

**Cathay Securities Corporation**  
**Financial statements**  
**Together with**  
**Independent auditors' report**  
**As of December 31, 2004**

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English Translation of Report Originally Issued in Chinese  
Independent auditors' report

To: Board of Directors  
Cathay Securities Corporation

We have audited the accompanying balance sheet of Cathay Securities Corporation (the "Company") as of December 31, 2004, and the related statements of income, changes in stockholders' equity, and cash flows from May 12, 2004 to December 31, 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 the "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" and auditing standards generally accepted 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 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 Cathay Securities Corporation as of December 31, 2004, and the results of its operations and their cash flows from May 12, 2004 to December 31, 2004 in conformity with "Criteria Governing the Preparation of Financial Reports by Securities Firms", "Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants", and generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young  
Taipei, Taiwan  
Republic of China  
Jan. 17, 2005

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.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Corporation  
Balance sheet  
As of December 31, 2004  
(Expressed in thousands of dollars)

ASSETS	NOTES	December 31, 2004	
		NT\$	US\$
Current assets			
Cash and cash equivalents	2,5(1)	\$1,857,623	\$58,526
Short-term investments - net	2,5(2)	650,000	20,479
Investments in bonds with resale agreements	2,5(3)	672,686	21,194
Operating securities - dealing	2,5(4)	126,742	3,993
Allowance for valuation loss on operating securities - dealing	2,5(4)	(880)	(28)
Operating securities - stock warrants	2,5(5)	12	-
Allowance for valuation loss on operating securities - stock warrants	2,5(5)	(1)	-
Operating securities - hedging	2,5(6)	169,293	5,334
Receivable amount for margin loans	5(7)	189,445	5,969
Securities refinancing margin deposits		687	22
Accounts receivable - net		8,982	283
Prepayments		840	26
Other receivables - net		10,227	322
Other receivables - related parties - net		2,569	81
Restricted assets - current		500,000	15,753
Deferred income tax assets - current	5(17)	9,035	285
Deferred losses on financial instrument		1,203	38
Other current assets		802	25
Subtotal		4,199,265	132,302
Funds and long-term investments			
Long-term investments in stocks	2,5(8)		
Long-term investment under cost method		18	1
Subtotal		18	1
Property and equipment	2,5(9)		
Equipment		27,563	868
Leasehold improvement		10,046	317
Less: Accumulated depreciation		(1,738)	(55)
Subtotal		35,871	1,130
Intangible assets			
Deferred pension cost	2,5(14)	1,680	53
Subtotal		1,680	53
Other assets			
Operating deposits	5(10)	150,098	4,729
Settlement and clearance funds	5(11)	65,109	2,051
Guarantee deposits paid		19,929	628
Deferred debits		4,445	140
Deferred income tax assets - noncurrent	5(17)	396	12
Subtotal		239,977	7,560
Securities brokerage debit accounts - net	5(12)	3,495	110
Total assets		\$4,480,306	\$141,156

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)  
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Balance sheet

As of December 31, 2004

(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	December 31, 2004	
		NT\$	US\$
Current liabilities			
Bonds sold under repurchase agreements	2,5(13)	\$776,327	\$24,459
Securities financing guarantee deposits-in		744	23
Deposit payable for securities financing		822	26
Liabilities for derivative financial instruments - GreTai (over-the-counter)	2, 11	226,285	7,129
Accounts payable		3,830	121
Accounts collected in advance		175	6
Receipts under custody		1,933	61
Other payable		8,035	253
Other current liabilities		40	1
Subtotal		1,018,191	32,079
Other liabilities			
Reserve for default losses	2	1,585	50
Reserve for trading losses	2	123	4
Guarantee deposits-in		163	5
Accrued pension liability	2, 5(14)	1,810	57
Subtotal		3,681	116
Total liabilities		1,021,872	32,195
Stockholders' equity			
Capital stock	5(15)		
Common stock		3,500,000	110,271
Retained earnings	5(16)		
Unappropriated retained earnings		(41,566)	(1,310)
Total stockholders' equity		3,458,434	108,961
Total liabilities and stockholders' equity		\$4,480,306	\$141,156

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statement of income

From May 12 to December 31, 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 - December 31, 2004	
		NT\$	US\$
Revenue	2		
Brokerage commissions		\$48,658	\$1,533
Profit from trading securities - dealing		424	13
Profit from trading securities - hedging		2,581	81
Interest revenue		7,537	238
Brokerage commissions for introducing futures contracts		862	27
Revenue from derivative financial instruments - GreTai (over-the-counter)	2,11	132	4
Other operating revenue		141	5
Non-operating revenue and profits		16,186	510
Subtotal		<u>76,521</u>	<u>2,411</u>
Expenses	2		
Brokerage securities transaction charges		(3,677)	(116)
Dealing securities transaction charges		(105)	(3)
Refinancing transaction fees		(4)	-
Loss from trading securities - stock warrants		(294)	(9)
Interest expense		(1,211)	(38)
Loss from decline in price of operating securities - dealing		(880)	(28)
Loss from decline in price of operating securities - stock warrants		(1)	-
Operating expenses		(119,455)	(3,764)
Non-operating expenses and losses		(107)	(3)
Subtotal		<u>(125,734)</u>	<u>(3,961)</u>
Loss from continuing operations before income taxes		(49,213)	(1,550)
Income tax benefit	2,5(17)	7,647	240
Net loss from continuing operations		<u>\$(41,566)</u>	<u>\$(1,310)</u>
Net loss		<u>\$(41,566)</u>	<u>\$(1,310)</u>
Earnings per share (in dollars)	2,5(19)		
Loss before income taxes		<u>\$(0.14)</u>	<u>\$(0.004)</u>
Net loss		<u>\$(0.12)</u>	<u>\$(0.004)</u>

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Corporation  
Statement of changes in stockholders' equity  
From May 12 to December 31, 2004  
(Expressed in thousands of dollars)  
(The development stage was from May 12, 2004 to August 12, 2004)

SUMMARY	Common stock		Retained earnings		Total		
	(NT\$)	(US\$)	Unappropriated retained earnings	(NT\$)	(US\$)	(NT\$)	(US\$)
Incorporated on May 12, 2004	\$3,500,000	\$110,271	\$-	\$-		\$3,500,000	\$110,271
Net loss from May 12 to December 31, 2004			(41,566)	(1,310)		(41,566)	(1,310)
Balance on December 31, 2004	\$3,500,000	\$110,271	\$(41,566)	\$(1,310)		\$3,458,434	\$108,961

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Corporation  
Statement of cash flows  
From May 12 to December 31, 2004  
(Expressed in thousands of dollars)  
(The development stage was from May 12, 2004 to August 12, 2004)

ITEMS	May 12 - December 31, 2004	
	NT\$	US\$
Cash flows from operating activities		
Net loss	\$(41,566)	\$(1,310)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,738	55
Amortization	422	13
Gain on disposal of short-term investments	(2,645)	(83)
Reserve for trading losses	123	4
Reserve for default losses	1,585	50
Loss on disposal of property and equipment	107	3
Loss on valuation for operating securities - dealing	880	28
Loss on valuation for operating securities - stock warrants	1	-
Changes in assets and liabilities:		
Increase in investments in bonds with resale agreements	(672,686)	(21,194)
Increase in operating securities - dealing	(126,742)	(3,993)
Increase in operating securities - stock warrants	(12)	-
Increase in operating securities - hedging	(169,293)	(5,334)
Increase in receivable amount for margin loans	(189,445)	(5,969)
Increase in securities refinancing margin deposits	(687)	(22)
Increase in accounts receivable	(8,982)	(283)
Increase in prepayments	(840)	(26)
Increase in other receivables	(10,227)	(322)
Increase in other receivables - related parties	(2,569)	(81)
Increase in deferred income tax assets - current	(9,035)	(285)
Increase in other current assets	(802)	(25)
Increase in deferred income tax assets - noncurrent	(396)	(12)
Increase in securities brokerage debit accounts - net	(3,495)	(110)
Increase in bonds sold under repurchase agreements	776,327	24,459
Increase in securities financing guarantee deposits-in	744	23
Increase in deposit payable for securities financing	822	26
Increase in liabilities for derivative financial instruments - GreTai (over-the-counter)	225,082	7,091
Increase in accounts payable	3,830	121
Increase in accounts collected in advance	175	6
Increase in receipts under custody	1,933	61
Increase in other payable	8,035	253
Increase in other current liabilities	40	1
Increase in accrued pension liability	130	4
Net cash used in operating activities	<u>(217,448)</u>	<u>(6,851)</u>

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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



English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation

Statement of cash flows

From May 12 to December 31, 2004

(Expressed in thousands of dollars)

(The development stage was from May 12, 2004 to August 12, 2004)

ITEMS	May 12 - December 31, 2004	
	NT\$	US\$
Cash flows from investing activities		
Increase in short-term investments	(647,355)	(20,396)
Increase in restricted assets - current	(500,000)	(15,753)
Acquisition of long-term investments in stocks	(18)	(1)
Acquisition of property and equipment	(37,716)	(1,188)
Increase in operating deposits	(150,098)	(4,729)
Increase in settlement and clearance funds	(65,109)	(2,051)
Increase in guarantee deposits paid	(19,929)	(628)
Increase in deferred debits	(4,867)	(153)
Net cash used in investing activities	(1,425,092)	(44,899)
Cash flows from financing activities		
Increase in guarantee deposits-in	163	5
Capital increase from cash	3,500,000	110,271
Net cash provided by financing activities	3,500,163	110,276
Increase in cash and cash equivalents	1,857,623	58,526
Cash and cash equivalents at the end of period	\$1,857,623	\$58,526
Supplemental disclosure of cash flows information		
Interest paid during the period	\$1,183	\$37
Interest paid (excluding capitalized interest)	\$1,183	\$37
Income tax paid	\$1,720	\$54

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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

## **English Translation of Financial Statements Originally Issued in Chinese**

### **Cathay Securities Corporation**

#### **Notes to financial statements**

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

**As of December 31, 2004**

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Criteria Governing the Preparation of Financial Reports by Securities Firms”, and the “Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants”. 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.

#### **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 a 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 December 31, 2004, the Company had 96 employees.

#### **2. Summary of significant accounting policies**

These financial statements have been prepared in accordance with the “Criteria Governing the Preparation of Financial Reports by Securities Firms”, “Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants” and generally accepted accounting principles in the Republic of China. A summary of significant accounting policies is as follows:

##### **( 1 ) Current and noncurrent assets and liabilities**

Current assets are assets which can be liquidated or disposed of within one year. Assets that do not belong to current assets are classified as noncurrent assets. Current liabilities are debts which must be paid-off within one year. Liabilities that do not belong to current liabilities are classified as noncurrent liabilities.

##### **( 2 ) Cash and cash equivalents**

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Securities Corporation**  
**Notes to financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
**As of December 31, 2004**

( 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.

( 4 ) Investments in bonds with resale agreements / Bonds sold under repurchase agreements

Investment in bonds with resale agreements / Bonds sold under repurchase agreements are recorded at the amount of cash received or paid at the transaction. The difference between the recorded cost and the amount which was reacquired or resold as specified in the respective agreements, is accrued as interest expense or revenue.

( 5 ) Operating securities

Securities purchased for resale by the dealing department are accounted for as “operating securities-dealing”, and consist of bonds, stock warrants, listed stocks, and over-the -counter (OTC) stocks.

Operating securities are valued at the lower of cost or market value. Cost is determined using the weighted-average method. Market value is the closing market price on the balance sheet date.

( 6 ) Futures transaction

The Company assists in futures transactions and collects commissions from futures agencies. Commissions are recognized as “brokerage commissions for introducing futures contracts” in the statement of income.

( 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 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 decline and the resulting losses are recognized in the period of such devaluation. Cost is determined by the weighted-average method when long-term investments are disposed.

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Securities Corporation**  
**Notes to financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
**As of December 31, 2004**

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 improvement, and others. Except for land, depreciation of equipment is provided for over the estimated useful lives of the respective assets on the straight-line method, with useful lives of 3~5 years. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements.

( 9 ) Pension

The Company set up a retirement plan and reserved for a retirement fund in an amount equal to 2% of total regular salaries and wages paid. Since December 2004, the Company has made contributions to the retirement fund, which is administered by the Employees' Retirement Fund Committee and deposited in the Committee's name in the Central Trust of China under the Labor Standards Law. The activities of the retirement fund are separated from those of the Company and therefore, they are not reflected in the accompanying financial statements.

The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 18 "Accounting for Pensions". Based on the actuarial report with measurement date as of December 31, 2004, the minimum pension liability was recorded for the excess of accumulated pension obligation over the fair value of pension assets.

( 10 ) 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 reserve for default losses.

**English Translation of Financial Statements Originally Issued in Chinese**  
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**Notes to financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
**As of December 31, 2004**

The reserve for default losses referred to in the preceding paragraph shall not be used except for the purpose of covering the 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\$6,301) allocation will be suspended.

( 11 ) 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 provision reaches NT\$200,000 (US\$6,301). Such provision can only be used to offset the excess of securities trading losses over gains.

( 12 ) Structured notes transactions

The structured notes transactions of the Company can be divided into principal guaranteed notes and equity-linked notes based on the terms of the contracts. Principal guaranteed notes transactions consist of receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as "Liabilities for principal guaranteed notes – fixed-income products" and "Liabilities for principal guaranteed notes – options". The former amortizes its interest expense over the contract period using the straight line method with the amount recognized as "Losses on principal guaranteed notes". The latter is valued at fair value with any resulting gains or losses recognized as "Gains / Losses on valuation for principal guaranteed notes". To the extent the losses do not exceed the unrealized gains of the hedging position based on market prices, the total amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss in the current period.

**English Translation of Financial Statements Originally Issued in Chinese**  
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**Notes to financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
**As of December 31, 2004**

( 13 ) Income taxes

The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income taxes payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year loss carry-forwards and investment tax credits. The realization of deferred income tax assets will be 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 noncurrent. 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 noncurrent based on the expected reversal date of the temporary difference.

( 14 ) 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 relevant brokerage securities transaction charges are recognized at the transaction date.
- B. Interest revenue or expense of margin loans, investments in bonds with resale agreements and bonds sold under repurchase agreements are recognized on an accrued basis.

( 15 ) Convenience translation into US dollars

The financial statements are stated in NT dollars. Conversion of 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\$31.74 to US\$1.00 effective on December 31, 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.

**English Translation of Financial Statements Originally Issued in Chinese**  
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**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
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**3. Revenue and expenses during the development stage**

	From May 12 to August 12, 2004	
Item	NT\$	US\$
Financial revenue	\$6,377	\$201
Net income before tax during the development stage	\$6,377	\$201

**4. Changes in accounting and its effects**

None

**5. Breakdown of significant accounts**

( 1 ) Cash and cash equivalents

	December 31, 2004	
Item	NT\$	US\$
Cash on hand	\$100	\$3
Saving accounts	237,293	7,476
Checking accounts	80,151	2,525
Time deposits	1,540,079	48,522
Total	\$1,857,623	\$58,526
Annual interest rate of time deposits	0.65%-1.15%	0.65%-1.15%

As of December 31, 2004, none of the cash and cash equivalents were pledged to other parties.

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Securities Corporation**  
**Notes to financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
**As of December 31, 2004**

( 2 ) Short-term investments - net

Item	December 31, 2004	
	NT\$	US\$
Open-end funds	\$650,000	\$20,479
Less: allowance for decline in market value	-	-
Net	\$650,000	\$20,479

As of December 31, 2004, none of the short-term investments were pledged to other parties.

( 3 ) Investments in bonds with resale agreements

Item	December 31, 2004	
	NT\$	US\$
Central government construction bonds	\$672,686	\$21,194

As of December 31, 2004, investments in bonds with resale agreements were due within one year with annual interest rates ranging between 0.96%-1%. These bonds were made available for resale at an agreed aggregate amount of NT\$672,910 (US\$21,201) between January 3 – January 7, 2005.

( 4 ) Operating securities - dealing

Item	December 31, 2004	
	NT\$	US\$
Listed stocks	\$3,960	\$125
OTC stocks	385	12
OTC convertible corporate bonds	19,728	621
OTC government bonds	102,669	3,235
Subtotal	126,742	3,993
Less: Allowance for valuation loss on operating securities -dealing	(880)	(28)
Net operating securities-dealing	\$125,862	\$3,965



**English Translation of Financial Statements Originally Issued in Chinese**  
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( 5 ) Operating securities – stock warrants

Item	December 31, 2004	
	NT\$	US\$
Listed stock warrants	\$12	\$-
Less: Allowance for valuation loss on operating securities – stock warrants	(1)	-
Net operating securities – stock warrants	\$11	\$-

( 6 ) Operating securities - hedging

Item	December 31, 2004	
	NT\$	US\$
Listed stocks	\$169,293	\$5,334
Less: Allowance for valuation loss on operating securities – hedging	-	-
Net operating securities – hedging	\$169,293	\$5,334

As of December 31, 2004, none of the operating securities were pledged to other parties.

( 7 ) Receivable amount for margin loans

Item	December 31, 2004	
	NT\$	US\$
Receivable amount for margin loans	\$189,445	\$5,969
Less: Allowance for bad debts	-	-
Net	\$189,445	\$5,969

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

B. As of December 31, 2004, the market value of securities used for collateral in connection with the Company's margin loan activity was NT\$279,183 (US\$8,796).

**English Translation of Financial Statements Originally Issued in Chinese**  
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( 8 ) Long-term investments in stocks

Item	December 31, 2004	
	NT\$	US\$
Taiwan International Mercantile Exchange Corporation	\$18	\$1

As of December 31, 2004, none of the long-term investments in stocks were pledged to other parties.

( 9 ) Property and equipment

Item	December 31, 2004					
	Cost		Accumulated depreciation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Computer equipment	\$15,230	\$480	\$938	\$30	\$14,292	\$450
Office equipment	9,021	284	362	11	8,659	273
Transportation equipment	3,312	104	219	7	3,093	97
Leasehold improvement	10,046	317	219	7	9,827	310
Subtotal	\$37,609	\$1,185	\$1,738	\$55	\$35,871	\$1,130

A. As of December 31, 2004, none of the property and equipment were pledged to other parties.

B. As of December 31, 2004, the insurance coverage for property and equipment amounted to NT\$63,315 (US\$1,995).

( 10 ) 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\$4,729) as of December 31, 2004.

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**(Expressed in thousands of dollars except for share and per share data and unless others stated)**  
**As of December 31, 2004**

( 11 ) Settlement and clearance funds

As stipulated in the Rules Governing Securities Firms and OTC regulations, the Company deposited NT\$65,109 (US\$2,051) with the Taiwan Securities Exchange Corporation and the OTC Securities Exchange as of December 31, 2004.

( 12 ) Securities brokerage debit accounts-net

Item	December 31, 2004	
	NT\$	US\$
Debit balance:		
Bank deposits – settlement amount	\$259	\$8
Proceeds receivable from investors	973,542	30,672
Accounts receivable – brokering	748,291	23,576
Debit transaction	5,273	166
Subtotal	1,727,365	54,422
Credit balance:		
Proceeds payable to investors	595,284	18,755
Accounts payable – brokering	87,216	2,748
Clearance	1,041,370	32,809
Subtotal	1,723,870	54,312
Net	\$3,495	\$110

( 13 ) Bonds sold under repurchase agreements

Item	December 31, 2004	
	NT\$	US\$
Central government construction bonds	\$776,327	\$24,459

As of December 31, 2004, bonds sold under repurchase agreements were due within one year with annual interest rates ranging between 0.95%-1.025%. These bonds were made available for repurchase at an agreed aggregate amount of NT\$776,426 (US\$24,462) between January 3 - January 7, 2005.

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( 14 ) Pension / Accrued pension liability

Pursuant to SFAS No. 18, "Accounting for Pensions", information pertaining to the Company's pension is as follows:

A. Reconciliation between pension funding status and accrued pension liability was as follows:

	December 31, 2004	
	NT\$	US\$
Benefit obligation		
Vested benefit obligation	\$163	\$5
Non-vested benefit obligation	1,517	48
Accumulated benefit obligation	1,680	53
Additional benefits based on future salaries	1,355	43
Projected benefit obligation	3,035	96
Fair value of pension fund assets	-	-
Funding status	\$3,035	96
Unrecognized prior year service cost	\$-	\$-
Unrecognized transitional net assets	\$(3,035)	\$(96)
Additional accrued pension liability	\$1,680	53
Accrued pension liability to Central Trust of China	130	4
Accrued pension liability	\$1,810	\$57

B. Actuarial assumptions

	From May 12 to December 31, 2004
Discount rate	3%
Rate of increase in future salaries	3%
Expected return on pension assets	3%

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( 15 ) Capital Stock

As of December 31, 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.

( 16 ) 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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( 17 ) Estimated income taxes

A. The applicable income tax rate to the Company is 25%. The reconciliation between estimated income tax and net income before income tax in the statement of income from May 12 to December 31, 2004 is as follows:

Item	From May 12 to December 31, 2004	
	NT\$	US\$
Loss before income taxes	\$(49,213)	\$(1,550)
Adjustments:		
Gain on disposal of operating securities – dealing	(424)	(13)
Loss on disposal of operating securities – stock warrants	294	9
Loss from decline in price of operating securities – dealing	880	28
Loss from decline in price of operating securities – stock warrants	1	-
Interest income taxed on a separate basis	(9,168)	(289)
Gain on disposal of short-term investments	(2,645)	(83)
Adjusted revenue and expense from dealing, bond, and futures departments	22,408	706
Gains on evaluation for OTC derivative financial instrument – unrealized	(18)	(1)
Loss on default	1,585	50
Others	92	3
Taxable income	(36,208)	(1,140)
Times; taxes rate; less: progressive difference	25%-10	25%
Subtotal	-	-
Tax on a separate basis	1,784	57
Deferred tax benefit	(9,431)	(297)
Total income tax benefit	\$(7,647)	\$(240)

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

	December 31, 2004	
	NT\$	US\$
a. Total deferred income tax assets	\$9,436	\$297
b. Total deferred income tax liabilities	\$5	\$-

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	December 31, 2004	
	NT\$	US\$
c. Temporary differences:		
Loss on default	\$1,585	\$50
Unrealized gains from financial derivatives	(18)	(1)
Loss carryforwards	36,158	1,139
d. Deferred income tax assets – current	\$9,040	\$285
Deferred income tax liabilities – current	(5)	-
Net offset balance of deferred income tax assets – current	\$9,035	\$285
Deferred income tax assets – noncurrent	\$396	\$12
Deferred income tax liabilities – noncurrent	-	-
Net balance of deferred income tax assets – noncurrent	\$396	\$12

C. Information related to tax imputation:

	December 31, 2004	
	NT\$	US\$
Balance of imputation credit account	\$1,136	\$36

	December 31, 2004	
	NT\$	US\$
Imputation credit account ratio	\$-	\$-

D. Related information on undistributed earnings:

Year	December 31, 2004	
	NT\$	US\$
Prior to 1997	\$-	\$-
After 1998	(41,566)	(1,310)
Total	\$(41,566)	\$(1,310)

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( 18 ) Personnel, depreciation, depletion and amortization

The Company's personnel, depreciation, depletion and amortization from May 12 to December 31, 2004 are summarized as follows:

Item	From May 12 to December 31, 2004 (NT\$)			From May 12 to December 31, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$67,737	\$67,737	-	\$2,134	\$2,134
Labor & health insurance expenses	-	3,149	3,149	-	99	99
Pension expenses	-	130	130	-	4	4
Other expenses	-	1,356	1,356	-	43	43
Depreciation	-	1,738	1,738	-	55	55
Depletion	-	-	-	-	-	-
Amortization	-	422	422	-	13	13

( 19 ) Earnings per share

	From May 12 to December 31, 2004	
	NT\$	US\$
Losses from continuing operations before income taxes (A)	\$(49,213)	\$(1,550)
Net loss (B)	\$(41,566)	\$(1,310)
Outstanding number of shares at end of period	350,000,000	350,000,000
Weighted average outstanding number of shares(C)	350,000,000	350,000,000
Earnings per share before income tax (A)/(C) (dollars)	\$(0.14)	\$(0.004)
Earnings per share after income tax (B)/(C) (dollars)	\$(0.12)	\$(0.004)

**6. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Affiliated
Cathay United Bank Co., Ltd.	Affiliated
Cathay Century Insurance Co., Ltd.	Affiliated
Cathay Futures Co., Ltd.	Affiliated



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Name	Relationship
Cathay II Venture Capital Co., Ltd.	Affiliated
Cathay Pacific Venture Capital Co., Ltd.	Affiliated
Cathay Securities Investment Trust Co., Ltd.	Affiliated
Seaward Leasing Ltd.	Affiliated
Symphox Information Co., Ltd	Affiliated

(2) Transactions with related parties

A. Cash in bank

Name	Item	December 31, 2004	From May 12 to December 31, 2004	
		Ending balance	Interest rate	Interest income
		NT\$		
Cathay United Bank Co., Ltd.	Saving accounts	\$237,117	0.10%	\$423
	Checking accounts	\$80,151	-	\$-
	Time deposits	\$31,000	0.65%~1.15%	\$2,840
	Negotiable certificates of deposit	\$1,890,000	0.85%-1.1%	\$9,137
Name	Item	December 31, 2004	From May 12 to December 31, 2004	
		Ending balance	Interest rate	Interest income
		US\$		
Cathay United Bank Co., Ltd.	Saving accounts	\$7,471	0.10%	\$13
	Checking accounts	\$2,525	-	\$-
	Time deposits	\$977	0.65%~1.15%	\$89
	Negotiable certificates of deposit	\$59,546	0.85%-1.1%	\$288

Time deposits used as reserve for settlement at the OTC Securities Exchange and as premiums for structured notes products are recognized under settlement and clearance funds and guarantee deposits paid, respectively.

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Except for NT\$500,000 (US\$15,753), pledged as collateral for the over-loaning of settlement account and recognized under restricted assets, the remaining negotiable certificates of deposit have not been pledged as collateral.

**B. Short-term investments**

During 2004, the Company purchased funds which are managed by Cathay Securities Investment Trust Co., Ltd. as follows:

Name		December 31, 2004	
		NT\$	US\$
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	Cost	\$350,000	\$11,027
	Market value	\$350,000	\$11,027

**C. Bonds sold under repurchase agreements**

Name	December 31, 2004	From May 12 to December 31, 2004
	Ending balance	Interest expense
	NT\$	NT\$
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$78,816	\$250

Name	December 31, 2004	From May 12 to December 31, 2004
	Ending balance	Interest expense
	US\$	US\$
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$2,483	\$8

**D. Other Receivables**

Name	December 31, 2004	
	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,569	\$81

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E. Leasehold Improvement

Name	Description	December 31, 2004	
		NT\$	US\$
Symphox Information Co., Ltd	IT infrastructure	\$8,000	\$252

F. Brokerage commissions

Name	From May 12 to December 31, 2004	
	NT\$	US\$
Cathay United Bank Co., Ltd.	\$2,500	\$79
Cathay Life Insurance Co., Ltd.	21,617	681
Cathay Century Insurance Co., Ltd.	244	8
Cathay II Venture Capital Co., Ltd.	23	1
Cathay Pacific Venture Capital Co., Ltd.	1	-
Total	\$24,385	\$769

G. Brokerage commissions for introducing futures contracts

Name	From May 12 to December 31, 2004	
	NT\$	US\$
Cathay Futures Co., Ltd.	\$862	\$27

H. Rental expenses and guarantee deposits paid

Name	From May 12 to	December 31, 2004
	December 31, 2004	December 31, 2004
	Rental expenses	Guarantee deposits paid
	NT\$	NT\$
Cathay United Bank Co., Ltd.	\$3,933	\$2,334
Cathay Life Insurance Co., Ltd.	6,293	3,323
Seaward Leasing Ltd.	108	-
Total	\$10,334	\$5,657

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Name	From May 12 to December 31, 2004	December 31, 2004
	Rental expenses	Guarantee deposits paid
	US\$	US\$
Cathay United Bank Co., Ltd.	\$124	\$73
Cathay Life Insurance Co., Ltd.	198	105
Seaward Leasing Ltd.	3	-
<b>Total</b>	<b>\$325</b>	<b>\$178</b>

I. Operating Expenses

Name	Description	From May 12 to December 31, 2004	
		NT\$	US\$
Cathay Life Insurance Co., Ltd.	Management fee	\$568	\$18
	Insurance	292	9
Subtotal		\$860	\$27
Cathay Century Insurance Co., Ltd.	Insurance	\$257	\$8
Symphox Information Co., Ltd	Cable service	\$1,342	\$42
	Other fees	299	10
Subtotal		\$1,641	\$52
<b>Total</b>		<b>\$2,758</b>	<b>\$87</b>

**7. Pledged assets**

Item	December 31, 2004	
	NT\$	US\$
Restricted assets - time deposits	\$500,000	\$15,753

(1) As of December 31, 2004, the Company pledged its restricted assets-time deposits to Cathay United Bank Co., Ltd. as collateral for the over-loaning of settlement account.

(2) The restricted assets-time deposits was disclosed at its net carrying value.

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**8. Other important matters and contingent liabilities**

The Company has several operating lease agreements that have payments over the next five years as follows:

Year	Amount	
	NT\$	US\$
January 1,2005 ~ December 31,2005	\$23,270	\$733
January 1,2006 ~ December 31,2006	23,685	746
January 1,2007 ~ December 31,2007	17,893	564
January 1,2008 ~ December 31,2008	9,438	297
January 1,2009 ~ December 31,2009	6,685	211
Total	\$80,971	\$2,551

**9. Serious damages**

None.

**10. Subsequent events**

None.

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**11. Others important events**

(1) Financial instruments related information

A. Non-derivative financial instruments related information:

	December 31, 2004			
	Book value	Fair value	Book value	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$1,857,623	\$1,857,623	\$58,526	\$58,526
Short-term investments – net	650,000	650,000	20,479	20,479
Investments in bonds with resale agreements	672,686	672,686	21,194	21,194
Operating securities – net	295,166	295,166	9,299	9,299
Receivable amount for margin loans	189,445	189,445	5,969	5,969
Securities refinancing margin deposits	687	687	22	22
Accounts receivable – net	8,982	8,982	283	283
Other receivables – net	12,796	12,796	403	403
Restricted assets – current	500,000	500,000	15,753	15,753
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,729	4,729
Settlement and clearance funds	65,109	65,109	2,051	2,051
Guarantee deposits paid	19,929	19,929	628	628
Liabilities:				
Bonds sold under repurchase agreements	776,327	776,327	24,459	24,459
Securities financing guarantee deposits-in	744	744	23	23
Deposit payable for securities financing	822	822	26	26
Payables	11,865	11,865	374	374

B. Derivative financial instruments related information:

**Derivative**

Assets:

Deferred losses on financial instrument	\$1,203	\$1,203	\$38	\$38
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Liabilities:

Liabilities for derivative financial instrument				
-GreTai (over-the-counter)	226,285	226,285	7,129	7,129

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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, investments in bonds with resale agreements, receivable amount for margin loans, securities refinancing margin deposits, accounts receivables, other receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements, securities financing guarantee deposits-in, deposit payable for securities financing, and payables.
- b. The fair value of short-term investments, operating securities and long-term investments in stocks are estimated based on market prices or net asset values, if available. If the investment is not traded on the open market, the book value on the balance sheet date is used to estimate the fair value.

(2) Financial derivatives

Structured notes transactions

A. Nominal principal or contract amount and credit risk :

Financial instruments	December 31, 2004	
	Nominal principal /contract amount	Credit risk
For trading purposes		
Principal guaranteed notes		
Fixed-income products	NT\$225,100 (US\$7,092)	\$-

The Company's credit risk derives from a breach of contract by a counterparty. The Company believes it is not exposed to credit risk because the contract amount was collected in advance of the principal guaranteed notes being issued.

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**As of December 31, 2004**

B. Risk from market value

The Company receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. The Company invests in linked and fixed income assets that are subject to regulations and open market pricing. As a result, the Company believes there is no significant risk from market value to the Company.

C. Risk from liquidity, cash flow, and other uncertainties.

The Company receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. The Company believes there are no exceptional cash requirements at the maturity date.

D. Types, purposes, and strategies for the financial derivatives:

Based on the contracts, the Company receives the contract amount from counterparties on the contract date and provides the counterparties with a guaranteed fixed return of a portion of principal and a return, if any, of linked assets.

E. Financial statement presentation of derivative financial instruments:

As of December 31, 2004, the disclosure of the transactions of structured notes on the balance sheet and statement of income is summarized as follows:

Balance sheet	December 31, 2004	
	Derivative financial instrument assets – Gre Tai (over-the-counter)	Liabilities for derivative financial instruments – Gre Tai
	NT\$	NT\$
Principal guaranteed notes	\$-	\$226,285
Statement of income	From May 12 to December 31, 2004	
	Revenue from derivative financial instruments – Gre Tai (over-the-counter)	Comments
	NT\$	NT\$
Principal guaranteed notes	\$132	Market value method



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Balance sheet	December 31, 2004	
	Derivative financial instrument assets – Gre Tai (over-the-counter) US\$	Liabilities for derivative financial instruments – Gre Tai US\$
Principal guaranteed notes	\$-	\$7,129

  

Statement of income	From May 12, to December 31, 2004	
	Revenue from derivative financial instruments – Gre Tai (over-the-counter) US\$	Comments US\$
Principal guaranteed notes	\$4	Market value method

(3) Others

A. 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 a business assignment, which amounted to NT\$414,930 (US\$13,073). 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.

B. Disclosure of the futures department

In compliance with the “Criteria Governing the Preparation of Financial Reports by Futures Commission Merchant”, the Company includes the financial statements of its futures department. Please refer to the next section.

**Cathay Securities Corporation**  
**Disclosure of futures department**  
**As of December 31, 2004**

Address: 17~18 Fl., No. 296, Jen-Ai Road, Sec. 4, Taipei, Taiwan, ROC  
Telephone: (02)2326-9888

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Cathay Securities Corporation - Futures Department

Balance Sheet

December 31, 2004

(Expressed in thousands of dollars)

Items	Notes	December 31, 2004		Items	Notes	December 31, 2004	
		(NT\$)	(US\$)			(NT\$)	(US\$)
Current assets				Other liabilities			
Cash and cash equivalents	2, 4, 5	\$590,212	\$18,596	Inter-departmental account-credit		\$7,755	\$244
Other receivables - net		327	10	Total other liabilities		7,755	244
Total current assets		590,539	18,606				
Property and equipment				Assigned working capital		600,000	18,904
Equipment	2	1,061	33	Retained earnings	2		
Leasehold improvement		347	11	Unappropriated retained earnings		(4,478)	(141)
Less: Accumulated depreciation		(30)	(1)	Total capital		595,522	18,763
Net property and equipment		1,378	43				
Other assets							
Operating deposits	4	10,000	315				
Guarantee deposits paid		1,360	43				
Total other assets		11,360	358				
Total assets		\$603,277	\$19,007	Total liabilities and capital		\$603,277	\$19,007

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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

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Cathay Securities Corporation - Futures Department

Statement of Income

From September 23 to December 31, 2004

(Expressed in thousands of dollars)

Items	Notes	September 23- December 31, 2004	
		(NT\$)	(US\$)
Revenue	2		
Non-operating revenue and profits		\$1,061	\$33
Total revenue		1,061	33
Expenses	2		
Operating expenses		(5,539)	(174)
Total expenses		(5,539)	(174)
Losses before income taxes		(4,478)	(141)
Income tax		-	-
Net loss		\$(4,478)	\$(141)

(The exchange rate of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

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

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**Cathay Securities Corporation -**

**Futures For Trading Activities**

**Notes to financial statements**

**As of December 31, 2004**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)**

**1. Organization and scope**

The futures department of the Company was approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. in August 2004, and began operations on September 23, 2004.

**2. Summary of significant accounting policies**

These financial statements have been prepared in accordance with the “Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants” and generally accepted accounting principles in the Republic of China. A summary of significant accounting policies is as follows:

(1) Current and noncurrent assets and liabilities

Current assets are assets which can be liquidated or disposed of within one year. Assets that do not belong to current assets are classified as noncurrent assets. Current liabilities are debts which must be paid-off within one year. Liabilities that do not belong to current liabilities are classified as noncurrent liabilities.

(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) 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 improvement, and others. Except for land, depreciation of equipment is provided for over the estimated useful lives of the respective assets on the straight-line method, with useful lives of 3~5 years. Leasehold improvements are amortized over the lesser of lease terms or the useful lives of such improvements.

(4) Revenue recognition

The primary source of revenue is interest income.

(5) Assigned working capital

The Company provided the assigned working capital to the futures department specifically for use in conducting futures transactions.

**3. Changes in accounting and its effects**

None.

**4. Summary of significant accounts**

(1) Cash and cash equivalents

Item	December 31, 2004	
	NT\$	US\$
Saving accounts	\$212	\$7
Time deposits	590,000	18,589
Total	<u>\$590,212</u>	<u>\$18,596</u>
Annual interest rate of time deposits	<u>0.85%</u>	<u>0.85%</u>

As of December 31, 2004, none of the cash and cash equivalents were pledged to other parties.

(2) Operating deposits

According to the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$10,000 (US\$315) as of December 31, 2004.

## 5. Related party transactions

### (1) Related parties

Name	Relationship
Cathay United Bank Co., Ltd.	Affiliated

### (2) Transactions with related parties

#### Cash in bank

Name	Type	December 31, 2004	From May 12 to December 31, 2004	
		Ending balance	Interest rate	Interest income
		NT\$		
Cathay United Bank Co., Ltd.	Saving accounts	\$212	0.10%	\$235
	Negotiable certificates of deposit	\$590,000	0.85%~1.10%	\$809

Name	Type	December 31, 2004	From May 12 to December 31, 2004	
		Ending balance	Interest rate	Interest income
		US\$		
Cathay United Bank Co., Ltd.	Saving accounts	\$7	0.10%	\$7
	Negotiable certificates of deposit	\$18,589	0.85%~1.10%	\$25

## 6. Pledged assets

None.

## 7. Other important matters and contingent liabilities

None.

## 8. Serious damages

None.

## 9. Financial instruments related information

(1) Derivative financial instruments: None.

(2) The fair value of non-derivative financial instruments

Financial Instruments	December 31, 2004			
	Book Value	Fair Value	Book Value	Fair Value
	(NT\$)	(US\$)	(NT\$)	(US\$)
Assets:				
Assets with equal fair value and book value	\$590,539	\$590,539	\$18,606	\$18,606
Operating deposits	10,000	10,000	315	315
Guarantee deposits paid	1,360	1,360	43	43
Liabilities:				
Liabilities with equal fair value and book value	7,755	7,755	244	244

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, receivables, operating deposits, guarantee deposits paid and inter-company transfers.

10. The status of compliance with ratio requirements under the Rules of the Futures Trading Law and the Rules Governing Futures Commission Merchants is as follows:

According to the Rules Governing Futures Commission Merchants:					
Article	Formula	Current period		Standard	Status
		Calculation	Ratio		
17	$\frac{\text{Total capital}}{\text{( Total liabilities less equity of futures customers, reserve for trading losses, and reserve for default losses )}}$	$\frac{\text{NT\$595,522}}{\text{NT\$7,755}}$	76	1	Meets regulatory requirement
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\text{NT\$590,539}}{0}$		1	"
22	$\frac{\text{Total capital}}{\text{Minimum paid-in capital}}$	$\frac{\text{NT\$595,522}}{\text{NT\$400,000}}$	148%	(1) 60% (2) 40%	"
22	$\frac{\text{Adjusted net capital}}{\text{Total margin required for the non-offset position of futures customers}}$	$\frac{\text{NT\$592,456}}{0}$		(1) 20% (2) 15%	"



**11. The risk of futures transactions**

The main risk of the Company's futures transactions derives from market price risk. Because futures transactions are highly levered, and are subject to rapid changes in market prices, they are riskier than other types of transactions. If the Company fails to maintain the required level of its guarantee deposits, it has to compensate for the discrepancy immediately or sell the futures before the contract date. In order to control its risk, the Company has set stop loss limits.

**12. Departmental financial information**

None.

**13. Subsequent events**

None.

**14. Significant transactions**

None.

**15. Investments activities**

None.

**16. Others**

None.