

Cathay Securities Corporation
Financial statements
Together with
Review report
As of March 31, 2005

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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 (the “Company”) as of March 31, 2005, and the related statements of income, changes in stockholders’ equity, and cash flows for the three-month period then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report 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 conducted 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 “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
April 8, 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 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 March 31, 2005
 (Expressed in thousands of dollars)

ASSETS	NOTES	March 31, 2005	
		NT\$	US\$
Current assets			
Cash and cash equivalents	2, 4(1)	\$1,353,564	\$43,025
Short-term investments - net	2, 4(2)	720,000	22,886
Investments in bonds with resale agreements	2, 4(3)	836,860	26,601
Operating securities - dealing	2, 4(4)	5,420	172
Allowance for valuation loss on operating securities - dealing	2, 4(4)	(1)	-
Operating securities - hedging	2, 4(5)	2,918	93
Allowance for valuation loss on operating securities - hedging	2, 4(5)	(79)	(3)
Receivable amount for margin loans	4(6)	91,239	2,900
Accounts receivable - net		3,113	99
Prepayments		1,091	35
Other receivables - net		7,368	234
Other receivables - related parties - net		1,616	51
Restricted assets - current	6	1,000,000	31,786
Deferred income tax assets - current	2,4(15)	8,950	285
Other current assets		96	3
Total current assets		<u>4,032,155</u>	<u>128,167</u>
Funds and long-term investments			
Long-term investments in stocks	2, 4(7)		
Long-term investment under cost method		18	1
Total funds and long-term investments		<u>18</u>	<u>1</u>
Property and equipment			
Equipment	2, 4(8)	43,530	1,384
Leasehold improvement		18,804	598
Less: Accumulated depreciation		(4,915)	(156)
Net property and equipment		<u>57,419</u>	<u>1,826</u>
Intangible assets			
Deferred pension cost	2	1,552	49
Total intangible assets		<u>1,552</u>	<u>49</u>
Other assets			
Operating deposits	4(9)	150,098	4,771
Settlement and clearance funds	4(10)	56,435	1,794
Guarantee deposits paid		20,253	644
Deferred debits		6,811	216
Deferred income tax assets - noncurrent	2,4(15)	692	22
Total other assets		<u>234,289</u>	<u>7,447</u>
Securities brokerage debit accounts - net	4(11)	<u>3,297</u>	<u>105</u>
Total assets		<u>\$4,328,730</u>	<u>\$137,595</u>

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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 March 31, 2005

(Expressed in thousands of dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	March 31, 2005	
		NT\$	US\$
Current liabilities			
Bonds sold under repurchase agreements	2, 4(12)	\$837,897	\$26,634
Liabilities for derivative financial instruments - GreTai (over-the-counter)	2, 10	9,263	294
Accounts payable		22,290	709
Receipts under custody		1,133	36
Other payables		6,112	194
Other current liabilities		54	2
Total current liabilities		<u>876,749</u>	<u>\$27,869</u>
Other liabilities			
Reserve for default losses	2	2,771	88
Guarantee deposits-in		163	5
Accrued pension liability	2	2,303	74
Total other liabilities		<u>5,237</u>	<u>167</u>
Total liabilities		<u>881,986</u>	<u>\$28,036</u>
Stockholders' equity			
Capital stock	4(13)		
Common stock		3,500,000	111,252
Retained earnings	4(14)		
Unappropriated retained earnings		<u>(53,256)</u>	<u>(1,693)</u>
Total stockholders' equity		<u>3,446,744</u>	<u>109,559</u>
Total liabilities and stockholders' equity		<u>\$4,328,730</u>	<u>\$137,595</u>

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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

For the three-month period ended March 31, 2005

(Expressed in thousands of dollars except for earnings per share)

ITEMS	NOTES	For the three-month period ended March 31, 2005	
		NT\$	US\$
Revenue	2		
Brokerage commissions		\$36,247	\$1,152
Profit from trading securities - stock warrants		2	-
Profit from trading securities - hedging		1,921	61
Interest revenue		4,460	142
Brokerage commissions for introducing futures contracts	2	451	14
Revenue from derivative financial instruments - GreTai (over-the-counter)	2,10	3,863	123
Other operating revenue		1,138	36
Non-operating revenue and profits		6,171	196
Subtotal		<u>54,253</u>	<u>1,724</u>
Expenses	2		
Brokerage securities transaction charges		(2,754)	(87)
Dealing securities transaction charges		(163)	(5)
Loss from trading securities - dealing		(1,953)	(62)
Interest expense		(1,842)	(59)
Loss from decline in price of operating securities - hedging		(79)	(3)
Operating expenses		(59,910)	(1,904)
Subtotal		<u>(66,701)</u>	<u>(2,120)</u>
Loss from continuing operations before income taxes		(12,448)	(396)
Income tax benefit	2, 4(15)	758	24
Net loss from continuing operations		<u>\$(11,690)</u>	<u>\$(372)</u>
Net loss		<u>\$(11,690)</u>	<u>\$(372)</u>
Earnings per share (in dollars)	4(17)		
Loss from continuing operations before income taxes		<u>\$(0.04)</u>	<u>\$(0.001)</u>
Net loss		<u>\$(0.03)</u>	<u>\$(0.001)</u>

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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

For the three-month period ended March 31, 2005

(Expressed in thousands of dollars)

SUMMARY	Common stock		Retained earnings		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Balance on January 1, 2005	\$3,500,000	\$111,252	(41,566)	(\$1,321)	\$3,458,434	\$109,931
Net loss after tax for the three-month period ended March 31, 2005			(11,690)	(372)	(11,690)	(372)
Balance on March 31, 2005	<u>\$3,500,000</u>	<u>\$111,252</u>	<u>\$(53,256)</u>	<u>\$(1,693)</u>	<u>\$3,446,744</u>	<u>\$109,559</u>

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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
For the three-month period ended March 31, 2005
(Expressed in thousands of dollars)

ITEMS	For the three-month period ended March 31, 2005	
	NT\$	US\$
Cash flows from operating activities		
Net loss	\$(11,690)	\$(372)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	3,177	101
Amortization	515	16
Gain on disposal of short-term investments	(299)	(10)
Reserve for default losses	1,186	38
Loss on valuation for operating securities - hedging	79	3
Recoveries on market decline of securities	(880)	(28)
Recoveries on reserve for trading losses	(123)	(4)
Changes in assets and liabilities:		
Increase in investments in bonds with resale agreements	(164,174)	(5,218)
Decrease in operating securities - dealing	121,322	3,856
Decrease in operating securities - stock warrants	12	-
Decrease in operating securities - hedging	166,375	5,288
Decrease in receivable amount for margin loans	98,206	3,122
Decrease in securities refinancing margin deposits	687	22
Decrease in accounts receivable	5,869	187
Increase in prepayments	(251)	(8)
Decrease in other receivables	2,859	91
Decrease in other receivables - related parties	953	30
Decrease in deferred income tax assets - current	85	3
Decrease in other current assets	705	22
Increase in deferred income tax assets - noncurrent	(296)	(9)
Decrease in securities brokerage debit accounts - net	198	6
Increase in bonds sold under repurchase agreements	61,571	1,957
Decrease in securities financing guarantee deposits-in	(744)	(24)
Decrease in deposit payable for securities financing	(822)	(26)
Decrease in liabilities for derivative financial instruments - GreTai (over-the-counter)	(215,819)	(6,860)
Increase in accounts payable	18,460	587
Decrease in accounts collected in advance	(175)	(6)
Decrease in receipts under custody	(800)	(25)
Decrease in other payables	(1,923)	(61)
Increase in other current liabilities	14	1
Increase in accrued pension liability	619	20
Net cash used in operating activities	84,896	2,699
Cash flows from investing activities		
Increase in short-term investments	(69,701)	(2,216)
Increase in restricted assets - current	(500,000)	(15,893)
Acquisition of property and equipment	(24,725)	(786)
Decrease in settlement and clearance funds	8,675	276
Increase in guarantee deposits paid	(324)	(10)
Increase in deferred debits	(2,880)	(92)
Net cash used in investing activities	(588,955)	(18,721)
Decrease in cash and cash equivalents	(504,059)	(16,022)
Cash and cash equivalents at the beginning of period	1,857,623	59,047
Cash and cash equivalents at the end of period	\$1,353,564	\$43,025
Supplemental disclosure of cash flows information		
Interest paid during the period	\$1,824	\$58
Interest paid (excluding capitalized interest)	\$1,824	\$58
Income tax paid	\$982	\$31

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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 unaudited financial statements

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

As of March 31, 2005

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. Based on the resolution of the board of directors on February 2, 2005, the names of the Company’s Xin-yi and Bo-ai branch offices were changed to Banqiao and Guanqian, respectively.

As of March 31, 2005, the Company had 122 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.

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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 March 31, 2005

(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.

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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 March 31, 2005

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) Accounting for asset impairment

Pursuant to the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No. 35, the Company assesses indicators for impairment for all its assets within the scope of ROC SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair value less cost to sell and the value in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the asset, the Company shall reverse the impairment loss but only to the extent that the carrying amount after the reversal does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

In addition, goodwill allocated to a CGU or group of CGUs is tested for impairment at the same time each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized by reducing the carrying amount of any goodwill allocated to a CGU or group of CGUs. If the allocated goodwill has been written off,

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then the impairment loss is recognized by reducing the other assets of the CGU or group of CGUs on a pro rata basis according to their carrying amount.

The write-down of goodwill cannot be reversed under any circumstances in subsequent periods.

Impairment loss (reversal) is classified as non-operating loss/(income).

(10) 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 ROC SFAS No. 18 "Accounting for Pensions". Based on an actuarial report, the minimum pension liability was recorded to reflect the amount by which the accumulated pension obligation exceeded the fair value of pension assets.

According to ROC SFAS No. 23, "Interim Financial Reporting and Disclosures", certain pension information is not required to be disclosed in the Company's interim financial statements.

(11) 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 only be used for 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.

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When the accumulated reserve for breach of contract losses reaches NT\$200,000 (US\$6,357) reserving will be suspended.

(12) 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\$6,357). Such provision can only be used to offset the excess of securities trading losses over gains.

(13) 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.

(14) 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.

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In accordance with Article 49 of Financial Holding Company Act, beginning in 2005, the Company and its parent company file joint corporate income tax returns and 10% surcharge on its unappropriated retained earnings under the Integrated Income Tax System. If there are any tax effects due to the adoption of the Integrated Income Tax System, the parent company can proportionately allocate the effects to the deferred income tax, other receivables and prepayments of the Company and the parent company.

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.

(15) 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.

(16) Convenience translation into US dollars

These financial statements are stated in NT dollars. Conversion of NT dollar amounts into U.S. dollar amounts is included in these financial statements solely for the convenience of the reader using the noon buying rate of NT\$31.46 to US\$1.00 effective on March 31, 2005, as provided by the Federal Reserve Bank of New York. The convenience conversion 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.

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3. Changes in accounting and its effects

None

4. Breakdown of significant accounts

(1) Cash and cash equivalents

Item	March 31, 2005	
	NT\$	US\$
Cash on hand	\$100	\$3
Saving accounts	72,743	2,312
Checking accounts	246	8
Time deposits	1,280,475	40,702
Total	<u>\$1,353,564</u>	<u>\$43,025</u>
Annual interest rate of time deposits	<u>0.75%-1.285%</u>	<u>0.75%-1.285%</u>

As of March 31, 2005, none of the cash and cash equivalents were pledged to other parties.

(2) Short-term investments - net

Item	March 31, 2005	
	NT\$	US\$
Open-end funds	\$720,000	\$22,886
Less: allowance for decline in market value	-	-
Net	<u>\$720,000</u>	<u>\$22,886</u>

As of March 31, 2005, none of the short-term investments were pledged to other parties.

(3) Investments in bonds with resale agreements

Item	March 31, 2005	
	NT\$	US\$
Central government construction bonds	<u>\$836,860</u>	<u>\$26,601</u>

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Notes to unaudited financial statements (continued)

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

As of March 31, 2005

As of March 31, 2005, investments in bonds with resale agreements were due within one year with annual interest rates ranging between 1.015%-1.05%. These bonds were made available for resale at an agreed aggregate amount of NT\$837,198 (US\$26,612) between April 7 - April 14, 2005.

(4) Operating securities - dealing

Item	March 31, 2005	
	NT\$	US\$
OTC convertible corporate bonds	\$5,420	\$172
Less: Allowance for valuation loss on operating securities - dealing	(1)	-
Net operating securities - dealing	<u>\$5,419</u>	<u>\$172</u>

(5) Operating securities - hedging

Item	March 31, 2005	
	NT\$	US\$
Listed stocks	\$2,918	\$93
Less: Allowance for valuation loss on operating securities - hedging	(79)	(3)
Net operating securities - hedging	<u>\$2,839</u>	<u>\$90</u>

As of March 31, 2005, none of the operating securities were pledged to other parties.

(6) Receivable amount for margin loans

Item	March 31, 2005	
	NT\$	US\$
Receivable amount for margin loans	\$91,239	\$2,900
Less: Allowance for bad debts	-	-
Net	<u>\$91,239</u>	<u>\$2,900</u>

A. For the three-month period ended March 31, 2005, receivable amount for margin loans had an annual interest rate of 6.25%.

B. As of March 31, 2005, the market value of securities used for collateral in connection with the Company's margin loan activity was NT\$140,311 (US\$4,460).

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(7) Long-term investments in stocks

Item	March 31, 2005	
	NT\$	US\$
Taiwan International Mercantile Exchange Corporation	\$18	\$1

As of March 31, 2005, none of the long-term investments in stocks were pledged to other parties.

(8) Property and equipment

Item	March 31, 2005					
	Cost		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Computer equipment	\$31,182	\$992	\$2,757	\$88	\$28,425	\$904
Office equipment	9,036	287	818	26	8,218	261
Transportation equipment	3,312	105	382	12	2,930	93
Leasehold improvement	18,804	598	958	30	17,846	568
Subtotal	\$62,334	\$1,982	\$4,915	\$156	\$57,419	\$1,826

A. As of March 31, 2005, none of the property and equipment were pledged to other parties.

B. As of March 31, 2005, the insurance coverage for property and equipment amounted to NT\$63,315 (US\$2,013).

(9) 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\$4,771) as of March 31, 2005.

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(10) Settlement and clearance funds

As stipulated in the Rules Governing Securities Firms and OTC regulations, the Company deposited NT\$56,435 (US\$1,794) with the Taiwan Securities Exchange Corporation and the OTC Securities Exchange as of March 31, 2005.

(11) Securities brokerage debit accounts - net

Item	March 31, 2005	
	NT\$	US\$
Debit balance:		
Proceeds receivable from investors	\$394,862	\$12,551
Accounts receivable - brokering	424,500	13,493
Debit transaction	9,135	291
Subtotal	828,497	26,335
Credit balance:		
Proceeds payable to investors	103,833	3,300
Accounts payable - brokering	36,965	1,175
Clearance	684,402	21,755
Subtotal	825,200	26,230
Net	\$3,297	\$105

(12) Bonds sold under repurchase agreements

Item	March 31, 2005	
	NT\$	US\$
Central government construction bonds	\$837,897	\$26,634

As of March 31, 2005, 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\$838,126 (US\$26,641) between April 6 - April 14, 2005.

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(13) Capital Stock

As of March 31, 2005, 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.

(14) 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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(15) 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 for the three-month period ended March 31, 2005 is as follows:

Item	For the three-month period ended March 31, 2005	
	NT\$	US\$
Loss before income taxes	\$(12,448)	\$(396)
Adjustments:		
Interest income taxed on a separate basis	(4,879)	(155)
Gain on disposal of short-term investments	(299)	(10)
Adjusted revenue and expense from dealing departments	10,584	336
Gains on evaluation for OTC derivative financial instrument – realized	18	1
Gains on evaluation for OTC derivative financial instrument – unrealized	(358)	(11)
Loss on default	1,186	38
Others	103	3
Taxable income	(6,093)	(194)
Times; taxes rate	25%	25%
Subtotal	-	-
Add: Extra 10% income tax on unappropriated retained earnings	-	-
Less: Tax effects under integrated income tax system	(1,523)	(48)
Subtotal	(1,523)	(48)
Tax on a separate basis	976	31
Deferred tax benefit	(211)	(7)
Total income tax benefit	\$(758)	\$(24)

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

	March 31, 2005	
	NT\$	US\$
a. Total deferred income tax liabilities	\$90	\$2
b. Total deferred income tax assets	\$9,732	\$309

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	March 31, 2005	
	NT\$	US\$
c. Temporary differences:		
Loss on default	\$2,771	\$88
Unrealized gains from financial derivatives	(358)	(11)
Loss carryforwards	36,158	1,149
d. Deferred income tax assets - current	\$9,040	\$287
Deferred income tax liabilities - current	(90)	(2)
Net offset balance of deferred income tax assets - current	\$8,950	\$285
Deferred income tax assets - noncurrent	\$692	\$22
Deferred income tax liabilities - noncurrent	-	-
Net balance of deferred income tax assets - noncurrent	\$692	\$22

C. Information related to tax imputation:

	March 31, 2005	
	NT\$	US\$
Balance of imputation credit account	\$2,107	\$67

	March 31, 2005	
	NT\$	US\$
Imputation credit account ratio	\$-	\$-

D. Related information on undistributed earnings:

Year	March 31, 2005	
	NT\$	US\$
Prior to 1997	\$-	\$-
After 1998	(41,556)	(1,321)
Total	\$(41,556)	\$(1,321)

Undistributed earnings after 1998 does not include the net loss after tax for the three-month period ended March 31, 2005.

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(16) Personnel, depreciation, depletion and amortization

The Company's personnel, depreciation, depletion and amortization for the three-month period ended March 31, 2005 are summarized as follows:

Item	For the three-month period ended March 31, 2005 (NT\$)			For the three-month period ended March 31, 2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$33,534	\$33,534	\$-	\$1,066	\$1,066
Labor & health insurance expenses	-	1,512	1,512	-	48	48
Pension expenses	-	1,031	1,031	-	33	33
Other expenses	-	1,086	1,086	-	35	35
Depreciation	-	3,177	3,177	-	101	101
Depletion	-	-	-	-	-	-
Amortization	-	515	515	-	16	16

(17) Earnings per share

	For the three-month period ended March 31, 2005	
	NT\$	US\$
Loss from continuing operations before income taxes (A)	<u>\$(12,448)</u>	<u>\$(396)</u>
Net loss (B)	<u>\$(11,690)</u>	<u>\$(372)</u>
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)	<u>\$(0.04)</u>	<u>\$(0.001)</u>
Earnings per share after income tax (B)/(C) (dollars)	<u>\$(0.03)</u>	<u>\$(0.001)</u>

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5. 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
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	March 31, 2005	For the three-month period ended March 31, 2005	
		Ending balance	Interest rate	Interest income
		NT\$	NT\$	
Cathay United Bank Co., Ltd.	Saving accounts	\$72,195	0.1%	\$40
	Checking accounts	\$246	-	\$-
	Time deposits	\$31,000	0.95%-1.285%	\$81
	Negotiable certificates of deposit	\$2,130,000	0.85%-1.125%	\$4,922

Name	Item	March 31, 2005	For the three-month period ended March 31, 2005	
		Ending balance	Interest rate	Interest income
		US\$	US\$	
Cathay United Bank Co., Ltd.	Saving accounts	\$2,295	0.1%	\$1
	Checking accounts	\$8	-	-
	Time deposits	\$985	0.95%-1.285%	\$3
	Negotiable certificates of deposit	\$67,705	0.85%-1.125%	\$156

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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.

Except for NT\$1,000,000 (US\$31,786), 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

For the three-month period ended March 31, 2005, the Company purchased funds which are managed by Cathay Securities Investment Trust Co., Ltd. as follows:

Name		March 31, 2005	
		NT\$	US\$
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	Cost	\$350,000	\$11,125
	Market value	\$351,140	\$11,161

C. Bonds sold under repurchase agreements

Name	March 31, 2005	For the three-month period ended March 31, 2005
	Ending balance	Interest expense
	NT\$	NT\$
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$251,961	\$449

Name	March 31, 2005	For the three-month period ended March 31, 2005
	Ending balance	Interest expense
	US\$	US\$
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$8,009	\$14

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D. Brokerage commissions

Name	For the three-month period ended March 31, 2005	
	NT\$	US\$
Cathay United Bank Co., Ltd.	\$2,140	\$68
Cathay Life Insurance Co., Ltd.	18,819	598
Cathay Century Insurance Co., Ltd.	168	6
Total	<u>\$21,127</u>	<u>\$672</u>

E. Brokerage commissions for introducing futures contracts

Name	For the three-month period ended March 31, 2005	
	NT\$	US\$
Cathay Futures Co., Ltd.	\$451	\$14

F. Rental expenses and guarantee deposits paid

Name	For the three-month period ended March 31, 2005	
	Rental expenses	March 31, 2005 Guarantee deposits paid
	NT\$	NT\$
Cathay United Bank Co., Ltd.	\$2,360	\$2,334
Cathay Life Insurance Co., Ltd.	3,667	3,647
Seaward Leasing Ltd.	81	-
Total	<u>\$6,108</u>	<u>\$5,981</u>

Name	For the three-month period ended March 31, 2005	
	Rental expenses	March 31, 2005 Guarantee deposits paid
	US\$	US\$
Cathay United Bank Co., Ltd.	\$75	\$74
Cathay Life Insurance Co., Ltd.	117	116
Seaward Leasing Ltd.	2	-
Total	<u>\$194</u>	<u>\$190</u>

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G. Operating Expenses

Name	Description	For the three-month period ended March 31, 2005	
		NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurance	\$294	\$9
Symphox Information Co., Ltd	Cable service	\$745	\$24
	Other fees	208	7
Subtotal		\$953	\$31
Total		\$1,247	\$40

6. Pledged assets

Item	March 31, 2005	
	NT\$	US\$
Restricted assets - time deposits	\$1,000,000	\$31,786

(1) As of March 31, 2005, 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 amount.

7. 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\$
April 1,2005 ~ March 31,2006	\$20,310	\$646
April 1,2006 ~ March 31,2007	19,087	607
April 1,2007 ~ March 31,2008	9,708	308
April 1,2008 ~ March 31,2009	3,468	110
April 1,2009 ~ March 31,2010	1,301	41
Total	\$53,874	\$1,712

8. Serious damages

None.

9. Subsequent events

None.

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10. Others important events

(1) Financial instruments related information

A. Non-derivative financial instruments related information:

	March 31, 2005			
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
Non-derivative				
Assets:				
Cash and cash equivalents	\$1,353,564	\$1,353,564	\$43,025	\$43,025
Short-term investments - net	720,000	722,136	22,886	22,954
Investments in bonds with resale agreements	836,860	836,860	26,601	26,601
Operating securities - net	8,258	8,258	262	262
Receivable amount for margin loans	91,239	91,239	2,900	2,900
Accounts receivable - net	3,113	3,113	99	99
Other receivables - net	8,984	8,984	285	285
Restricted assets - current	1,000,000	1,000,000	31,786	31,786
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,771	4,771
Settlement and clearance funds	56,435	56,435	1,794	1,794
Guarantee deposits paid	20,253	20,253	644	644
Liabilities:				
Bonds sold under repurchase agreements	837,897	837,897	26,634	26,634
Payables	28,402	28,402	903	903

B. Derivative financial instruments related information:

Derivative

Liabilities:

Liabilities for derivative financial instruments - GreTai (over-the-counter)	9,263	9,263	294	294
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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 carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, investments in bonds with resale agreements, receivable amount for margin loans, accounts receivables, other receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements, and payables.

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- 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 carrying amount 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	March 31, 2005	
	Nominal principal /contract amount	Credit risk
For trading purposes		
Principal guaranteed notes		
Fixed-income products	NT\$9,700 (US\$308)	\$-

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.

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.

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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 March 31, 2005, the disclosure of the transactions of structured notes on the balance sheet and statement of income is summarized as follows:

Balance sheet	March 31, 2005			
	Derivative financial instrument assets - Gre Tai (over-the-counter)		Liabilities for derivative financial instruments - Gre Tai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Principal guaranteed notes	\$-	\$-	\$9,263	\$294

Statement of income	For the three-month period ended March 31, 2005		
	Revenue from derivative financial instruments - Gre Tai (over-the-counter)		Comments
	NT\$	US\$	NT\$ / US\$
Principal guaranteed notes	\$3,863	\$123	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\$13,189). 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

① Unaudited balance sheet of futures department:

Cathay Securities Corporation - Futures Department
Unaudited balance Sheet
March 31, 2005
(Expressed in thousands of dollars)

Items	March 31, 2005		Items	March 31, 2005	
	(NT\$)	(US\$)		(NT\$)	(US\$)
Current assets			Other liabilities		
Cash and cash equivalents	\$590,212	\$18,761	Inter-departmental account-credit	\$9,196	\$292
Prepayments	289	9	Total other liabilities	9,196	292
Other receivables - net	374	12			
Total current assets	590,875	18,782			
Property and equipment			Assigned working capital	600,000	19,072
Equipment	1,404	45	Retained earnings		
Leasehold improvement	861	27	Unappropriated retained earnings	(4,826)	(153)
Less: Accumulated depreciation	(130)	(4)	Total capital	595,174	18,919
Net property and equipment	2,135	68			
Other assets					
Operating deposits	10,000	318			
Guarantee deposits paid	1,360	43			
Total other assets	11,360	361			
Total assets	\$604,370	\$19,211	Total liabilities and capital	\$604,370	\$19,211

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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

② Unaudited Statement of income of futures department:

Cathay Securities Corporation - Futures Department
 Unaudited statement of Income
 For the three-month period ended March 31, 2005
 (Expressed in thousands of dollars)

Items	For the three-month period ended March 31, 2005	
	(NT\$)	(US\$)
Revenue		
Non-operating revenue and profits	\$1,452	\$46
Total revenue	1,452	46
Expenses		
Operating expenses	(1,799)	(57)
Total expenses	(1,799)	(57)
Loss before income taxes	(347)	(11)
Income tax	-	-
Net loss	\$(347)	\$(11)

(The exchange rate of March 31, 2005 provided by the Federal Reserve Bank of New York was NT\$31.46)

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

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- ③ 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	$\frac{\text{Total capital}}{\text{(Total liabilities less equity of futures customers, reserve for trading losses, and reserve for default losses)}}$	$\frac{\text{NT\$595,174}}{\text{NT\$9,196}}$	64	1	Meets regulatory requirement
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\text{NT\$590,875}}{0}$	∞	1	"
22	$\frac{\text{Total capital}}{\text{Minimum paid-in capital}}$	$\frac{\text{NT\$595,174}}{\text{NT\$400,000}}$	149%	(1) 60% (2) 40%	"
22	$\frac{\text{Adjusted net capital}}{\text{Total margin required for the non-offset position of futures customers}}$	$\frac{\text{NT\$591,016}}{0}$	∞	(1) 20% (2) 15%	"