

**Cathay Securities Corporation  
Financial Statements  
Together with  
Independent Auditors' Report  
As of June 30, 2004 and 2005**

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

## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' report	3
Balance sheet as of June 30, 2004 and 2005	4-5
Statement of income from May 12 to June 30, 2004 and January 1 to June 30, 2005	6
Statement of changes in stockholders' equity from May 12 to June 30, 2004 and January 1 to June 30, 2005	7
Statement of cash flows from May 12 to June 30, 2004 and January 1 to June 30, 2005	8-9
Notes to financial statements	10-37
Disclosure of futures department	38-48

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 June 30, 2004 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows from May 12, 2004 to June 30, 2004 and January 1, 2005 to June 30, 2005. 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 June 30, 2004 and 2005, and the results of its operations and their cash flows from May 12, 2004 to June 30, 2004 and January 1, 2005 to June 30, 2005 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  
July 12, 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 June 30, 2004 and 2005  
(Expressed in thousands of dollars)  
( The development stage was from May 12, 2004 to August 12, 2004 )

ASSETS	NOTES	June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,5(1)	\$3,403,425	\$101,112	\$1,693,843	\$53,535
Short-term investments - net	2,5(2)	-	-	600,000	18,963
Investments in bonds with resale agreements	2,5(3)	-	-	540,465	17,082
Operating securities - dealing	2,5(4)	-	-	23,420	740
Operating securities - hedging	2,5(5)	-	-	6,240	197
Allowance for valuation loss on operating securities - hedging	2,5(5)	-	-	(82)	(3)
Receivable amount for margin loans	2,5(6)	-	-	5,759	182
Margin for futures trading - own funds	2,11	-	-	2,127	67
Derivative financial instrument assets - GreTai ( over-the-counter )	2,11	-	-	820	26
Accounts receivable - net		-	-	2,536	80
Prepayments		5,940	176	872	28
Other receivables - net		204	6	3,917	124
Other receivables - related parties - net		-	-	4,191	132
Restricted assets - current	7	-	-	1,300,000	41,087
Deferred income tax assets - current	2,5(16)	-	-	9,035	286
Other current assets		-	-	326	10
Total current assets		3,409,569	101,294	4,193,469	132,536
Funds and long-term investments					
Long-term investments in stocks	2,5(7)	-	-	18	1
Long-term investment under cost method		-	-	18	1
Total funds and long-term investments		-	-	18	1
Property and equipment	2,5(8)				
Equipment		-	-	67,682	2,139
Prepayment for equipment		-	-	15,087	477
Leasehold improvement		-	-	18,803	594
Less: Accumulated depreciation		-	-	(9,140)	(289)
Net property and equipment		-	-	92,432	2,921
Intangible assets					
Deferred pension cost	2	-	-	1,552	49
Total intangible assets		-	-	1,552	49
Other assets					
Operating deposits	5(9)	100,097	2,974	150,098	4,744
Settlement and clearance funds	5(10)	-	-	37,435	1,183
Guarantee deposits paid		-	-	21,127	668
Deferred debits		-	-	13,851	438
Deferred income tax assets - noncurrent	2,5(16)	-	-	1,032	33
Total other assets		100,097	2,974	223,543	7,066
Securities brokerage debit accounts - net	5(11)	-	-	2,784	88
Total assets		\$3,509,666	\$104,268	\$4,513,798	\$142,661

(The exchange rate of June 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.66 and NT\$31.64 to US\$1.00, respectively)  
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 June 30, 2004 and 2005

(Expressed in thousands of dollars)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	NOTES	June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Bonds sold under repurchase agreements	2,5(12)	\$ -	\$ -	\$541,181	\$17,104
Put options	2, 11	-	-	14	1
Derivative financial instrument liabilities - GreTai (over-the-counter)	2, 11	-	-	10,515	332
Accounts payable		-	-	2,421	77
Accounts collected in advance		-	-	64	2
Receipts under custody		-	-	1,913	60
Other payables		220	7	9,905	313
Other payables - related parties - net		5,940	176	-	-
Other current liabilities		-	-	122	4
Total current liabilities		6,160	183	566,135	17,893
Other liabilities					
Reserve for default losses	2	-	-	4,127	131
Guarantee deposits-in		-	-	1,958	62
Accrued pension liability	2	-	-	2,919	92
Total other liabilities		-	-	9,004	285
Total liabilities		6,160	183	575,139	18,178
Stockholders' equity					
Capital stock					
Common stock	5(13)	3,500,000	103,981	3,700,000	116,940
Capital surplus	5(14)	-	-	300,000	9,482
Retained earnings					
Unappropriated retained earnings	5(15)	3,506	104	(61,341)	(1,939)
Total stockholders' equity		3,503,506	104,085	3,938,659	124,483
Total liabilities and stockholders' equity		\$3,509,666	\$104,268	\$4,513,798	\$142,661

(The exchange rate of June 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.66 and NT\$31.64 to US\$1.00, respectively)

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 June 30, 2004 and January 1 to June 30, 2005

(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 - June 30, 2004		January 1 - June 30, 2005	
		NT\$	US\$	NT\$	US\$
Revenue	2				
Brokerage commissions		\$ -	\$ -	\$77,515	\$2,450
Profit from trading securities - stock warrants		-	-	2	-
Profit from trading securities - hedging		-	-	1,725	55
Interest revenue		-	-	7,696	243
Brokerage commissions for introducing futures contracts		-	-	854	27
Gain on futures contracts		-	-	121	4
Revenue from derivative financial instruments - GreTai (over-the-counter)	2,11	-	-	4,115	130
Other operating revenue		-	-	1,404	44
Non-operating revenue and profits	3	4,463	133	18,167	574
Subtotal		<u>4,463</u>	<u>133</u>	<u>111,599</u>	<u>3,527</u>
Expenses	2				
Brokerage securities transaction charges		-	-	(5,897)	(186)
Dealing securities transaction charges		-	-	(404)	(13)
Loss from trading securities - dealing		-	-	(1,972)	(62)
Interest expense		-	-	(4,097)	(130)
Loss from decline in price of operating securities - hedging		-	-	(83)	(3)
Clearing and settlement fees		-	-	(24)	(1)
Loss from options transactions		-	-	(8)	-
Operating expenses		-	-	(120,389)	(3,805)
Non-operating expenses and losses		-	-	(900)	(28)
Subtotal		<u>-</u>	<u>-</u>	<u>(133,774)</u>	<u>(4,228)</u>
Income (loss) from continuing operations before income taxes		4,463	133	(22,175)	(701)
Income tax (expense) benefit	2,5(16)	(957)	(29)	2,400	76
Net income (loss) from continuing operations		<u>\$3,506</u>	<u>\$104</u>	<u>\$(19,775)</u>	<u>\$(625)</u>
Net income (loss)		<u>\$3,506</u>	<u>\$104</u>	<u>\$(19,775)</u>	<u>\$(625)</u>
Earnings per share (in dollars)	2,5(18)				
Income (loss) before income taxes		<u>\$0.01</u>	<u>\$0.00</u>	<u>\$(0.06)</u>	<u>\$(0.002)</u>
Net income (loss)		<u>\$0.01</u>	<u>\$0.00</u>	<u>\$(0.06)</u>	<u>\$(0.002)</u>

(The exchange rate of June 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.66 and NT\$31.64 to US\$1.00, respectively)

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 June 30, 2004 and January 1 to June 30, 2005

(Expressed in thousands of dollars)

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

SUMMARY	Common stock		Capital surplus		Retained earnings		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Incorporated on May 12, 2004	\$3,500,000	\$103,981	\$ -	\$ -	\$-	\$-	\$3,500,000	\$103,981
Net income from May 12 to June 30, 2004					3,506	104	3,506	104
Balance on June 30, 2004	<u>\$3,500,000</u>	<u>\$103,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,506</u>	<u>\$104</u>	<u>\$3,503,506</u>	<u>\$104,085</u>
Balance on January 1, 2005	\$3,500,000	\$110,619	\$ -	\$ -	\$(41,566)	\$(1,314)	\$3,458,434	\$109,305
Capital increase from cash contribution	200,000	6,321	300,000	9,482			500,000	15,803
Net loss from January 1 to June 30, 2005					(19,775)	(625)	(19,775)	(625)
Balance on June 30, 2005	<u>\$3,700,000</u>	<u>\$116,940</u>	<u>\$300,000</u>	<u>\$9,482</u>	<u>\$(61,341)</u>	<u>\$(1,939)</u>	<u>\$3,938,659</u>	<u>\$124,483</u>

(The exchange rate of June 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.66 and NT\$31.64 to US\$1.00, respectively)

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 June 30, 2004 and January 1 to June 30, 2005  
(Expressed in thousands of dollars)  
(The development stage was from May 12, 2004 to August 12, 2004)

ITEMS	May 12 - June 30, 2004		January 1 - June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss)	\$3,506	\$104	\$(19,775)	\$(625)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	-	7,540	238
Amortization	-	-	2,203	70
Gain on disposal of short-term investments	-	-	(4,833)	(153)
Reserve for default losses	-	-	2,542	80
Loss on disposal of property and equipment	-	-	529	17
Recoveries on market decline of securities	-	-	(880)	(28)
Loss on valuation for operating securities - hedging	-	-	82	3
Recoveries on reserve for trading losses	-	-	(123)	(4)
Changes in assets and liabilities:				
Decrease in investments in bonds with resale agreements	-	-	132,221	4,179
Decrease in operating securities - dealing	-	-	103,322	3,266
Decrease in operating securities - stock warrants	-	-	12	-
Decrease in operating securities - hedging	-	-	163,053	5,153
Decrease in receivable amount for margin loans	-	-	183,686	5,806
Decrease in securities refinancing margin deposits	-	-	687	22
Increase in margin for futures trading - own funds	-	-	(2,127)	(67)
Increase in derivative financial instrument assets - GreTai ( over-the-counter)	-	-	(820)	(26)
Decrease in accounts receivable	-	-	6,446	204
Increase in prepayments	(5,940)	(176)	(32)	(1)
(Increase) decrease in other receivables	(204)	(6)	6,309	199
Increase in other receivables - related parties	-	-	(1,622)	(51)
Decrease in deferred losses on financial instruments	-	-	1,203	38
Decrease in other current assets	-	-	476	15
Increase in deferred income tax assets - noncurrent	-	-	(635)	(20)
Decrease in securities brokerage debit accounts - net	-	-	711	23
Decrease in bonds sold under repurchase agreements	-	-	(235,146)	(7,432)
Increase in liabilities from options	-	-	14	-
Decrease in securities financing guarantee deposits-in	-	-	(743)	(23)
Decrease in deposit payable for securities financing	-	-	(822)	(26)
Decrease in derivative financial instrument liabilities - GreTai (over-the-counter)	-	-	(215,770)	(6,820)
Decrease in accounts payable	-	-	(1,409)	(45)
Decrease in accounts collected in advance	-	-	(111)	(4)
Decrease in receipts under custody	-	-	(20)	(1)
Increase in other payables	220	7	1,870	59
Increase in other payables - related parties	5,940	176	-	-
Increase in other current liabilities	-	-	82	3
Increase in accrued pension liability	-	-	1,235	39
Net cash provided by operating activities	3,522	105	129,355	4,088

(The exchange rate of June 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.66 and NT\$31.64 to US\$1.00, respectively)  
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 June 30, 2004 and January 1 to June 30, 2005

(Expressed in thousands of dollars)

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

ITEMS	May 12 - June 30, 2004		January 1 - June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cash flows from investing activities				
Decrease in short-term investments	-	-	54,833	1,733
Increase in restricted assets - current	-	-	(800,000)	(25,284)
Acquisition of property and equipment	-	-	(64,724)	(2,046)
Disposal of property and equipment	-	-	94	3
Increase in operating deposits	(100,097)	(2,974)	-	-
Decrease in settlement and clearance funds	-	-	27,674	875
Increase in guarantee deposits paid	-	-	(1,198)	(38)
Increase in deferred debits	-	-	(11,609)	(367)
Net cash used in investing activities	<u>(100,097)</u>	<u>(2,974)</u>	<u>(794,930)</u>	<u>(25,124)</u>
Cash flows from financing activities				
Increase in guarantee deposits-in	-	-	1,795	57
Capital increase from cash contribution	<u>3,500,000</u>	<u>103,981</u>	<u>500,000</u>	<u>15,803</u>
Net cash provided by financing activities	<u>3,500,000</u>	<u>103,981</u>	<u>501,795</u>	<u>15,860</u>
Increase (decrease) in cash and cash equivalents	3,403,425	101,112	(163,780)	(5,176)
Cash and cash equivalents at the beginning of period	<u>-</u>	<u>-</u>	<u>1,857,623</u>	<u>58,711</u>
Cash and cash equivalents at the end of period	<u><u>\$3,403,425</u></u>	<u><u>\$101,112</u></u>	<u><u>\$1,693,843</u></u>	<u><u>\$53,535</u></u>
Supplemental disclosure of cash flows information				
Interest paid during period	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,097</u>	<u>\$129</u>
Interest paid (excluding capitalized interest)	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,097</u>	<u>\$129</u>
Income tax paid	<u><u>\$736</u></u>	<u><u>\$22</u></u>	<u><u>\$2,090</u></u>	<u><u>\$66</u></u>

(The exchange rate of June 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.66 and NT\$31.64 to US\$1.00, respectively)

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 June 30, 2004 and 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 April 22, 2005, the names of the Company’s Xin-yi and Bo-ai branch offices were changed to Banqiao and Guanqian, respectively.

As of June 30, 2004 and 2005, the Company had 39 and 142 employees, respectively.

**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 ROC. A summary of significant accounting policies is as follows:

**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 otherwise stated)**

**As of June 30, 2004 and 2005**

(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.

(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

Investments 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.

**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 otherwise stated)**

**As of June 30, 2004 and 2005**

(6) Margin for futures trading - own funds

The margin and premium resulting from trading futures and options are recorded as “margin for futures trading - own funds”. The profit or loss from the trading or valuation of futures and options is recorded as “gain (loss) from futures transactions” or “gain (loss) from options transactions”, and the amount of “margin for futures trading - own funds” is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is divided into realized and unrealized.

(7) 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.

(8) Long-term investments

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

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.

(9) 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.

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

(10) 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, 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).

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

(11) Call options and put options

Call options and put options are recorded based on option premium. Changes in market values are reflected in “call options”, “put options” and “gain (loss) from options transactions”.

The difference between the market value and the exercise price of options at the exercise date is included in current period earnings. The difference between the settlement price and the average cost of unexercised options at the balance sheet date is included in current period earnings.

(12) 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.

The Labor Pension Act of the ROC (“the Act”), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

**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 otherwise stated)**

**As of June 30, 2004 and 2005**

(13) Reserve for default losses

According to the Rules Governing Securities Firms, a securities firm trading securities for customer 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 customer 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\$6,321) reserving will be suspended.

(14) 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\$6,321). Such provision can only be used to offset the excess of securities trading losses over gains.

(15) Structured notes transactions

The structured notes transactions of the Company can be divided into equity-linked notes and principal guaranteed notes based on the terms of the contracts.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as “Liabilities for equity-linked notes – fixed-income products” and “Liabilities for equity-linked notes – option premium”. The former amortizes its interest expense over the contract period using the straight-line method with the amount recognized as “Losses on equity-linked notes”. Any options purchased are recognized as “Assets for equity-linked notes – options”, and are valued at fair value with any resulting gains or losses recognized as “Gains/Losses on valuation for equity-linked 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 current period earnings.

**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 otherwise stated)**

**As of June 30, 2004 and 2005**

Principal guaranteed notes transactions involve 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 current period earnings.

(16) 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.

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 unappropriated retained earnings returns 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.



**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 otherwise stated)  
**As of June 30, 2004 and 2005**

(17) 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.

(18) 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\$33.66 and NT\$31.64 to US\$1.00 effective on June 30, 2004 and 2005, respectively, 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 these rates or any other rates of exchange.

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

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

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

None

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

**5. Breakdown of significant accounts**

(1) Cash and cash equivalents

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$-	\$-	\$100	\$3
Savings accounts	603,425	17,927	43,497	1,375
Checking accounts	-	-	1,350	43
Time deposits	2,800,000	83,185	1,648,896	52,114
Total	\$3,403,425	\$101,112	\$1,693,843	\$53,535
Annual interest rate of time deposits	0.65%-0.90%	0.65%-0.90%	0.95%-1.28%	0.95%-1.28%

As of June 30, 2004 and 2005, none of the cash and cash equivalents were pledged to other parties.

(2) Short-term investments - net

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$-	\$-	\$600,000	\$18,963
Less: allowance for decline in market value	-	-	-	-
Net	\$-	\$-	\$600,000	\$18,963

As of June 30, 2005, none of the short-term investments were pledged to other parties.

(3) Investments in bonds with resale agreements

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Central government construction bonds	\$-	\$-	\$540,465	\$17,082

As of June 30, 2005, investments in bonds with resale agreements were due within one year with annual interest rates ranging between 1.210%-1.235%. These bonds were made available for resale at an agreed aggregate amount of NT\$540,646 (US\$17,087) between July 4 – July 13, 2005.

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

(4) Operating securities - dealing

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
OTC convertible corporate bonds	\$-	\$-	\$23,420	\$740
Less: Allowance for valuation loss on operating securities – dealing	-	-	-	-
Net operating securities – dealing	<u>\$-</u>	<u>\$-</u>	<u>\$23,420</u>	<u>\$740</u>

(5) Operating securities - hedging

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$-	\$-	\$6,240	\$197
Less: Allowance for valuation loss on operating securities – hedging	-	-	(82)	(3)
Net operating securities – hedging	<u>\$-</u>	<u>\$-</u>	<u>\$6,158</u>	<u>\$194</u>

As of June 30, 2005, none of the operating securities were pledged to other parties.

(6) Receivable amount for margin loans

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Receivable amount for margin loans	\$-	\$-	\$5,759	\$182
Less: Allowance for bad debts	-	-	-	-
Net	<u>\$-</u>	<u>\$-</u>	<u>\$5,759</u>	<u>\$182</u>

A. For the six-month period ended June 30, 2005, receivable amount for margin loans had an annual interest rate of 6.25%.

B. As of June 30, 2005, the market value of securities used for collateral in connection with the Company's margin loan activity was NT\$10,081 (US\$319).

**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 otherwise stated)

**As of June 30, 2004 and 2005**

(7) Long-term investments in stocks

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Taiwan International Mercantile Exchange Corporation	\$-	\$-	\$18	\$1

As of June 30, 2005, none of the long-term investments in stocks were pledged to other parties.

(8) Property and equipment

Item	June 30, 2005					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Computer equipment	\$56,047	\$1,771	\$5,650	\$179	\$50,397	\$1,592
Office equipment	8,323	263	1,122	35	7,201	228
Transportation equipment	3,312	105	546	17	2,766	88
Leasehold improvement	18,803	594	1,822	58	16,981	536
Prepayment for equipment	15,087	477	-	-	15,087	477
Total	<u>\$101,572</u>	<u>\$3,210</u>	<u>\$9,140</u>	<u>\$289</u>	<u>\$92,432</u>	<u>\$2,921</u>

A. As of June 30, 2005, none of the property and equipment were pledged to other parties.

B. As of June 30, 2005, the insurance coverage for property and equipment amounted to NT\$63,315 (US\$2,001).

(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\$100,097 (US\$2,974) and NT\$150,098 (US\$4,744) as of June 30, 2004 and 2005.

**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 otherwise stated)

**As of June 30, 2004 and 2005**

(10) Settlement and clearance funds

As stipulated in the Rules Governing Securities Firms and OTC regulations, the Company deposited NT\$37,435 (US\$1,183) with the Taiwan Securities Exchange Corporation and the OTC Securities Exchange as of June 30, 2005.

(11) Securities brokerage debit accounts - net

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Debit balance:				
Cash and cash equivalents –				
settlement amount	\$-	\$-	\$147	\$5
Proceeds receivable from investors	-	-	342,945	10,839
Accounts receivable – brokering	-	-	120,601	3,812
Debit transaction	-	-	1,149	36
Clearance	-	-	202,843	6,411
Subtotal	-	-	667,685	21,103
Credit balance:				
Proceeds payable to investors	-	-	474,853	15,008
Accounts payable – brokering	-	-	190,048	6,007
Subtotal	-	-	664,901	21,015
Net	\$-	\$-	\$2,784	\$88

(12) Bonds sold under repurchase agreements

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Central government construction				
bonds	\$-	\$-	\$541,181	\$17,104

As of June 30, 2005, bonds sold under repurchase agreements were due within one year with annual interest rates ranging between 1.025%-1.210%. These bonds were made available for repurchase at an agreed aggregate amount of NT\$541,301 (US\$17,108) between July 4 - July 13, 2005.

**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 otherwise stated)**

**As of June 30, 2004 and 2005**

(13) Capital Stock

- A. As of June 30, 2004 and 2005, the total authorized shares were 350,000,000 and 370,000,000, respectively with a par value of NT\$10 per share.
- B. Based on the resolution of the board of directors on February 2, 2005, the Company decided to increase its capital through a cash contribution of NT\$200,000. After this capital increase, the Company's total capital increased to NT\$3,700,000. The record date of the capital increase was June 20, 2005. It was approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC on May 27, 2005 and the new capital was registered on June 29, 2005.

(14) Capital surplus

According to the Company Law in the ROC, capital surplus can be used to increase share capital when the Company has no accumulated deficit. However, the amount capitalized cannot exceed a specific percentage of paid in capital. Any remaining amounts can only be used to make up losses. The Company shall not use capital surplus to make up losses unless the legal reserve is insufficient to make up such losses.

(15) 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. 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.

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

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

(16) 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 June 30, 2004 and January 1 to June 30, 2005, are as follows:

Item	May 12 to June 30, 2004		January 1 to June 30, 2005	
	NT\$	US\$	NT\$	US\$
Income (loss) before income taxes	\$4,463	\$133	\$(22,175)	\$(701)
Adjustments:				
Interest income taxed on a separate basis	(2,979)	(89)	(11,162)	(353)
Gain on disposal of short-term investments	-	-	(4,833)	(153)
Adjusted revenue and expense from dealing departments	-	-	19,638	620
Loss on default	-	-	2,542	80
Taxable income	1,484	44	(15,990)	(507)
Times: tax rates; less: progressive difference	25%-10	25%	25%	25%
Subtotal	361	11	-	-
Add: Extra 10% income tax on unappropriated retained earnings	-	-	-	-
Less: Tax effects under integrated income tax system	-	-	(3,997)	(127)
Subtotal	-	-	(3,997)	(127)
Tax on a separate basis	596	18	2,233	71
Deferred tax benefit	-	-	(636)	(20)
Total income tax expense (benefit)	\$957	\$29	\$(2,400)	\$(76)

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

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

	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	\$-	\$-	\$10,072	\$319
b. Total deferred income tax liabilities	\$-	\$-	\$5	\$-
c. Temporary differences:				
Loss on default	\$-	\$-	\$4,127	\$130
Unrealized gains from financial derivatives	-	-	(18)	(1)
Loss carryforwards	-	-	36,158	1,143
d. Deferred income tax assets – current	\$-	\$-	\$9,040	\$286
Deferred income tax liabilities – current	-	-	(5)	-
Net offset balance of deferred income tax assets – current	\$-	\$-	\$9,035	\$286
Deferred income tax assets – noncurrent	\$-	\$-	\$1,032	\$33
Deferred income tax liabilities – noncurrent	-	-	-	-
Net balance of deferred income tax assets – noncurrent	\$-	\$-	\$1,032	\$33

C. Information related to tax imputation:

	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$596	\$18	\$3,106	\$98
Imputation credit account ratio	-	-	-	-

D. Related information on undistributed earnings:

	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	(41,566)	(1,314)
Total	\$-	\$-	\$(41,566)	\$(1,314)

Undistributed earnings after 1998 does not include the net income (loss) from May 12 to June 30, 2004 and January 1 to June 30, 2005.



**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 otherwise stated)

**As of June 30, 2004 and 2005**

(17) Personnel, depreciation, depletion and amortization

The Company's personnel, depreciation, depletion and amortization from May 12 to June 30, 2004 and January 1 to June 30, 2005 are summarized as follows:

Item	May 12 to June 30, 2004			May 12 to June 30, 2004		
	(NT\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$-	\$-	\$-	\$-	\$-
Labor & health insurance expenses	-	-	-	-	-	-
Pension expenses	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Depletion	-	-	-	-	-	-
Amortization	-	-	-	-	-	-

Item	January 1 to June 30, 2005			January 1 to June 30, 2005		
	(NT\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$62,510	\$62,510	\$-	\$1,976	\$1,976
Labor & health insurance expenses	-	3,228	3,228	-	102	102
Pension expenses	-	2,069	2,069	-	65	65
Other expenses	-	2,748	2,748	-	87	87
Depreciation	-	7,540	7,540	-	238	238
Depletion	-	-	-	-	-	-
Amortization	-	2,203	2,203	-	70	70

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

(18) Earnings per share

	May 12 to June 30, 2004		January 1 to June 30, 2005	
	NT\$	US\$	NT\$	US\$
Income (loss) from continuing operations before income taxes (A)	\$4,463	\$133	\$(22,175)	\$(701)
Net income (loss) (B)	\$3,506	\$104	\$(19,775)	\$(625)
Outstanding number of shares at end of period	350,000,000	350,000,000	370,000,000	370,000,000
Weighted average outstanding number of shares(C)	350,000,000	350,000,000	351,215,470	351,215,470
Earnings per share before income tax (A)/(C) (dollars)	\$0.01	\$0.00	\$(0.06)	\$(0.002)
Earnings per share after income tax (B)/(C) (dollars)	\$0.01	\$0.00	\$(0.06)	\$(0.002)

**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
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
Seaward Card Co., Ltd.	Affiliated

(2) Transactions with related 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 otherwise stated)  
**As of June 30, 2004 and 2005**

A. Cash in bank

		May 12 to June 30, 2004		
Name	Item	Ending balance	Interest rate	Interest income
		NT\$		
Cathay United Bank Co., Ltd.	Savings accounts	\$603,425	0.10%	\$31
	Time deposits	\$2,800,000	0.65%~0.90%	\$4,242

		May 12 to June 30, 2004		
Name	Item	Ending balance	Interest rate	Interest income
		US\$		
Cathay United Bank Co., Ltd.	Savings accounts	\$17,927	0.10%	\$1
	Time deposits	\$83,185	0.65%-0.90%	\$126

		January 1 to June 30, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		NT\$		
Cathay United Bank Co., Ltd.	Savings accounts	\$42,656	0.10%	\$58
	Checking accounts	\$1,350	-	\$-
	Time deposits	\$31,000	0.950%-1.285%	\$165
	Negotiable certificates of deposit	\$2,779,000	0.85%-1.20%	\$11,193

		January 1 to June 30, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		US\$		
Cathay United Bank Co., Ltd.	Savings accounts	\$1,348	0.10%	\$2
	Checking accounts	\$43	-	\$-
	Time deposits	\$980	0.950%-1.285%	\$5
	Negotiable certificates of deposit	\$87,832	0.85%-1.20%	\$354

Except for NT\$12,000 (US\$379) in time deposits used as premiums for structured notes products and recognized under guarantee deposits paid, the remaining time

**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 otherwise stated)

**As of June 30, 2004 and 2005**

deposits have not been pledged as collateral.

Except for NT\$1,300,000 (US\$41,087) pledged as collateral for the over-loaning of settlement accounts and recognized under restricted assets, the remaining negotiable certificates of deposit have not been pledged as collateral.

**B. Short-term investments**

Name		June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust	Cost	\$-	\$-	\$250,000	\$7,901
Co., Ltd. - Cathay Bond Fund	Market value	\$-	\$-	\$250,000	\$7,901

**C. Bonds sold under repurchase agreements**

Name	May 12 to June 30, 2004		January 1 to June 30, 2005	
	Ending balance	Interest expense	Ending balance	Interest expense
	NT\$	NT\$	NT\$	NT\$
Cathay Securities Investment Trust Co., Ltd.-Cathay Bond Fund	\$-	\$-	\$127,436	\$1,263

Name	May 12 to June 30, 2004		January 1 to June 30, 2005	
	Ending balance	Interest expense	Ending balance	Interest expense
	US\$	US\$	US\$	US\$
Cathay Securities Investment Trust Co., Ltd.-Cathay Bond Fund	\$-	\$-	\$4,028	\$40

**D. Prepayments**

Name	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.	\$1,414	\$42	\$-	\$-
Cathay United Bank Co., Ltd.	4,526	134	-	-
Total	\$5,940	\$176	\$-	\$-

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

E. Other receivables

Name	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.	\$-	\$-	\$4,191	\$132

F. Other payables

Name	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd.	\$1,414	\$42	\$-	\$-
Cathay United Bank Co., Ltd.	4,526	134	-	-
Total	\$5,940	\$176	\$-	\$-

G. Brokerage commissions

Name	May 12 to June 30, 2004		January 1 to June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$-	\$-	\$5,946	\$188
Cathay Life Insurance Co., Ltd.	-	-	40,170	1,270
Cathay Century Insurance Co., Ltd.	-	-	430	14
Cathay II Venture Capital Co., Ltd.	-	-	20	1
Cathay Pacific Venture Capital Co., Ltd.	-	-	44	1
Total	\$-	\$-	\$46,610	\$1,474

H. Brokerage commissions for introducing futures contracts

Name	May 12 to June 30, 2004				January 1 to June 30, 2005			
	Brokerage commissions for introducing futures contracts		Accounts receivable		Brokerage commissions for introducing futures contracts		Accounts receivable	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$-	\$-	\$-	\$-	\$854	\$27	\$151	\$5

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

I. Clearing and settlement fees, dealing handing fee expense and margin for futures trading - own funds.

Name	January 1 to June 30, 2005							
	Clearing and settlement fees		Dealing handing fee expense		Accounts payable		Margin for futures trading-own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$24	\$1	\$26	\$1	\$22	\$1	\$2,127	\$67

From May 12 to June 30, 2004, there were no transactions.

J. Rental expenses and guarantee deposits paid

Name	May 12 to June 30, 2004		January 1 to June 30, 2005	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay United Bank Co., Ltd.	\$-	\$-	\$4,785	\$3,209
Cathay Life Insurance Co., Ltd.	-	-	7,702	3,647
Seaward Leasing Ltd.	-	-	163	-
Total	\$-	\$-	\$12,650	\$6,856

Name	May 12 to June 30, 2004		January 1 to June 30, 2005	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
Cathay United Bank Co., Ltd.	\$-	\$-	\$151	\$101
Cathay Life Insurance Co., Ltd.	-	-	243	115
Seaward Leasing Ltd.	-	-	5	-
Total	\$-	\$-	\$399	\$216

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

K. Operating expenses

Name	Description	May 12 to June 30, 2004		January 1 to June 30, 2005	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Insurance	\$-	\$-	\$638	\$20
Seaward Card Co., Ltd.	Service expense	\$-	\$-	\$194	\$6
Symphox Information Co., Ltd	Cable service	\$-	\$-	\$974	\$31
	Other fees	-	-	250	8
Subtotal		\$-	\$-	\$1,224	\$39
Total		\$-	\$-	\$2,056	\$65

7. Pledged assets

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Restricted assets - time deposits	\$-	\$-	\$1,300,000	\$41,087

(1) As of June 30, 2005, the Company pledged its restricted assets - time deposits to Cathay United Bank Co., Ltd. as collateral for the over-loaning of settlement accounts.

(2) Restricted assets - time deposits is disclosed at its net carrying amount.

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\$
July 1, 2005 ~ June 30, 2006	\$19,867	\$628
July 1, 2006 ~ June 30, 2007	18,912	598
July 1, 2007 ~ June 30, 2008	5,206	165
July 1, 2008 ~ June 30, 2009	-	-
July 1, 2009 ~ June 30, 2010	-	-
Total	\$43,985	\$1,391

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

**9. Serious damages**

None.

**10. Subsequent events**

None.

**11. Other important events**

(1) Information related to financial instruments

	June 30, 2004			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$3,403,425	\$3,403,425	\$101,112	\$101,112
Other receivables – net	204	204	6	6
Operating deposits	100,097	100,097	2,974	2,974
Liabilities:				
Payables	6,160	6,160	183	183

**Derivative**

None

	June 30, 2005			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$1,693,843	\$1,693,843	\$53,535	\$53,535
Short-term investments – net	600,000	600,000	18,963	18,963
Investments in bonds with resale agreements	540,465	540,465	17,082	17,082
Operating securities – net	29,578	29,949	934	947
Receivable amount for margin loans	5,759	5,759	182	182
Accounts receivable – net	2,536	2,536	80	80
Other receivables – net	8,108	8,108	256	256



**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 otherwise stated)  
**As of June 30, 2004 and 2005**

	June 30, 2005			
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(NT\$)	(US\$)	(US\$)
Restricted assets – current	1,300,000	1,300,000	41,087	41,087
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,744	4,744
Settlement and clearance funds	37,435	37,435	1,183	1,183
Guarantee deposits paid	21,127	21,127	668	668
Liabilities:				
Bonds sold under repurchase agreements	541,181	541,181	17,104	17,104
Payables	12,326	12,326	390	390
<b>Derivative</b>				
Assets:				
Margin for futures trading – own funds	\$2,127	\$2,127	\$67	\$67
Derivative financial instrument assets –				
GreTai (over-the-counter)	820	820	26	26
Liabilities:				
Put options	\$14	\$14	\$1	\$1
Derivative financial instrument liabilities –				
GreTai (over-the-counter)	10,515	10,515	332	332

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 receivable, other receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements 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 carrying amount

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

on the balance sheet date is used to estimate the fair value.

(2) Financial derivatives

A. Structured notes transactions

a. Nominal principal or contract amount and credit risk :

<u>Financial instruments</u>	June 30, 2004		June 30, 2005	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Equity-linked notes	NT\$- (US\$-)	\$-	NT\$10,000 (US\$316)	\$-

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 structure notes being issued.

b. Market risk

In structured notes transactions, the Company receives proceeds 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. The Company believes there is no significant market risk 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 financial derivatives:

The structured notes transactions of the Company can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. The return to investors consists of returns from the fixed income products and value of the options at expiration.

e. Financial statement presentation of derivative financial instruments:

As of June 30, 2005, the disclosure of structured notes transactions on the balance sheet and statement of income is summarized as follows:

Balance sheet	June 30, 2005			
	Derivative financial instrument assets – Gre Tai (over-the-counter)		Derivative financial instrument liabilities – GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Equity-linked notes	\$820	\$26	\$10,515	\$332

  

Statement of income	From January 1 to June 30, 2005			
	Revenue from derivative financial instruments – GreTai (over-the-counter)		Comments	
	NT\$	US\$	NT\$/US\$	
Principal guaranteed notes	\$3,911	\$124	Market value method	
Equity-linked notes	204	6	Market value method	
Total	\$4,115	\$130		

B. Futures and options transactions

As of June 30, 2005, the Company's unexercised options were as follows:

Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units			NT\$	US\$
				NT\$	US\$		
Options	TXO-Call	Sell	30	\$10	\$-	\$4	\$-
Options	TXO-Put	Sell	70	\$24	\$1	\$10	\$-

**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 otherwise stated)  
**As of June 30, 2004 and 2005**

a. Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$34(US\$1)	\$-

The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

b. Market risk

As of June 30, 2005, the Company's market risk from futures and options transactions arose from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, the Company believes it can limit its losses to within an expected range. Hence, no significant market risk is expected.

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

As of June 30, 2005, the Company's unexercised options could all be liquidated at reasonable prices in the market. As a result liquidity risk is low.

The Company's trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, the Company has sufficient working capital to meet its requirements, and hence funding risk and cash flow risk are low. With respect to the Company's trading in options, prior to any transaction the Company pays or receives option premium. If the Company sells call options and the counterparty exercises its option, the Company has sufficient working capital to cover the exercise and hence funding risk and cash flow risk are low.

d. Types, purposes, and strategies for financial derivatives

The Company's purpose in trading futures and options is to increase the scope of its investment activities and its capital efficiency.

**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 otherwise stated)

**As of June 30, 2004 and 2005**

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “margin for futures trading - own funds” on the balance sheet. On June 30, 2005, the account had NT\$2,127 (US\$67). For the six-month period ended June 30, 2005, the related gain/loss of futures and options on the statement of income is as follows:

	For the six-month period ended June 30, 2005	
	(NT\$)	(US\$)
Futures		
Gain on futures contracts	\$121	\$4
Options		
Loss from options transactions	\$8	\$-

(Includes unrealized gains from options transactions of NT\$20 (US\$1))

(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\$13,114). 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. Based on the resolution of the board of directors on April 22, 2005, the name of the Company’s Xin-yi and Bo-ai branch offices were changed to Banqiao and Guanqian, respectively.

B. Disclosure of the futures department

In compliance with the “Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants”, 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 June 30, 2005**

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation - Futures Department

Balance Sheet

June 30, 2005

(Expressed in thousands of dollars)

Items	Notes	June 30, 2005		Items	Notes	June 30, 2005	
		(NT\$)	(US\$)			(NT\$)	(US\$)
Current assets				Other liabilities			
Cash and cash equivalents	2, 4, 5	\$578,611	\$18,287	Liabilities from options	2, 9	\$14	\$1
Margin for futures trading - own funds	2, 9	2,127	67	Accounts payable		37	1
Other receivables - net		878	28	Other payables		330	10
Total current assets		581,616	18,382	Taxes payable		3	-
				Total current liabilities		384	12
Property and equipment	2			Other liabilities			
Equipment		1,455	46	Accrued pension liability - noncurrent		27	1
Leasehold improvement		861	27	Total liabilities		411	13
Less: Accumulated depreciation		(220)	(7)	Assigned working capital	2	600,000	18,963
Net property and equipment		2,096	66	Retained earnings			
Other assets				Unappropriated retained earnings		(5,339)	(169)
Operating deposits	4	10,000	316	Total capital		594,661	18,794
Guarantee deposits paid		1,360	43	Total liabilities and capital		\$595,072	\$18,807
Total other assets		11,360	359				
Total assets		\$595,072	\$18,807				

(The exchange rate of June 30, 2005 provided by the Federal Reserve Bank of New York was NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation - Futures Department

Statement of Income

January 1 to June 30, 2005

(Expressed in thousands of dollars)

Items	Notes	January 1 - June 30, 2005	
		(NT\$)	(US\$)
Revenue	2		
Gain on futures contracts	2, 9	\$121	\$4
Non-operating revenue and profits		3,145	99
Total revenue		<u>3,266</u>	<u>103</u>
Expenses	2		
Dealing handling fee expense		(62)	(2)
Clearing and settlement fees	2, 9	(24)	(1)
Loss from options transactions		(8)	0
Operating expenses		<u>(3,402)</u>	<u>(107)</u>
Total expenses		<u>(3,496)</u>	<u>(110)</u>
Loss before income taxes		(230)	(7)
Income tax	2	<u>(630)</u>	<u>(20)</u>
Net loss		<u><u>\$(860)</u></u>	<u><u>\$(27)</u></u>

(The exchange rate of June 30, 2005 provided by the Federal Reserve Bank of New York was NT\$31.64 to US\$1.00)

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



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

**Cathay Securities Corporation -**

**Futures Department**

**Notes to financial statements**

**As of June 30, 2005**

**(Expressed in thousands of 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, ROC 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) Margin for futures trading - own funds

The margin and premium resulting from trading futures and options are recorded as “margin for futures trading - own funds”. The profit or loss from the trading or valuation of futures and options is recorded as “gain (loss) from futures transactions” or “gain (loss) from options transactions”, and the amount of “margin for futures trading - own funds” is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is divided into realized and unrealized.

#### (4) 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.

#### (5) Call options and put options

Call options and put options are recorded based on option premium. Changes in market values are reflected in “call options”, “put options” and “gain (loss) from options transactions”.

The difference between the market value and the exercise price of options at the exercise date is included in current period earnings. The difference between the settlement price and the average cost of unexercised options at the balance sheet date is included in current period earnings.

#### (6) Assigned working capital

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

#### (7) 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.

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 unappropriated retained earnings returns 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.

### 3. Changes in accounting and its effects

None.

### 4. Summary of significant accounts

#### (1) Cash and cash equivalents

Item	June 30, 2005	
	NT\$	US\$
Savings accounts	\$611	\$19
Time deposits	578,000	18,268
Total	<u>\$578,611</u>	<u>\$18,287</u>
Annual interest rate of time deposits	<u>1.1%-1.2%</u>	<u>1.1%-1.2%</u>

As of June 30, 2005, 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\$316) as of June 30, 2005.

### 5. Related party transactions

#### (1) Related parties

Name	Relationship
Cathay United Bank Co., Ltd.	Affiliated
Cathay Futures Co., Ltd.	Affiliated

(2) Transactions with related parties

A. Cash in bank

Name	Item	January 1 to June 30, 2005		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Savings accounts	<u>\$611</u>	0.10%	<u>\$3</u>
	Negotiable certificates of deposit	<u>\$578,000</u>	1.1%~1.2%	<u>\$3,141</u>

  

Name	Item	January 1 to June 30, 2005		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Savings accounts	<u>\$19</u>	0.10%	<u>\$-</u>
	Negotiable certificates of deposit	<u>\$18,268</u>	1.1%~1.2%	<u>\$99</u>

B. Clearing and settlement fees, dealing handling fee expense and margin for futures trading - own funds.

Name	January 1 to June 30, 2005							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading-own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$24	\$1	\$26	1	\$22	\$1	\$2,127	\$67

6. Pledged assets

None.

7. Other important matters and contingent liabilities

None.

## 8. Serious damages

None.

## 9. Other important events

### (1) Information related to financial instruments

	June 30, 2005			
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
Non-derivative				
Assets				
Cash and cash equivalents	\$578,611	\$578,611	\$18,287	\$18,287
Other receivables - net	878	878	28	28
Operating deposits	10,000	10,000	316	316
Guarantee deposits paid	1,360	1,360	43	43
Liabilities				
Payables	370	370	11	11
Derivative				
Assets				
Margin for futures trading - own funds	2,127	2,127	67	67
Liabilities				
Put options	14	14	1	1

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, other receivables, operating deposits, guarantee deposits paid and payables.

### (2) Derivative financial instruments:

As of June 30, 2005, the Company's unexercised options were as follows:

Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Options	TXO-Call	Sell	30	\$10	\$-	\$4	\$-
Options	TXO-Put	Sell	70	\$24	\$1	\$10	\$-

A. Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$34(US\$1)	\$-

The Company believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

B. Market risk

As of June 30, 2005, the Company's market risk from futures and options transactions arose from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, the Company believes it can limit its losses to within an expected range. Hence, no significant market risk is expected.

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

As of June 30, 2005, the Company's unexercised options could all be liquidated at reasonable prices in the market. As a result liquidity risk is low.

The Company's trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, the Company has sufficient working capital to meet its requirements, and hence funding risk and cash flow risk are low. With respect to the Company's trading in options, prior to any transaction the Company pays or receives option premium. If the Company sells call options and the counterparty exercises its option, the Company has sufficient working capital to cover the exercise and hence funding risk and cash flow risk are low.

D. Types, purposes, and strategies for financial derivatives

The Company's purpose in trading futures and options is to increase the scope of its investment activities and its capital efficiency.

E. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "margin for futures trading - own funds" on the balance sheet. On June 30, 2005, the account had NT\$2,127 (US\$67). For the six-month period ended June 30, 2005, the related gain/loss of futures and options on the statement of income is as follows:

	For the six-month period ended June 30, 2005	
	(NT\$)	(US\$)
Futures		
Gain on futures contracts	\$121	\$4
Options		
Loss from options transactions	\$8	\$-
(Includes unrealized gains from options transactions of NT\$20 (US\$1))		

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	$\frac{\text{Total capital}}{\text{( Total liabilities less equity of futures customers, reserve for trading losses, and reserve for default losses )}}$	$\frac{\text{NT\$594,661}}{\text{NT\$411}}$	1,447	1	Meets regulatory requirement
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\text{NT\$581,616}}{\text{NT\$384}}$	1,515	1	"
22	$\frac{\text{Total capital}}{\text{Minimum paid-in capital}}$	$\frac{\text{NT\$594,661}}{\text{NT\$400,000}}$	149%	(1) 60% (2) 40%	"
22	$\frac{\text{Adjusted net capital}}{\text{Total margin required for the non-offset position of futures customers}}$	$\frac{\text{NT\$589,719}}{\text{NT\$609}}$	96,834%	(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 leveraged, 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 settle the futures contract 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. Other**

None.