

**Cathay Securities Corporation**  
**Financial Statements**  
**Together With**  
**Independent Auditors' Report**  
**As of June 30, 2004**

**Address: 17F ~18F, No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, R.O.C.**

**Telephone: 886-2-2326-9888**

## Index To Financial Statements

	<u>Page</u>
Independent Auditors' Report	2
Balance Sheet as of June 30, 2004	3
Statement of Income from May 12 to June 30, 2004	4
Statement of Changes in Stockholders' Equity from May 12 to June 30, 2004	5
Statement of Cash Flows from May 12 to June 30, 2004	6
Notes to Financial Statements	7-13

## **Independent Auditors' Report**

The Board of Directors and Shareholders  
Cathay Securities Corporation

We have audited the accompanying balance sheet of Cathay Securities Corporation as of June 30, 2004, and the related statement of income, changes in stockholders' equity, and cash flows from May 12 to June 30, 2004. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Cathay Securities Corporation as of June 30, 2004, and the results of its operations and its cash flows for the period, from May 12 to June 30, in conformity with generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young  
Taipei, Taiwan  
Republic of China  
July 28, 2004

### 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 any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

**Cathay Securities Corporation**  
**Balance Sheets**  
**(Development stage)**  
**(Expressed in thousands of dollars)**  
**As of June 30, 2004**

	2004		
	NT\$	US\$	%
<b>Assets</b>			
Current Assets			
Cash and cash equivalents (Notes 2, 5,11)	\$3,403,425	\$101,112	96.97
Prepayments (Note 11)	5,940	176	0.17
Other accounts receivable	204	6	0.01
Subtotal	<u>3,409,569</u>	<u>101,294</u>	<u>97.15</u>
Other Assets			
Operation bond (Notes 2, 12)	100,097	2,974	2.85
Subtotal	<u>100,097</u>	<u>2,974</u>	<u>2.85</u>
Total Assets	<u>\$3,509,666</u>	<u>\$104,268</u>	<u>100.00</u>
 <b>Liabilities &amp; Stockholders' Equity</b>			
Current Liabilities			
Other payables	\$220	\$7	0.01
Other payables-Related parties (Note 11)	5,940	176	0.17
Total Liabilities	<u>6,160</u>	<u>183</u>	<u>0.18</u>
Stockholders' Equity			
Capital stock			
Common stock (Note 6)	3,500,000	103,981	99.72
Retained earnings (Note 7)			
Unappropriated retained earnings	3,506	104	0.10
Total Stockholders' Equity	<u>3,503,506</u>	<u>104,085</u>	<u>99.82</u>
Total Liabilities and Stockholders' Equity	<u>\$3,509,666</u>	<u>\$104,268</u>	<u>100.00</u>

(The exchange rates of June 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.66 to US\$1.00)

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

**Cathay Securities Corporation**  
**Statements of Income**  
**(Development stage)**  
**(Expressed in thousands of dollars)**  
**From May 12 to June 30,2004**

	5.12~6.30, 2004		
	NT\$	US\$	%
Revenues			
Financial income	\$4,463	\$133	100.00
Total revenues	4,463	133	100.00
Income from continuing operations before income taxes	4,463	133	100.00
Income taxes (Notes 2, 9)	(957)	(29)	(21.44)
Net income	\$3,506	104	78.56
Earnings per share before tax (expressed in dollars) (Note 10)	\$0.01	\$0.00	
Earnings per share after tax (expressed in dollars) (Note 10)	\$0.01	\$0.00	

(The exchange rates of June 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.66 to US\$1.00)

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

**Cathay Securities Corporation**  
**Statements of Changes in Stockholders' Equity**  
**(Development stage)**  
**(Expressed in thousands of dollars)**  
**From May 12 to June 30, 2004**

Summary	Capital Stock		Retained Earnings		Total	
	Common Stock		Unappropriated			
			Retained Earnings			
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Incorporated on May 12, 2004	\$3,500,000	\$103,981			\$3,500,000	\$103,981
Net income from May 12 to June 30, 2004			3,506	104	3,506	\$104
Balance on June 30, 2004	\$3,500,000	\$103,981	\$3,506	\$104	\$3,503,506	\$104,085

(The exchange rates of June 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.66 to US\$1.00)

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

**Cathay Securities Corporation**  
**Statements of Cash Flows**  
**(Development stage)**  
**(Expressed in thousands of dollars)**  
**From May 12 to June 30,2004**

Item	5.12~6.30, 2004	
	NT\$	US\$
Cash Flows from Operating Activities		
Net Income	\$3,506	\$104
Adjustments:		
Decrease (increase) in prepayments	(5,940)	(176)
Decrease (increase) in other accounts receivable	(204)	(6)
Increase (decrease) in other payables	220	7
Increase (decrease) in other payables-related parties	5,940	176
Net Cash Provided by (Used in) Operating Activities	<u>3,522</u>	<u>105</u>
Cash Flows from Investing Activities		
Decrease (increase) in operation bond	(100,097)	(2,974)
Net Cash Provided by (Used in) Investing Activities	<u>(100,097)</u>	<u>(2,974)</u>
Cash Flows from Financing Activities		
Capital increase from cash	3,500,000	103,981
Net Cash Provided by (Used in) Financing Activities	<u>3,500,000</u>	<u>103,981</u>
Increase (decrease) in Cash and Cash Equivalents	3,403,425	101,112
Cash and Cash Equivalents, beginning of period	<u>0</u>	<u>0</u>
Cash and Cash Equivalents, end of period	<u>\$3,403,425</u>	<u>\$101,112</u>
Supplemental Disclosure of Cash Flows Information		
Income tax paid	<u>\$736</u>	<u>\$22</u>

(The exchange rates of June 30, 2004 provided by the Federal Reserve Bank of New York was  
NT\$33.66 to US\$1.00)

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

**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

**1. Organization of Business Scope**

Cathay Securities Corporation (the “Company”) was incorporated in Taipei on May 12, 2004, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engaged in securities underwriter, securities dealer and securities broker. The Company is in the development stage.

**2. Summary of Significant Accounting Policies**

The Company’s financial statement conforms to generally accepted accounting principles in the ROC, and Criteria Governing the Preparation of Financial Reports by Securities Firms. Summary of significant accounting policies as follows:

*(1) Current and Non-current Assets and Liabilities*

Assets that are expected to be converted or consumed within one year are classified as current. Obligations that are expected to be liquidated or settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

*(2) Cash and Cash Equivalents*

Cash and cash equivalents includes cash on hand, unrestricted bank deposits, and all highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) near to their maturity and where changes in interest rates shall present insignificant risk.

*(3) Operation Bond*

The operation bond set aside in accordance with Article 55 of the Securities and Exchange Law.

*(4) Income Taxes*

The Company adopted SFAS No. 22, “ Accounting for Income Taxes”, which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if



**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

needed. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

A deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, then it will be classified as current or non-current based on the expected reversal date of the temporary difference.

The additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of the shareholders' meeting.

*(5) Recognition of Revenue and Expense*

Income is recognized when it is realizable and earned. The matching principle is applied for the corresponding revenue and expense.

*(6) Capital Expenditure Expenses*

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and benefits future periods. Otherwise, it is expensed in the year of expenditure.

*(7) Convenience Translation Into US Dollars*

The financial statements are stated in NT dollars. Conversion of the June 30, 2004 NT dollar amounts into U.S. dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.66 to US\$1.00 effective on June 30, 2004, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

**3.Revenue and expense during the development stage**

**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

Item	From May 12 to June 30, 2004	
	NT\$	US\$
Financial revenue	\$4,463	\$133
Net income during the development stage	\$3,506	\$104

**4.Changes in Accounting and Its Effects:** None

**5.Cash and cash equivalents**

Item	June 30, 2004	
	NT\$	US\$
Cash in banks	\$603,425	\$17,927
Time deposits	2,800,000	83,185
Total	\$3,403,425	\$101,112

**6. Capital stock**

As of June 30, 2004, the Company has issued 350,000,000 shares in outstanding with \$10 par per share.

**7. Retained Earnings**

(1) Legal reserve

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used only to cover deficits but not for cash dividends distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

(2) Unappropriated retained earnings

A. According to the Company Law and the Company's articles of incorporations, 10 % of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. In addition to distributing stock interest

**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

and 1% as bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

B. According to related regulations, if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends in the year following the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings, or alternatively, the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

(3) The Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

**8. Personnel, depreciation, depletion and amortizations: None**

**9. Estimated income taxes**

(1) Income tax expenses include the following:

Item	From May 12 to June 30, 2004	
	NT\$	US\$
Income before taxes	\$4,463	\$133
Adjustments		
Interest income of tax on a separate basis	(2,979)	(89)
Taxable Income	1,484	44
Time; Taxes Rate; Less: Progressive difference	25% - 10	25%
Sub-Total	361	11
Tax on a separate basis	596	18
Total income tax expenses	\$957	\$29

(2) Deferred income tax liabilities and assets are as follows:

	June 30, 2004	
	NT\$	US\$
A. Total deferred income tax assets	\$0	\$0
Total deferred income tax liabilities	\$0	\$0
B. Deferred income tax assets-current	\$0	\$0
Deferred income tax liabilities-current	0	0
Net deferred income tax-current	\$0	\$0
C. Deferred income tax assets – non-current	\$0	\$0

**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

Deferred income tax liabilities –non-current	0	0
Net deferred income tax – non-current	\$0	\$0

(3) Information related to tax imputation:

	June 30, 2004	
	NT\$	US\$
Balance of imputation credit account	\$596	\$18

**10. Earnings per share**

	From May 12 to June 30, 2004	
	NT\$	US\$
Income before taxes (A)	\$4,463	\$133
Net income after taxes (B)	\$3,506	\$104
Outstanding number of shares at June 30,2004	350,000,000	350,000,000
Adjusted weighted average outstanding number of shares(C)	350,000,000	350,000,000
Earnings per share before tax (A)/(C) (dollars)	\$0.01	\$0.00
Earnings per share after tax (B)/(C) (dollars)	\$0.01	\$0.00

**11. Related party transactions**

(1) *Related parties*

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay United Bank Co., Ltd.	Affiliate

(2) *Transactions with related parties*

A. Cash in bank

Name	Nature	From May 12 to June 30,2004		
		Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank	Cash in Bank	\$603,425	0.1%	\$31
Co., Ltd.	Time Deposit	\$2,800,000	0.65%~0.90%	\$4,242

**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

Name	Nature	From May 12 to June 30,2004		
		Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank	Cash in Bank	\$17,927		\$1
Co., Ltd.	Time Deposit	\$83,185		\$126

**B. Prepayments**

Name	June 30,2004	
	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$1,414	\$42
Cathay United Bank Co., Ltd.	4,526	134
	\$5,940	\$176

**C. Other payables**

Name	June 30,2004	
	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$1,414	\$42
Cathay United Bank Co., Ltd.	4,526	134
	\$5,940	\$176

**12.Pledged assets**

Item	June 30,2004	
	NT\$	US\$
Operation bond	\$100,097	\$2,974

The operation bond set aside in accordance with Article 55 of the Securities and Exchange Law.

**13.Other important matters and contingent liabilities: None**

**14.Serious damages: None**

**15.Subsequent events: None**

**Cathay Securities Corporation**  
**Notes to Financial Statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004**

**16.Other important events:** None

**17.Information for investment in Mainland China:** None

**18.Segment Information:** None