<u>\$ 61,318</u>	<u>\$ 92,628</u>
Expected (actual) ratio of ICA	<u>33.34%</u>	<u>33.34%</u>

(6) Information of unappropriated retained earnings:

	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2005</u>
Before 1997	\$ 1,021	\$ 1,021
After 1998	337,225	234,576
Total	<u>\$ 338,246</u>	<u>\$ 235,597</u>

### 13. Earnings per share

	2006	2005
Income before cumulative effect of changes in accounting principles	\$ 332,137	\$ 234,379
Cumulative effect of changes in accounting principles net of tax expense	72	-
Net income after tax	<u>\$ 332,209</u>	<u>\$ 234,379</u>
Weighted-average number of common shares outstanding (thousand shares)	<u>80,186</u>	<u>72,240</u>
Weighted-average number of common shares outstanding (thousand shares)- retroactive upon adjustment	<u>80,186</u>	<u>80,186</u>
EPS (in dollars)-retroactive upon adjustment		
Earnings per share before cumulative effect of changes in accounting principle	\$ 4.14	\$ 2.92
Earnings per share for cumulative effect of changes in accounting principle	-	-
Earnings per share after tax	<u>\$ 4.14</u>	<u>\$ 2.92</u>

### 14. Expenses relating to employment, depreciation, and amortization for the years ended 2006 and 2005 disclosed by function were as follow:

Function Character	2006			2005		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employment						
Payroll	-	\$ 286,264	\$ 286,264	-	\$ 248,823	\$ 248,823
Labor and health insurance	-	13,353	13,353	-	12,590	12,590
Pension fund	-	13,500	13,500	-	7,873	7,873
Others	-	8,163	8,163	-	7,813	7,813
Depreciation	-	29,308	29,308	-	35,780	35,780
Amortization	-	16,809	16,809	-	15,984	15,984

### 15. Reclassifications

Upon the adoption of SFAS No.34, certain accounts in the financial statements as of and for the year ended Dec. 31, 2005 were reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2006 for purpose of comparison. The previous issued financial statements as of and for the year ended December 31, 2005 need not be restated.

#### IV. 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
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.	The Company's chairman is a relative of this company's chairman
Man Financial Holdings Ltd.	Note 1
Man Financial (S) Pte Ltd Taiwan Branch	Substantial related party
Refco Global Holdings, LLC	Note 1
Refco Global Holdings, LLC Taiwan Branch	The USA headquarters is the Company's director; Note 2
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 Polaris Securities Co., Ltd
Bank of Overseas Chinese	Substantial related party
Ho Ming-Yu	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 1: The Company's stocks originally owned by Refco Global holding company were transferred to Man Financial Holdings Ltd. Due to the lost of share certificates by Refco, the ex-right sentence issued by Taiwan Taipei District Court was acquired on December 19, 2006. As of the field work day, both parties are under the process of transferring the stocks.

Note 2: Refco Global Holdings, LLC Taiwan Branch applied for dissolution on January 16, 2006 and the application was approved by the competent authority on February 6, 2006.

## 2. Transactions with the related parties

### (1) Brokerage Revenue

Name of related party	2006		2005	
	Amount	%	Amount	%
Others	\$11,198	0.82%	\$9,655	0.77%

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

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

Name of related party	2006		2005	
	Amount	%	Amount	%
Polaris Securities Co., Ltd.	\$219,348	58.21%	\$200,741	61.39%
Man Financial (S) Pte Ltd Taiwan Branch	107,481	28.52%	-	-
Refco Global Holdings, LLC Taiwan Branch	-	-	72,524	22.18%
Bank of Overseas Chinese	-	-	419	0.13%
Polaris Securities (Hong Kong) Limited	2,439	0.65%	600	0.18%
Total	<u>\$329,268</u>	<u>87.38%</u>	<u>\$274,284</u>	<u>83.88%</u>

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

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

Name of related party	2006		2005	
	Amount	%	Amount	%
Polaris Securities Co., Ltd.	<u>\$ 40</u>	<u>8.53%</u>	<u>\$ 25</u>	<u>4.05%</u>

(4) Leasehold properties

Lessor	Premises in leasehold	Deposits	Rent expense for the years ended	
			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 S.Rd., Taipei	\$ 100	\$ 744	\$ 2,264
Kwong Fong Industries Corp.	5F-1, 2, Tunhua S. Rd., Taipei	-	-	6,620

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 \$1,928 in November 2005.

C: The office lease between the Company and Polar Securities Co. in Fu-Xing North Road has been terminated in May 2005.

(5) Credits and liabilities:

Items	Name of related party	Dec. 31, 2006		Dec. 31, 2005	
		Amount	%	Amount	%
Margin deposits - USD	Man Financial (S) Pte Ltd Taiwan Branch	\$ 370,411	4.26%	-	-
Margin deposits - JPY	Man Financial (S) Pte Ltd Taiwan Branch	52,156	0.60%	-	-
Margin deposits - GBP	Man Financial (S) Pte Ltd Taiwan Branch	4,485	0.05%	-	-
Margin deposits - EUR	Man Financial (S) Pte Ltd Taiwan Branch	10	-	-	-
Margin deposits - USD	Refco Global Holdings, LLC Taiwan Branch	-	-	\$ 257,693	3.96%
Margin deposits - JPY	Refco Global Holdings, LLC Taiwan Branch	-	-	24,633	0.38%
Margin deposits - HKD	Polaris Securities (Hong Kong) Limited	8,017	0.09%	2,585	0.04%
Margin deposits - NTD	Bank of Overseas Chinese	1,108,703	12.76%	508,000	7.80%
		<u>\$ 1,543,782</u>	<u>17.76%</u>	<u>\$ 792,911</u>	<u>12.18%</u>
Futures trading margins porprietary funds-USD	Man Financial (S) Pte Ltd Taiwan Branch	\$ 49,182	8.08%	-	-
Futures trading margins- porprietary funds - JPY	Man Financial (S) Pte Ltd Taiwan Branch	6,535	1.07%	-	-
Futures trading margins- porprietary funds - USD	Refco Global Holdings, LLC Taiwan Branch	-	-	\$ 26,462	6.15%
Futures trading margins- porprietary funds - JPY	Refco Global Holdings, LLC Taiwan Branch	-	-	6,257	1.45%
Futures trading margins- porprietary funds - HKD	Polaris Securities (Hong Kong) Limited	3,822	0.63%	16,809	3.91%
		<u>\$ 59,539</u>	<u>9.78%</u>	<u>\$ 49,528</u>	<u>11.51%</u>
Prepaid expenses	Apex International Financial Engineering Res. & Tech Co., Ltd.	\$ 37	0.52%	\$ 37	1.81%
Accounts receivable	Polaris Securities Co., Ltd.	\$ 52	44.83%	\$ 92	63.89%
Interest receivable	Man Financial (S) Pte Ltd Taiwan Branch	\$ 1,681	22.51%	-	-
	Refco Global Holdings, LLC Taiwan Branch	-	-	\$ 198	4.05%
		<u>\$ 1,681</u>	<u>22.51%</u>	<u>\$ 198</u>	<u>4.05%</u>
Other receivable (dividend withhold tax)	Man Financial Holdings Ltd.	\$ 5,704	42.05%	-	-
Payables to customers	TSE Capitalization Weighted Stock Index Fund	\$ 2,430	0.02%	\$ 2,535	0.04%
	Apex International Financial Engineering Res. & Tech. Co., Ltd.	2,076	0.02%	3,219	0.05%
	Polaris Securities Co., Ltd.	10,299	0.12%	-	-
	Apex Investment Co., Ltd.	8,490	0.10%	8,158	0.13%
	Small Medium Cap Fund	1,026	0.01%	1,025	0.01%
	Silicon Valley Fund	2,003	0.02%	2,001	0.03%
	Top 50 Tracker Fund	21,322	0.26%	17,356	0.27%
	Various strategic Fund	2,107	0.02%	-	-
	Yoing Investment Co., Ltd.	1,003	0.01%	8,860	0.14%
	Rosenthal Collins Group Ltd.	-	-	1	-
	Bank of Overseas Chinese	19,069	0.22%	20,390	0.31%
	Ho Ming - Hong	48,796	0.56%	47,305	0.73%
	Ho Ming - Yu	125,551	1.45%	34,708	0.53%
	Pai Wen - Cheng	5	-	12,476	0.19%
	Pai Che - Yu	1	-	5,429	0.08%
	Pai Che - Ren	205	-	-	-
		<u>\$ 244,383</u>	<u>2.81%</u>	<u>\$ 163,463</u>	<u>2.51%</u>

Items	Name of related party	Dec. 31, 2006		Dec. 31, 2005	
		Amount	%	Amount	%
Accounts payable	Polaris Securities Co., Ltd.	\$ 15,621	40.64%	\$ 14,907	29.63%
	Man Financial (S) Pte Ltd Taiwan Branch	177	0.46%	-	-
	Refco Global Holdings, LLC Taiwan Branch	-	-	187	0.37%
		<u>\$ 15,798</u>	<u>41.10%</u>	<u>\$ 15,094</u>	<u>30.00%</u>
Other payable	Polaris Securities Co., Ltd.	\$ 12	-	\$ 10	0.01%
	Apex International Financial Engineering Res. & Tech Co., Ltd.	100	0.06%	-	-
	Ho Ming - Hong	-	-	\$ 160	0.22%
	Man Financial Holdings Ltd.	9,536	6.58%	-	-
	Man Financial (S) Pte Ltd Taiwan Branch	5	-	-	-
	<u>\$ 9,653</u>	<u>6.64%</u>	<u>\$ 170</u>	<u>0.23%</u>	

(6) Others

- A. The handling fees paid by the Company for placing the order by the proprietary trading department with Polaris Securities Co., Ltd. in 2005 was \$1. The transaction condition makes no different for third parties.
- B. The Company acquired official Equipment from Polaris Co., Ltd. in June 2006 in the books value of \$60.
- C. The Company sold computer equipments to the Bank of Overseas Chinese in November 2005 in the book value of \$3,994.
- D. Others

Items	Name of related party	2006		2005	
		Amount	%	Amount	%
Computing information fee	Apex International Financial Engineering Res. & Tech. Co., Ltd.	\$ 544	0.86%	\$ 444	0.80%
	Polaris Securities Co., Ltd.	26	0.12%	-	-
Marketing fee	Polaris Public Relations Consultants Limited	4,800	21.70%	3,900	14.93%
Interest revenue	Man Financial (S) Pte Ltd Taiwan Branch	18,319	11.96%	-	-
	Refco Global Holdings, LLC Taiwan Branch	-	-	5,872	6.58%
Professional fee	Bank of Overseas Chinese	18,158	11.86%	2,486	2.79%
	Polaris Securities Co., Ltd.	130	3.09%	122	2.90%
	Polaris-Propime Securities Investment Advisor Co., Ltd.	-	-	33	0.79%
Donation	Polaris Research Institute	1,500	42.61%	1,000	58.82%
	Chinese Taipei Skating Union	-	-	200	11.76%
Bank deposits proprietary fund Stationery etc.	Bank of Overseas Chinese	154,699	38.38%	109,422	22.62%
	Polaris Securities Co., Ltd.	73	0.17%	-	-

VI. Pledge of Assets: Please refer to note IV-5.

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 \$134,510 for its real estate located at 10F, No. 65 & 71, Sec. 2, Tunhua S. Road, Taipei (leased to the 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 \$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 \$13,200 to the Company as the default penalty. The Company had signed the Real Estate Purchase Contract with Yuanta Core Pacific on January 26, 2007 and paid \$139,510 which is agreed to adjust by both parties. Please refer to note XIII-1.

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 December 31, 2006 and 2005 the unexpired futures and option contracts are shown as follows:

A. As of December 31, 2006

Items	Trading category	Open position		Amount paid for (received from) premium	Fair value
		Buy / Sell	Number of contracts		
Futures contract (Domestic)	Index Futures	Buy	2,710	\$ 3,499,147	\$ 3,546,566
		Sell	57	63,458	65,010
	Precious metal Futures	Buy	20	41,979	42,159
		Sell	23	47,875	47,918
Futures contract (Abroad)	Index Futures	Buy	46	66,677	67,345
		Sell	10	4,696	4,699
	Precious metal Futures	Buy	346	228,064	231,521
		Sell	131	225,861	226,819
	Foreign exchange Futures	Buy	79	294,158	292,843
	Energy Futures	Buy	16	9,714	9,537
Sell		5	10,365	9,964	
	Light merchandise Futures	Buy	4	1,325	1,371
Option contract (Domestic)	Index call options	Buy	469	2,214	2,543
		Sell	9,199	85,933	111,746
	Index put options	Buy	9,124	34,167	24,002
		Sell	154	86	61
	Equity put options	Buy	410	40	20

B. As of December 31, 2005

Items	Trading category	Open position		Amount paid for (received from) premium	Fair value
		Buy / Sell	Number of contracts		
Futures contract (Domestic)	Index Futures	Buy	855	\$ 831,645	\$ 839,729
		Sell	65	40,574	41,713
Futures contract (Abroad)	Precious metal Futures	Buy	81	136,858	138,008
		Sell	143	137,336	137,824
	Energy Futures	Buy	4	3,233	3,353
	Index Futures	Sell	5	11,220	11,210
Option contract (Domestic)	Index call options	Buy	514	5,191	5,280
		Sell	2,638	29,552	32,514
	Index put options	Buy	3,808	7,684	6,847
		Sell	1,415	724	510
	Equity call options	Buy	10	1	1
	Equity put options	Buy	10	1	1

2. Fair value of financial instruments

Non-derivative instruments	Dec. 31, 2006		Dec. 31, 2005	
	Book value	Fair value	Book value	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 770,684	\$ 770,684	\$ 483,740	\$ 483,740
Financial assets at fair value through profit or loss-current Open-end funds	-	-	55,000	55,000
Derivative financial instruments	635,020	635,020	442,457	442,457
Available for sale financial assets-noncurrent	35,510	35,510	35,510	35,510
Refundable Deposits	11,584	11,584	10,850	10,850
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss derivative financial instrument	111,807	111,807	33,024	33,024
<b>Derivative instruments</b>				
Futures trading margins-proprietary funds	608,455	608,455	430,328	430,328
Call Options-nonhedging	26,565	26,565	12,129	12,129
Put Option Liabilities	111,807	111,807	33,024	33,024

The methods and assumptions used to evaluate the fair value of each class of financial instruments are 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 December 31, 2006, the fair value of the financial instruments, which were based on quoted market value in active market or pricing model, were as follows:

	Dec. 31, 2006	
	Quoted Market Value in active market	Pricing model
<u>Financial assets</u>		
Financial assets at fair value through profit or loss-current		
Open-end funds	-	-
Derivative financial instruments		
Call option-contracts	\$ 26,565	-
Future trading margins-proprietary funds	608,455	-
Total	<u>\$ 635,020</u>	<u>-</u>
 <u>Financial liabilities</u>		
Financial liabilities at fair value through profit or loss-current:		
Derivative financial instruments		
Put option liabilities	<u>\$ 111,807</u>	<u>-</u>

4. All the financial assets are not pledged.

#### 5. 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.

On December 29, 2006, within 95% of the confidence interval, VaR for one day is 1,976. For VaR on each day all the year, the daily average is 2,366, the maximum is 6,181 (on August 14, 2006), the minimum is 741 (on February 15, 2006), and the standard variance is 1,078.

(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.

6. 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	Shareholders' equity Total liabilities – Payables to customers – Reserve for trading losses – Reserve for breach of contract losses	1,509,820 9,189,303 – 8,665,363 – 34,632 –104,867	392.73%	1,257,393 6,827,884 – 6,501,868 – 11,587– 77,604	530.94%	≥ 100%	Satisfactory to requirements
17	Current assets Current liabilities	10,118,330 8,968,095	112.83%	7,509,939 6,661,912	112.73%	≥ 100%	Satisfactory to requirements
22	Shareholders' equity Minimum paid-in capital	1,509,820 660,000	228.76%	1,257,393 645,000	194.94%	≥ 60% ≥ 40%	Satisfactory to requirements
22	Post-adjustment net capital Total customer margin deposits required for futures traders, not yet offset	1,083,449 1,986,181	54.55%	865,744 1,147,694	75.43%	≥ 20% ≥ 15%	Satisfactory to requirements

## XI. Unique risks to FCM's services:

### 1. Specific risk of futures brokerage business

The Company's business lines include brokerage business in acting as an agent for trading of futures contracts and futures 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 business

The Company's proprietary 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.

When dealing with foreign futures, the company shall face the exchange rate risk for the foreign currency security deposit. But the exchange rate risk is not significant compared to the return from the investment, the foreign currencies are held for the long run for trading. The foreign currencies are not exchanged physically every day. If the special condition make the rate change significantly, the company hedges with foreign futures.

If the domestic futures position is held and the company hedges with foreign futures, the accounting risk for closing in different timing may exist. The accounting loss or profit will be deferred or forwarded. The real loss or profit is not influenced.

## XII. Segment information

### 1. Departmental information

(1) For the year ended December 31, 2006

Items	Futures Brokerage Business		Futures Proprietary Trading Business		Total	
	Amount	%	Amount	%	Amount	%
Profit or loss contributed by segment						
Segment revenues						
Brokerage	\$ 1,358,912	89	-	-	\$ 1,358,912	77
Clearance fee from consignment	2,397	-	-	-	2,397	-
Derivative financial instrument's profit	-	-	\$ 235,195	97	235,195	13
Futures advisory fees	17	-	-	-	17	-
Other operating revenues	469	-	-	-	469	-
Nonoperating revenues	173,528	11	6,158	3	179,686	10
Total	1,535,323	100	241,353	100	1,776,676	100
Segment expenses						
Brokerage	( 145,415)	( 9)	( 5,964)	( 2)	( 151,379)	( 9)
Futures commission	( 372,410)	( 24)	( 4,394)	( 1)	( 376,804)	( 21)
Clearance fee	( 99,378)	( 6)	( 4,156)	( 2)	( 103,534)	( 6)
Payroll	( 221,021)	( 15)	( 36,807)	( 16)	( 257,828)	( 15)
Depreciation and amortization	( 18,791)	( 1)	( 1,146)	-	( 19,937)	( 1)
Other operating expenses	( 247,538)	( 17)	( 113,749)	( 47)	( 361,287)	( 20)
Nonoperating expenses and losses	( 25,840)	( 2)	( 810)	( 1)	( 26,650)	( 1)
Total	( 1,130,393)	( 74)	( 167,026)	( 69)	( 1,297,419)	( 73)
Profit for each segment	404,930	26	74,327	31	479,257	27
Revenues and expenses were indirectly occurred by each segment						
Various revenues					-	-
Administrative expenses					( 71,250)	( 4)
Interest expenses					( 432)	-
Other expenses					-	-
Total					( 71,682)	( 4)
Income before income tax					407,575	23
Income tax expense					( 75,438)	( 4)
Cumulative effect of changes in accounting principles					72	-
Net income					332,209	19

## (2) For the year ended December 31, 2005

Items	Futures Brokerage Business		Futures Proprietary Trading Business		Total	
	Amount	%	Amount	%	Amount	%
Profit or loss contributed by segment						
Segment revenues						
Brokerage	\$ 1,242,346	93	-	-	\$ 1,242,346	83
Clearance fee from consignment	1,652	-	-	-	1,652	-
Derivative financial instrument profit	-	-	\$ 162,949	98	162,949	11
Futures advisory fees	35	-	-	-	35	-
Other operating revenues	616	-	254	-	870	-
Nonoperating revenues	93,183	7	3,452	2	96,635	6
Total	1,337,832	100	166,655	100	1,504,487	100
Segment expenses						
Brokerage	( 164,217)	( 12)	( 1,688)	( 1)	( 165,905)	( 11)
Futures commission	( 325,711)	( 24)	( 1,299)	( 1)	( 327,010)	( 22)
Clearance fee	( 114,104)	( 9)	( 1,297)	( 1)	( 115,401)	( 8)
Payroll	( 167,950)	( 13)	( 26,993)	( 16)	( 194,943)	( 13)
Depreciation and amortization	( 6,329)	-	( 874)	( 1)	( 7,203)	-
Other operating expenses	( 171,806)	( 13)	( 61,353)	( 37)	( 233,159)	( 15)
Nonoperating expenses and losses	( 1,815)	-	( 198)	-	( 2,013)	-
Total	( 951,932)	( 71)	( 93,702)	( 57)	( 1,045,634)	( 69)
Profit for each segment	385,900	29	72,953	43	458,853	31
Revenues and expenses were indirectly occurred by each segment						
Various revenues					20,991	1
Administrative expenses					( 186,714)	( 12)
Interest expenses					( 4,660)	-
Other expenses					( 5,574)	-
Total					( 175,957)	( 11)
Income before income tax					282,896	20
Income tax expense					( 48,517)	( 3)
Net income					\$ 234,379	17

## 2. Territorial information

The Company does not have the foreign operation department.

## 3. Foreign sale information

The Company does not gain the revenue for foreign sale.

## 4. Important customers' information

The Company did not have any single customer from whom the Company might receive more than 10% of the revenue referred to in the statement of income in 2006 and 2005.

### XIII. Significant subsequent events.

1. The Company signed a Real Estate Contract with Yuanta Core Pacific Securities Co., Ltd. ("Yuanta Core Pacific") on January 26, 2007 to purchase Yuanta's Buildings, located at 10F1. No.65 and 71, Tunhua South Road Section 2, Taipei City. The Company paid 15 percent of the total price as the first installment and another 15 percent as the second installment on January 29, 2007.
2. Refco Global Holdings, LLC hold the Company's Stock which were transferred to Man Future LLC. Because the Company's stock were lost by Refco, the ex-right sentence issued by Taiwan Taipei District Court was acquired on December 19, 2006. As of the field work day, both parties are under the process of transferring the stocks.

### XIV. Others

1. Please refer to note VII in relation to the Company entered a real estate purchase agreement with Yuanta Core Pacific Securities Co., Ltd.
2. The shareholder owned 20% shares of the Company, Refco Global Holdings, LLC has been auctioned by U.S court and acquired by Man Financial Holdings Ltd. Please refer to note XIII-2.
3. The Company entered into a commercial contract with Man Financial (S) Pte Ltd. on February 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. owns 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.