

**Cathay Securities Corporation  
Financial Statements  
Together with  
Review Report  
As of September 30, 2004**

**Name of the company: Cathay Securities Corporation**

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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.

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**English Translation of Review Report Originally Issued in Chinese**  
**Review report of independent accountants**

To: Board of Directors  
Cathay Securities Corporation

We have reviewed the accompanying balance sheet of Cathay Securities Corporation as of September 30, 2004, and the related statements of income, changes in stockholders' equity, and cash flows from May 12 to September 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our review.

We conducted our reviews in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with "Guidelines of Financial Reports Preparation by Securities Firms", "Guidelines of Financial Reports Preparation by Futures Firms" and generally accepted accounting principles in the Republic of China.

DIWAN, ERNST & YOUNG  
Taipei, Taiwan  
The Republic of China  
Oct. 12, 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 review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited balance sheet

As of September 30, 2004

(Expressed in thousands of dollars)

ASSETS	NOTES	September 30, 2004	
		NT\$	US\$
Current assets			
Cash and cash equivalents	2,5(1)	\$1,706,470	\$50,205
Short-term investments - net	2,5(2)	734,000	21,595
Bonds purchased under agreements to resell	2,5(3)	70,000	2,059
Operating securities - dealing	2,5(4)	23,985	706
Allowance for loss of operating securities due to price decline - dealing	2,5(4)	(156)	(5)
Operating securities - stock warrants		763	22
Allowance for loss of operating securities due to price decline - stock warrants		(125)	(4)
Receivable amount for margin loans	5(5)	282,151	8,301
Securities refinancing margin deposits		715	21
Accounts receivable - net		754	22
Prepayments		8,816	259
Other receivables - net		8,582	253
Restricted assets - current	6,7	500,000	14,710
Deferred income tax assets - current	5(14)	3,675	108
Other current assets		10	-
Total current assets		<u>3,339,640</u>	<u>98,252</u>
Funds and long-term investments			
Long-term investments in stocks	2,5(6)		
Long-term investment under cost method		18	1
Total funds and long-term investments		<u>18</u>	<u>1</u>
Property and equipment	2,5(7)		
Equipment		11,507	339
Leasehold improvement		2,046	60
Less: Accumulated depreciation		(374)	(11)
Net property and equipment		<u>13,179</u>	<u>388</u>
Other assets			
Operating deposits	2,5(8)	150,098	4,416
Settlement and clearance funds	2,5(9)	64,000	1,883
Refundable deposits	6	8,839	260
Deferred debits		2,060	61
Total other assets		<u>224,997</u>	<u>6,620</u>
Securities brokerage debit accounts - net	5(10)	11,544	340
Total assets		<u>\$3,589,378</u>	<u>\$105,601</u>

(The exchange rate of September 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.99)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation  
Unaudited balance sheet  
As of September 30, 2004  
(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	September 30, 2004	
		NT\$	US\$
Current liabilities			
Bonds sold under agreements to repurchase	2,5(11)	\$70,000	\$2,059
Financing securities guaranty deposits		9,314	274
Financing securities guaranteed proceeds payable		10,298	303
Notes payable - related parties		7,865	231
Accounts payable		2,810	83
Amounts collected for other parties		1,310	39
Other payables		1,215	36
Other current liabilities		30	1
Total current liabilities		102,842	3,026
Other liabilities			
Reserve for default losses	2	577	17
Reserve for trading losses	2	8	-
Total other liabilities		585	17
Total liabilities		103,427	3,043
Stockholders' equity			
Capital stock	5(12)		
Common stock		3,500,000	102,971
Retained earnings	5(13)		
Unappropriated retained earnings		(14,049)	(413)
Total stockholders' equity		3,485,951	102,558
Total liabilities and stockholders' equity		\$3,589,378	\$105,601

(The exchange rate of September 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.99)

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

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Corporation  
Unaudited statement of income  
From May 12 to September 30, 2004  
(Expressed in thousands of dollars except for earnings per share)  
(The development stage was from May 12, 2004 to August 12, 2004)

ITEMS	NOTES	May 12 - September 30, 2004	
		NT\$	US\$
Revenue	2		
Brokerage commissions	2,6	\$17,939	\$528
Profit from trading securities - dealing		37	1
Profit from trading securities - stock warrants		41	1
Interest revenue		2,518	74
Brokerage commissions for introducing futures contracts		367	11
Other operating revenue		15	-
Non-operating revenue and profits		8,697	256
Total revenue		<u>29,614</u>	<u>871</u>
Expenses	2		
Brokerage securities transaction charges	2,6	(1,340)	(39)
Dealing securities transaction charges		(2)	-
Refinancing transaction fees		(1)	-
Interest expense		(21)	-
Loss from decline in price of operating securities - dealing		(156)	(5)
Loss from decline in price of operating securities -stock warrants		(125)	(4)
Operating expenses		(44,483)	(1,309)
Non-operating expenses and losses		(107)	(3)
Total expenses		<u>(46,235)</u>	<u>(1,360)</u>
Losses from continuing operations before income taxes		(16,621)	(489)
Income tax benefit	2,5(14)	2,572	76
Losses from continuing operations after income taxes		<u>(14,049)</u>	<u>(413)</u>
Net loss		<u>(\$14,049)</u>	<u>(\$413)</u>
Earnings per share (in dollars)			
Losses before income taxes	5(16)	(\$0.05)	(\$0.001)
Net loss	5(16)	<u>(\$0.04)</u>	<u>(\$0.001)</u>

(The exchange rate of September 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.99)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Unaudited statement of changes in stockholders' equity

From May 12 to September 30, 2004

(Expressed in thousands of dollars)

(The development stage was from May 12, 2004 to August 12, 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	\$102,971	\$-	\$-	\$3,500,000	\$102,971
Net loss from May 12 to September 30, 2004			(14,049)	(413)	(14,049)	(413)
Balance on September 30, 2004	<u>\$3,500,000</u>	<u>\$102,971</u>	<u>(\$14,049)</u>	<u>(\$413)</u>	<u>\$3,485,951</u>	<u>\$102,558</u>

(The exchange rate of September 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.99)

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

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Corporation  
Unaudited statement of cash flows  
From May 12 to September 30, 2004  
(Expressed in thousands of dollars)  
(The development stage was from May 12, 2004 to August 12, 2004)

ITEMS	NOTES	May 12 - September 30, 2004	
		NT\$	US\$
Cash flows from operating activities			
Net loss		(\$14,049)	(\$413)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation		374	11
Amortization		87	3
Reserve for trading losses		8	-
Reserve for default losses		577	17
Loss on obsolescence of property and equipment		107	3
Loss from decline in price of operating securities - dealing		156	5
Loss from decline in price of operating securities - stock warrants		125	4
Increase in short-term investments		(734,000)	(21,595)
Increase in bonds purchased under agreements to resell		(70,000)	(2,059)
Increase in operating securities - dealing		(23,985)	(706)
Increase in operating securities - stock warrants		(763)	(22)
Increase in receivable amount for margin loans		(282,151)	(8,301)
Increase in securities refinancing margin deposits		(715)	(21)
Increase in accounts receivable - net		(754)	(22)
Increase in prepayments		(8,816)	(259)
Increase in other receivables - net		(8,582)	(253)
Increase in deferred income tax assets - current		(3,675)	(109)
Increase in other current assets		(10)	-
Increase in securities brokerage debit accounts - net		(11,544)	(340)
Increase in bonds sold under agreements to repurchase		70,000	2,059
Increase in financing securities guaranty deposits		9,314	274
Increase in financing securities guaranteed proceeds payable		10,298	303
Increase in notes payable - related parties		7,865	231
Increase in accounts payable		2,810	83
Increase in amounts collected for other parties		1,310	39
Increase in other payables		1,215	36
Increase in other current liabilities		30	1
Net cash provided by (used in) operating activities		(1,054,768)	(31,031)
Cash flows from investing activities			
Increase in restricted assets - current		(500,000)	(14,710)
Acquisition of long-term investments in stocks		(18)	(1)
Acquisition of property and equipment		(13,660)	(402)
Increase in operating deposits		(150,098)	(4,416)
Increase in settlement and clearance funds		(64,000)	(1,883)
Increase in refundable deposits		(8,839)	(260)
Increase in deferred debits		(2,147)	(63)
Net cash provided by (used in) investing activities		(738,762)	(21,735)
Cash flows from financing activities			
Capital increase from cash		3,500,000	102,971
Net cash provided by (used in) financing activities		3,500,000	102,971
Increase in cash and cash equivalents		1,706,470	50,205
Cash and cash equivalents, end of period		\$1,706,470	\$50,205
Supplemental disclosure of cash flows information			
Interest paid during the period		\$15	\$-
Interest paid excluding capitalized interest		\$15	\$-
Income tax paid		\$1,385	\$41

(The exchange rate of September 30, 2004 provided by the Federal Reserve Bank of New York was NT\$33.99)

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



## 1. Organization and 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 engages in the business of securities underwriting, dealing, brokerage, pecuniary and securities financing and refinancing, dealing brokerage services related to futures, and other operations approved by the authorities.

Based on the resolution of the board of directors on April 23, 2004, the securities department and the securities agent (Taipei branch) of Cathay United Bank, along with its business, assets and liabilities, were assigned to the Company through business assignment. The assignment date was August 13, 2004, and resulted in the establishment of the Company’s Xin-yi and Bo-ai branch offices.

As of September 30, 2004, the Company had 90 employees.

## 2. Summary of significant accounting policies

The Company’s financial statements conform to generally accepted accounting principles in the ROC, the Guidelines of Financial Reports Preparation by Securities Firms and Financial Reports Preparation by Futures Firms. Significant accounting policies are summarized 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 assets. Obligations that are expected to be liquidated or settled within one year are classified as current liabilities. All other assets and liabilities are classified as non-current.

### (2) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

(3) Short-term investments

Short-term investments represent investments in open-end funds and are valued at the lower of cost or market value. Cost is determined using the weighted-average method. Market value represents the net asset value per share announced by the investment fund on the balance sheet date.

(4) Bonds purchased under agreements to resell / Bonds sold under agreements to repurchase

The financing method is adopted to account for bond transactions with terms to redeem and repurchase. Sales of bonds with repurchase terms for financing purposes are recorded as “Bonds sold under agreements to repurchase” and classified as current liabilities. Upon execution of repurchase terms, the difference between the financing amount and repurchase price is recorded as interest expense. Purchases of redeemable bonds for financing purposes are recorded as “Bonds purchased under agreements to resell” and classified as current assets. Upon execution of redemption terms, the difference between the resale price and financing amount is recorded as interest income.

(5) Operating securities

Securities purchased for resale by the dealer department are accounted for as “operating securities-dealing”, and consist of bonds, closed-end funds, stock warrants, listed stocks, and over-the-counter (OTC) stocks. Operating securities are evaluated using the lower of aggregate cost or market value. Cost is determined using the weighted-average method. Market value is based on the appropriate closing market price on the balance sheet date.

(6) Futures transaction

The Company engages in assisting futures transactions and receives commission fees from futures agents. Commission fees are listed under brokerage commissions for introducing futures contracts in the income statement.

(7) Long-term investments

Long-term investments represent investments in unlisted common stocks and are valued at cost if the Company has less than 20% of the investee's voting shares and the Company does not have significant influence over the operating and financial policies of the investee. However, when there is evidence indicating that a decline in the value of such investments is other than temporary, the investments are devalued to reflect such a decline and the resulting losses are recognized in the period of such devaluation.

Long-term investments are accounted for by the equity method when the Company owns 20% or more of an investee's voting stock or the Company is able to exercise significant influence over the investee's operating and financial policies.

Cost is determined using the weighted-average method.

(8) Property and equipment

Property and equipment are stated at cost. Renewals and improvements are capitalized and depreciated accordingly; repairs and maintenance are charged to expenses when incurred. Major accounts of fixed assets are equipment, leasehold improvements, and others. Except for land, depreciation of equipment is provided for over the estimated useful lives of the respective assets using the straight-line method and useful lives of 3~5 years. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements.

(9) Reserve for default losses

According to the Rules Governing Securities Firms, a securities firm trading securities for customers' accounts shall allocate 0.0028% of the transaction price of the traded securities on a monthly basis as a reserve for default losses.

The reserve for default losses referred to in the preceding paragraph shall not be used except for the purpose of covering losses caused by breach of contract for trading on customers' accounts or for purposes approved by the Securities and Futures Bureau, Financial Supervisory Commission.

When the accumulated reserve for breach of contract losses reaches NT\$200,000 (US\$5,884) allocation will be suspended.

(10) Reserve for trading losses

According to the Rules Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided as a reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT\$200,000 (US\$5,884). Such provision can only be used to offset the excess of securities trading losses over gains.

(11) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax 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 needed.

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 tax 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.

(12) Recognition of revenue and expenses

The Company's major revenue and expense recognition principles are as follows:

- A. Brokerage commissions, profit or loss from disposal of operating securities, and other relevant securities transaction charges are recognized at the transaction date.
- B. Interest revenue or expenses of margin loans, bonds purchased under agreement to resell and bonds sold under agreements to repurchase are recognized on an accrued basis.

(13) Convenience translation into US dollars

The Company's financial statements are stated in NT dollars. Conversion of September 30, 2004, NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the reader, using the noon buying rate of NT\$33.99 to US\$1.00 effective on September 30, 2004, as provided by the Federal Reserve Bank of New York. The convenience translation should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

English Translation of Financial Statements Originally Issued in Chinese  
 Cathay Securities Corporation  
 Notes to unaudited financial statements (continued)  
 (Expressed in thousands of dollars except for share and per share data and unless otherwise stated)  
 As of September 30, 2004

3. Revenue and expense during the development stage

Item	From May 12 to August 12, 2004	
	NT\$	US\$
Financial revenue	\$6,377	\$188
Net income before tax during the development stage	\$6,377	\$188

4. Changes in accounting and its effects

None

5. Breakdown of significant accounts

(1) Cash and cash equivalents

Item	September 30, 2004	
	NT\$	US\$
Cash on hand	\$90	\$3
Saving accounts	886,356	26,077
Checking accounts	30,024	883
Time deposits	790,000	23,242
Total	\$1,706,470	\$50,205
Annual interest rate of time deposits	0.65%-0.90%	0.65%-0.90%

As of September 30, 2004, none of the cash and cash equivalents was pledged to other parties.

(2) Short-term investments - net

Item	September 30, 2004	
	NT\$	US\$
Open-end funds	\$734,000	\$21,595
Less: allowance for decline in market value	-	-
Net	\$734,000	\$21,595

As of September 30, 2004, none of the short-term investments were pledged to other parties.

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(3) Bonds purchased under agreements to resell

	September 30, 2004	
Item	NT\$	US\$
Central government construction bonds	\$70,000	\$2,059

As of September 30, 2004, bonds purchased under agreements to resell were due within one year with annual interest rates ranging between 0.975%-1.000%. These bonds were made available for resale at an agreed aggregate amount of NT\$70,013 (US\$2,060) between October 4 – October 6, 2004.

(4) Operating securities - dealing

	September 30, 2004	
Item	NT\$	US\$
Listed stocks and OTC stocks	\$4,752	\$140
Corporate bonds	19,233	566
Subtotal	23,985	706
Less: Allowance for loss of operating securities due to price decline – dealing	(156)	(5)
Net	\$23,829	\$701

As of September 30, 2004, none of the operating securities were pledged to other parties.

(5) Receivable amount for margin loans

	September 30, 2004	
Item	NT\$	US\$
Receivable amount for margin loans	\$282,151	\$8,301
Less: Allowance for bad debts	-	-
Net	\$282,151	\$8,301

A. During 2004, receivable amount for margin loans had an annual interest rate of 6.25%.

B. As of September 30, 2004, the market value of securities used for collateral in connection with the Company's margin loan activity was NT\$427,339 (US\$12,572).

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As of September 30, 2004

(6) Long-term investments in stocks

Item	September 30, 2004	
	NT\$	US\$
Cost:		
Taiwan International Mercantile Exchange Corporation	\$18	\$1

(7) Property and equipment

Item	September 30, 2004					
	Cost		Accumulated depreciation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Transportation equipment	\$3,312	\$98	\$55	\$2	\$3,257	\$96
Office equipment	2,174	64	52	1	2,122	63
Computer equipment	6,021	177	214	6	5,807	171
Leasehold improvements	2,046	60	53	2	1,993	58
	\$13,553	\$399	\$374	\$11	\$13,179	\$388

As of September 30, 2004, none of the property and equipment was pledged to other parties.

(8) Operating deposits

As stipulated in the Rules Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, and the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$150,098 (US\$4,416) as of September 30, 2004.

(9) Settlement and clearance funds

As stipulated in the Rules Governing Securities Firms and OTC regulations, the Company deposited NT\$64,000 (US\$1,883) with the Taiwan Securities Exchange Corporation and the Over-The-Counter Securities Exchange as of September 30, 2004.

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As of September 30, 2004

(10) Securities brokerage debit accounts - net

Item	September 30, 2004	
	NT\$	US\$
Debit balance:		
Proceeds receivable from investors	\$192,581	\$5,666
Accounts receivable – brokering	73,589	2,165
Debit transaction	5,299	156
Clearance	140,125	4,123
Subtotal	411,594	12,110
Credit balance:		
Proceeds payable to investors	326,533	9,607
Accounts payable – brokering	73,517	2,163
Subtotal	400,050	11,770
Net	\$11,544	\$340

(11) Bonds sold under agreements to repurchase

Item	September 30, 2004	
	NT\$	US\$
Central government construction bonds	\$70,000	\$2,059

As of September 30, 2004, bonds sold under agreements to repurchase were due within one year with annual interest rates ranging between 0.90%-0.95%. These bonds were made available for repurchase at an agreed aggregate amount of NT\$70,012 (US\$2,060) between October 4 – October 6, 2004.

(12) Capital stock

As of September 30, 2004, the Company had an initial capitalization of NT\$3,500,000 and 350,000,000 shares outstanding with a par value of NT\$10 per share.



(13) Retained earnings

A. Legal reserve

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be appropriated as a legal reserve until the total reserve equals the amount of issued capital stock. This legal reserve can be used only to cover accumulated losses and not for distributing cash dividends. However, if the total accumulated legal reserve is greater than 50% of paid-in capital, and a resolution of a stockholders' meeting so approves, it can be capitalized for not more than 50% of its balance.

B. 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 taxes and offsetting deficits, if any, should first be added to the legal reserve. In addition to distributing stock interest and 1% as a 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 unappropriated 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 after the assessment. Otherwise, income tax will be levied on each stockholder's proportion of the total unappropriated retained earnings, or alternatively, the Company may pay an extra 10% income tax on the excess unappropriated retained earnings for the year.

C. The Company has to pay an extra 10% income tax on all unappropriated retained earnings generated during the year.

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As of September 30, 2004

(14) Estimated income tax

A. Income tax expenses include the following:

Item	From May 12 to September 30, 2004	
	NT\$	US\$
Loss before income taxes	\$(16,621)	\$(489)
Adjustments:		
Adjusted revenue and expense from dealing, bond, and futures departments	7,680	226
Interest income taxed on a separate basis	(5,759)	(169)
Loss on default	577	17
Taxable income	(14,123)	(415)
Multiplied by: tax rate;		
less: progressive difference	25% - 10	25%
Sub-total	-	-
Tax on a separate basis	1,103	32
Deferred tax benefit	(3,675)	(108)
Total income tax expense	\$(2,572)	\$(76)

B. Deferred income tax liabilities and assets are as follows:

	September 30, 2004	
	NT\$	US\$
a. Total deferred income tax liabilities	\$0	\$0
b. Total deferred income tax assets	\$3,675	\$108
c. Temporary differences:		
Loss on default	\$577	\$17
Loss carryforwards	14,123	415
Total	\$14,700	\$432
d. Deferred income tax assets - current	\$3,675	\$108
Deferred income tax liabilities - current	0	0
Net deferred income tax assets (liabilities) - current	\$3,675	\$108
e. Deferred income tax assets - non-current	\$0	\$0
Deferred income tax liabilities - non-current	0	0
Net deferred income tax assets (liabilities) - non-current	\$0	\$0

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(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)  
As of September 30, 2004

C. Information related to tax imputation:

	September 30, 2004	
	NT\$	US\$
Balance of tax imputation credit account	\$1,103	\$32

(15) Personnel, depreciation, depletion and amortization

Item	From May 12 to September 30, 2004			From May 12 to September 30, 2004		
	(NT\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$25,328	\$25,328	-	\$745	\$745
Labor & health insurance expenses	-	1,303	1,303	-	38	38
Pension expenses	-	-	-	-	-	-
Other expenses	-	343	343	-	10	10
Depreciation	-	374	374	-	11	11
Depletion	-	-	-	-	-	-
Amortization	-	87	87	-	3	3

(16) Earnings per share

	From May 12 to September 30, 2004	
	NT\$	US\$
Loss before income taxes (A)	\$(16,621)	\$(489)
Loss after income taxes (B)	\$(14,049)	\$(413)
Outstanding number of shares at September 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 income tax (A)/(C) (dollars)	\$(0.05)	\$(0.001)
Earnings per share after income tax (B)/(C) (dollars)	\$(0.04)	\$(0.001)

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6. Related party transactions

(1) Related parties

<u>Name</u>	<u>Relationship</u>
Cathay Financial Holding Co., Ltd.	Parent company
Cathay United Bank Co., Ltd.	Affiliate
Cathay Life Insurance Co., Lt.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate

(2) Transactions with related parties

A. Cash in bank

<u>Name</u>	<u>Type</u>	<u>From May 12 to September 30, 2004</u>		
		<u>Ending balance</u>	<u>Interest rate</u>	<u>Interest income</u>
		<u>NT\$</u>		<u>NT\$</u>
Cathay United Bank Co., Ltd.	Saving accounts	\$886,307	0.10%	\$324
	Checking accounts	\$30,024		\$-
	Time deposits	\$790,000	0.65%~0.90%	\$8,194

<u>Name</u>	<u>Type</u>	<u>From May 12 to September 30, 2004</u>		
		<u>Ending balance</u>	<u>Interest rate</u>	<u>Interest income</u>
		<u>US\$</u>		<u>US\$</u>
Cathay United Bank Co., Ltd.	Saving accounts	\$26,076	0.10%	\$10
	Checking accounts	\$883		\$-
	Time deposits	\$23,242	0.65%~0.90%	\$241

B. Restricted assets - time deposit

<u>Name</u>	<u>September 30, 2004</u>	
	<u>NT\$</u>	<u>US\$</u>
Cathay United Bank Co., Ltd.	\$500,000	\$14,710

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C. Rental expenses, refundable deposits and prepaid rent

Name	From May 12 to September 30, 2004		
	Rental	Refundable	Prepaid
	expenses	deposits	rent
NT\$	NT\$	NT\$	
Cathay United Bank Co., Ltd.	\$1,573	\$2,334	\$7,865
Cathay Life Insurance Co., Ltd.	2,553	3,323	-
Total	\$4,126	\$5,657	\$7,865

Name	From May 12 to September 30, 2004		
	Rental	Refundable	Prepaid
	expenses	deposits	rent
US\$	US\$	US\$	
Cathay United Bank Co., Ltd.	\$46	\$69	\$231
Cathay Life Insurance Co., Ltd.	75	98	-
Total	\$121	\$167	\$231

D. Notes payable

Name	September 30, 2004	
	NT\$	US\$
Cathay United Bank Co., Ltd.	\$7,865	\$231

E. Brokerage commissions

Name	From May 12 to September 30, 2004	
	NT\$	US\$
Cathay United Bank Co., Ltd.	\$717	\$21
Cathay Life Insurance Co., Ltd.	8,305	245
Cathay Century Insurance Co., Ltd.	50	1
Total	\$9,072	\$267

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F. Brokerage commissions for introducing futures contracts

Name	From May 12 to September 30, 2004	
	NT\$	US\$
Cathay Futures Co., Ltd.	\$367	\$11

G. Insurance expenses

Name	From May 12 to September 30, 2004	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$238	\$7

7. Pledged assets

Item	September 30, 2004	
	NT\$	US\$
Restricted assets – time deposit	\$500,000	\$14,710

A. As of September 30, 2004, the Company pledged its time deposit to Cathay United Bank Co., Ltd. as collateral for the over-loaning of settlement accounts.

B. The restricted assets – time deposit is disclosed at its net carrying value.

8. Other important matters and contingent liabilities:

The Company has several operating lease agreements that have terms ranging from one to five years.

Period	Amount	
	NT\$	US\$
October 1, 2004~September 30, 2005	\$24,073	\$708
October 1, 2005~September 30, 2006	23,463	690
October 1, 2006~September 30, 2007	21,416	630
October 1, 2007~September 30, 2008	9,438	278
October 1, 2008~September 30, 2009	7,865	232
Total	\$86,255	\$2,538

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9. Serious damages: None

10. Subsequent events: None

11. Other important events:

(1) Financial instruments related information

A.	September 30, 2004			
	Book value (NT\$)	Fair value (NT\$)	Book value (US\$)	Fair value (US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$1,706,470	\$1,706,470	\$50,205	\$50,205
Short-term investments	734,000	734,140	21,595	21,599
Bonds purchased under agreements to resell	70,000	70,000	2,059	2,059
Operating securities - net	24,467	24,467	720	720
Receivable amount for margin loans	282,151	282,151	8,301	8,301
Securities refinancing margin deposits	715	715	21	21
Receivables – net	9,336	9,336	275	275
Restricted assets	500,000	500,000	14,710	14,710
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,416	4,416
Settlement and clearance funds	64,000	64,000	1,883	1,883
Refundable deposits	8,839	8,839	260	260
Liabilities:				
Bonds sold under agreements to Repurchase	70,000	70,000	2,059	2,059
Financing securities guaranty deposits	9,314	9,314	274	274
Financing securities guaranteed proceeds Payable	10,298	10,298	303	303
Payables	11,890	11,890	350	350
<b>Derivative</b>				
None				

B. Methods and assumptions for estimating the fair value of non-derivative financial instruments are as follows.

- a. Short-term financial instruments are stated at their book 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 book values are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, bonds purchased under agreements to resell, receivable amount for margin loans, securities refinancing margin deposits, receivables, restricted assets, operating deposits, settlement and clearance funds, refundable deposits, bonds sold under agreements to repurchase, financing securities guaranty deposits, financing securities guaranteed proceeds payable, and payables.
- b. The fair value of operating securities is estimated based on the market price, if available. Otherwise, the book value is used to estimate the fair value.
- c. The fair value of long-term investments in stocks is estimated based on market value, if available. If the investment is not traded on the open market, the book value is used to estimate the fair value.

(2) Assignment

Based on the resolution of the board of directors on April 23, 2004, the securities department and the securities agent (Taipei branch) of Cathay United Bank, along with its business, assets and liabilities, were assigned to the Company through business assignment, which amounted to NT\$414,930 (US\$12,207). The Xin-yi and Bo-ai branch offices were established at the same locations as at the assignment. The assignment date was August 13, 2004, the application date for the assignment was June 15, 2004 and the authorities approved it on June 28, 2004.



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(3) Futures department information

The Company received approval to engage in futures activities on September 23, 2004.

A. Unaudited balance sheet of futures department

Cathay Securities Corporation - Futures Department  
Unaudited balance sheet  
As of September 30, 2004  
(Expressed in thousands of dollars)

Items	September 30, 2004	
	(NT\$)	(US\$)
Assets:		
Current assets		
Cash and cash equivalents	\$590,015	\$17,358
Prepayments	2	-
Other receivables - net	3	-
Total current assets	590,020	17,358
Property and equipment		
Equipment	23	1
Less: Accumulated depreciation	(1)	-
Net property and equipment	22	1
Other assets		
Operating deposits	10,000	294
Refundable deposits	1,360	40
Total other assets	11,360	334
Total assets	\$601,402	\$17,693

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Cathay Securities Corporation - Futures Department  
Unaudited balance sheet  
As of September 30, 2004  
(Expressed in thousands of dollars)

Items	September 30, 2004	
	(NT\$)	(US\$)
Liabilities:		
Other liabilities		
Inter-department accounts	\$3,634	\$106
Total other liabilities	3,634	106
Working capital	600,000	17,652
Retained earnings		
Unappropriated retained earnings	(2,232)	(65)
Total capital	597,768	17,587
Total liabilities and capital	<u>\$601,402</u>	<u>\$17,693</u>

B. Unaudited statement of income of futures department

Cathay Securities Corporation - Futures Department  
Unaudited statement of income  
From September 23 to September 30, 2004  
(Expressed in thousands of dollars)

Items	September 30, 2004	
	(NT\$)	(US\$)
Revenue		
Non-operating revenue and profits	\$20	\$1
Total revenue	20	1
Expenses		
Operating expenses	(2,252)	(66)
Total expenses	(2,252)	(66)
Loss before income taxes	(2,232)	(65)
Income taxes	-	-
Loss after income taxes	<u>\$(2,232)</u>	<u>\$(65)</u>

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C. The status of those that follow the rules of the futures trading law and the rules governing futures commission merchants:

According to the Rules Governing Futures Commission Merchants:					
Article	Formula	Current period		Standard	Status
		Calculation	Ratio		
17	$\frac{\text{Total capital}}{\text{( Total liabilities less equity of futures customers, reserve for trading losses, and reserve for default losses )}}$	$\frac{\text{NT\$597,768}}{\text{NT\$3,635}}$	164.45	1	Meets regulatory requirement
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\text{NT\$590,020}}{\text{NT\$0}}$	-	1	"
22	$\frac{\text{Total capital}}{\text{Minimum paid-in capital}}$	$\frac{\text{NT\$597,768}}{\text{NT\$400,000}}$	149.44%	60% 40%	"
22	$\frac{\text{Adjusted net capital}}{\text{Total margin required for the non-offset position of futures customers}}$	$\frac{\text{NT\$596,380}}{\text{NT\$0}}$	-	20% 15%	"