

Cathay Securities Corporation
Financial Statements
Together with
Review report
As of September 30, 2004 and 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 sheets of Cathay Securities Corporation (the “Company”) as of September 30, 2004 and 2005, and the related statements of income, changes in stockholders’ equity, and cash flows from May 12, 2004 to September 30, 2004 and January 1, 2005 to September 30, 2005. 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
October 13, 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 sheets
As of September 30, 2004 and 2005
(Expressed in thousands of dollars)
(The development stage was from May 12, 2004 to August 12, 2004)

| ASSETS | NOTES | September 30, 2004 | | September 30, 2005 | |
|---|---------|--------------------|------------------|--------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | | | | | |
| Cash and cash equivalents | 2,5(1) | \$1,706,470 | \$50,205 | \$1,550,942 | \$46,743 |
| Short-term investments - net | 2,5(2) | 734,000 | 21,595 | 725,027 | 21,851 |
| Investments in bonds with resale agreements | 2,5(3) | 70,000 | 2,059 | 532,067 | 16,036 |
| Operating securities - dealing | 2,5(4) | 23,985 | 706 | 260,488 | 7,851 |
| Allowance for valuation loss on operating securities - dealing | 2,5(4) | (156) | (5) | (763) | (23) |
| Operating securities - stock warrants | 2 | 763 | 22 | - | - |
| Allowance for valuation loss on operating securities - stock warrants | 2 | (125) | (4) | - | - |
| Operating securities - hedging | 2,5(5) | - | - | 32,613 | 983 |
| Allowance for valuation loss on operating securities - hedging | 2,5(5) | - | - | (1,006) | (30) |
| Call options | 2,11 | - | - | 25 | 1 |
| Receivable amount for margin loans | 2,5(6) | 282,151 | 8,301 | - | - |
| Securities refinancing margin deposits | | 715 | 21 | - | - |
| Margin for futures trading - own funds | 2,11 | - | - | 31,100 | 937 |
| Derivative financial instrument assets - GreTai (over-the-counter) | 2,11 | - | - | 5,505 | 166 |
| Accounts receivable - net | | 754 | 22 | 2,724 | 82 |
| Accounts receivable - related parties - net | 6 | - | - | 158,000 | 4,762 |
| Prepayments | | 8,816 | 259 | 1,110 | 34 |
| Other receivables - net | | 8,582 | 253 | 3,722 | 112 |
| Restricted assets - current | 7 | 500,000 | 14,710 | 1,300,000 | 39,180 |
| Deferred income tax assets - current | 2,5(16) | 3,675 | 108 | - | - |
| Other current assets | | 10 | - | 1,427 | 43 |
| Total current assets | | <u>3,339,640</u> | <u>98,252</u> | <u>4,602,981</u> | <u>138,728</u> |
| Funds and long-term investments | | | | | |
| Long-term investments in stocks | 2,5(7) | | | | |
| Long-term investment under cost method | | 18 | 1 | 18 | 1 |
| Total funds and long-term investments | | <u>18</u> | <u>1</u> | <u>18</u> | <u>1</u> |
| Property and equipment | | | | | |
| Equipment | 2,5(8) | 11,507 | 339 | 78,724 | 2,372 |
| Prepayment for equipment | | - | - | 9,283 | 280 |
| Leasehold improvement | | 2,046 | 60 | 25,593 | 771 |
| Less: Accumulated depreciation | | (374) | (11) | (13,488) | (406) |
| Net property and equipment | | <u>13,179</u> | <u>388</u> | <u>100,112</u> | <u>3,017</u> |
| Intangible assets | | | | | |
| Deferred pension cost | 2 | - | - | 1,552 | 47 |
| Total intangible assets | | <u>-</u> | <u>-</u> | <u>1,552</u> | <u>47</u> |
| Other assets | | | | | |
| Operating deposits | 5(9) | 150,098 | 4,416 | 150,098 | 4,524 |
| Settlement and clearance funds | 5(10) | 64,000 | 1,883 | 37,435 | 1,128 |
| Guarantee deposits paid | | 8,839 | 260 | 21,560 | 650 |
| Deferred debits | | 2,060 | 61 | 14,722 | 444 |
| Deferred income tax assets - noncurrent | 2,5(16) | - | - | 1,347 | 40 |
| Total other assets | | <u>224,997</u> | <u>6,620</u> | <u>225,162</u> | <u>6,786</u> |
| Securities brokerage debit accounts - net | 5(11) | 11,544 | 340 | 3,427 | 103 |
| Total assets | | <u>\$3,589,378</u> | <u>\$105,601</u> | <u>\$4,933,252</u> | <u>\$148,682</u> |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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
Unaudited balance sheets
As of September 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 | September 30, 2004 | | September 30, 2005 | |
|---|---------|--------------------|------------------|--------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current liabilities | | | | | |
| Bonds sold under repurchase agreements | 2,5(12) | \$70,000 | \$2,059 | \$796,707 | \$24,012 |
| Put options | 2, 11 | - | - | 177 | 5 |
| Securities financing guarantee deposits-in | | 9,314 | 274 | - | - |
| Deposit payable for securities financing | | 10,298 | 303 | - | - |
| Derivative financial instrument liabilities - GreTai (over-the-counter) | 2, 11 | - | - | 51,105 | 1,540 |
| Notes payable - related parties | 6 | 7,865 | 231 | - | - |
| Accounts payable | | 2,810 | 83 | 1,790 | 54 |
| Receipts under custody | | 1,310 | 39 | 3,469 | 105 |
| Other payables | | 1,215 | 36 | 18,536 | 559 |
| Other payables - related parties | 6 | - | - | 19,437 | 586 |
| Deferred income tax liabilities - current | 2,5(16) | - | - | 5 | - |
| Other current liabilities | | 30 | 1 | 105 | 3 |
| Total current liabilities | | <u>102,842</u> | <u>3,026</u> | <u>891,331</u> | <u>26,864</u> |
| Other liabilities | | | | | |
| Reserve for default losses | 2 | 577 | 17 | 5,390 | 163 |
| Reserve for trading losses | 2 | 8 | - | 52 | 2 |
| Guarantee deposits-in | | - | - | 1,638 | 49 |
| Accrued pension liability | 2 | - | - | 3,235 | 97 |
| Total other liabilities | | <u>585</u> | <u>17</u> | <u>10,315</u> | <u>311</u> |
| Total liabilities | | <u>103,427</u> | <u>3,043</u> | <u>901,646</u> | <u>27,175</u> |
| Stockholders' equity | | | | | |
| Capital stock | | | | | |
| Common stock | 5(13) | 3,500,000 | 102,971 | 3,700,000 | 111,513 |
| Capital surplus | 5(14) | - | - | 258,434 | 7,789 |
| Retained earnings | | | | | |
| Unappropriated retained earnings (Accumulated deficit) | 5(15) | (14,049) | (413) | 73,172 | 2,205 |
| Total stockholders' equity | | <u>3,485,951</u> | <u>102,558</u> | <u>4,031,606</u> | <u>121,507</u> |
| Total liabilities and stockholders' equity | | <u>\$3,589,378</u> | <u>\$105,601</u> | <u>\$4,933,252</u> | <u>\$148,682</u> |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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
Unaudited statements of income
From May 12 to September 30, 2004 and January 1 to September 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 - September 30, 2004 | | January 1 - September 30, 2005 | |
|---|---------|-----------------------------|------------------|--------------------------------|----------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Revenue | 2 | | | | |
| Brokerage commissions | | \$17,939 | \$528 | \$116,572 | \$3,513 |
| Revenue from underwriting commissions | | \$ - | \$ - | \$158,761 | \$4,785 |
| Profit from trading securities - dealing | | 37 | 1 | - | - |
| Profit from trading securities - stock warrants | | 41 | 1 | 2 | - |
| Profit from trading securities - hedging | | - | - | 1,345 | 41 |
| Interest revenue | | 2,518 | 74 | 10,493 | 316 |
| Dividend revenue | | - | - | 423 | 13 |
| Brokerage commissions for introducing futures contracts | | 367 | 11 | 1,331 | 40 |
| Gain on futures contracts | | - | - | 345 | 10 |
| Gain from options transactions | | - | - | 279 | 8 |
| Revenue from derivative financial instruments - GreTai (over-the-counter) | 2,11 | - | - | 5,828 | 176 |
| Other operating revenue | | 15 | - | 1,410 | 42 |
| Non-operating revenue and profits | 3 | 8,697 | 256 | 27,901 | 841 |
| Subtotal | | <u>29,614</u> | <u>871</u> | <u>324,690</u> | <u>9,785</u> |
| Expenses | 2 | | | | |
| Brokerage securities transaction charges | | (1,340) | (39) | (8,829) | (266) |
| Dealing securities transaction charges | | (2) | - | (643) | (19) |
| Refinancing transaction fees | | (1) | - | - | - |
| Underwriting transaction fees | | - | - | (10) | - |
| Loss from trading securities - dealing | | - | - | (4,555) | (137) |
| Interest expense | | (21) | - | (6,570) | (198) |
| Loss from decline in price of operating securities | | (281) | (9) | (889) | (27) |
| Clearing and settlement fees | | - | - | (48) | (2) |
| Operating expenses | | (44,483) | (1,309) | (195,357) | (5,888) |
| Non-operating expenses and losses | | (107) | (3) | (2,229) | (67) |
| Subtotal | | <u>(46,235)</u> | <u>(1,360)</u> | <u>(219,130)</u> | <u>(6,604)</u> |
| Income (loss) from continuing operations before income taxes | | (16,621) | (489) | 105,560 | 3,181 |
| Income tax (expense) benefit | 2,5(16) | 2,572 | 76 | (32,388) | (976) |
| Net income (loss) from continuing operations | | <u>\$(14,049)</u> | <u>\$(413)</u> | <u>\$73,172</u> | <u>\$2,205</u> |
| Net income (loss) | | <u>\$(14,049)</u> | <u>\$(413)</u> | <u>\$73,172</u> | <u>\$2,205</u> |
| Earnings per share (in dollars) | 2,5(18) | | | | |
| Income (loss) before income taxes | | <u>\$(0.05)</u> | <u>\$(0.001)</u> | <u>\$0.30</u> | <u>\$0.01</u> |
| Net income (loss) | | <u>\$(0.04)</u> | <u>\$(0.001)</u> | <u>\$0.20</u> | <u>\$0.01</u> |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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

Unaudited statements of changes in stockholders' equity

From May 12 to September 30, 2004 and January 1 to September 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 | \$102,971 | \$ - | \$ - | \$- | \$- | \$3,500,000 | \$102,971 |
| Net loss from May 12 to September 30, 2004 | - | - | - | - | (14,049) | (413) | (14,049) | (413) |
| Balance on September 30, 2004 | <u>\$3,500,000</u> | <u>\$102,971</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$(14,049)</u> | <u>\$(413)</u> | <u>\$3,485,951</u> | <u>\$102,558</u> |
| Balance on January 1, 2005 | \$3,500,000 | \$105,485 | \$ - | \$ - | \$(41,566) | \$(1,253) | \$3,458,434 | \$104,232 |
| Capital increase from cash contribution | 200,000 | 6,028 | 300,000 | 9,042 | - | - | 500,000 | 15,070 |
| Make up accumulated deficit by capital surplus | - | - | (41,566) | (1,253) | 41,566 | 1,253 | - | - |
| Net income from January 1 to September 30, 2005 | - | - | - | - | 73,172 | 2,205 | 73,172 | 2,205 |
| Balance on September 30, 2005 | <u>\$3,700,000</u> | <u>\$111,513</u> | <u>\$258,434</u> | <u>\$7,789</u> | <u>\$73,172</u> | <u>\$2,205</u> | <u>\$4,031,606</u> | <u>\$121,507</u> |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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
Unaudited statements of cash flows
From May 12 to September 30, 2004 and January 1 to September 30, 2005
(Expressed in thousands of dollars)
(The development stage was from May 12, 2004 to August 12, 2004)

| ITEMS | May 12 - September 30, 2004 | | January 1 - September 30, 2005 | |
|--|-----------------------------|----------|--------------------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from operating activities | | | | |
| Net income (loss) | \$ (14,049) | \$ (413) | \$ 73,172 | \$ 2,205 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 374 | 11 | 12,814 | 386 |
| Amortization | 87 | 3 | 4,332 | 131 |
| Gain on disposal of short-term investments | - | - | (4,860) | (146) |
| Reserve for trading losses | 8 | - | - | - |
| Reserve for default losses | 577 | 17 | 3,805 | 115 |
| Loss on disposal of property and equipment | - | - | 1,779 | 54 |
| Loss on obsolescence of property and equipment | 107 | 3 | - | - |
| Loss on valuation for operating securities | 281 | 9 | 889 | 27 |
| Recoveries on reserve for trading losses | - | - | (71) | (2) |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in investments in bonds with resale agreements | (70,000) | (2,059) | 140,619 | 4,238 |
| Increase in operating securities - dealing | (23,985) | (706) | (133,746) | (4,031) |
| (Increase) decrease in operating securities - stock warrants | (763) | (22) | 12 | - |
| Decrease in operating securities - hedging | - | - | 136,680 | 4,119 |
| Increase in call options | - | - | (25) | (1) |
| (Increase) decrease in receivable amount for margin loans | (282,151) | (8,301) | 189,445 | 5,710 |
| (Increase) decrease in securities refinancing margin deposits | (715) | (21) | 687 | 21 |
| Increase in margin for futures trading - own funds | - | - | (31,100) | (937) |
| Increase in derivative financial instrument assets - GreTai (over-the-counter) | - | - | (5,505) | (166) |
| (Increase) decrease in accounts receivable | (754) | (22) | 6,258 | 189 |
| Increase in accounts receivable - related parties | - | - | (158,000) | (4,762) |
| Increase in prepayments | (8,816) | (259) | (269) | (8) |
| (Increase) decrease in other receivables | (8,582) | (253) | 6,505 | 196 |
| Decrease in other receivables - related parties | - | - | 2,569 | 77 |
| (Increase) decrease in deferred income tax assets - current | (3,675) | (109) | 9,035 | 272 |
| Decrease in deferred losses on financial instruments | - | - | 1,203 | 36 |
| Increase in other current assets | (10) | - | (626) | (19) |
| Increase in deferred income tax assets - noncurrent | - | - | (951) | (29) |
| Decrease in deferred pension cost | - | - | 127 | 4 |
| (Increase) decrease in securities brokerage debit accounts - net | (11,544) | (340) | 68 | 2 |
| Increase in bonds sold under repurchase agreements | 70,000 | 2,059 | 20,380 | 614 |
| Increase in put options | - | - | 177 | 5 |
| Increase (decrease) in securities financing guarantee deposits-in | 9,314 | 274 | (743) | (22) |
| Increase (decrease) in deposit payable for securities financing | 10,298 | 303 | (822) | (25) |
| Decrease in derivative financial instrument liabilities - GreTai (over-the-counter) | - | - | (175,181) | (5,280) |
| Increase notes payable - related parties | 7,865 | 231 | - | - |
| Increase (decrease) in accounts payable | 2,810 | 83 | (2,040) | (61) |
| Decrease in accounts collected in advance | - | - | (175) | (5) |
| Increase in receipts under custody | 1,310 | 39 | 1,535 | 46 |
| Increase in other payables | 1,215 | 36 | 10,501 | 316 |
| Increase in other payables - related parties | - | - | 19,437 | 586 |
| Increase in deferred income tax liabilities - current | - | - | 5 | - |
| Increase in other current liabilities | 30 | 1 | 65 | 2 |
| Increase in accrued pension liability | - | - | 1,424 | 43 |
| Net cash provided by (used in) operating activities | (320,768) | (9,436) | 129,409 | 3,900 |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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
Unaudited statements of cash flows
From May 12 to September 30, 2004 and January 1 to September 30, 2005
(Expressed in thousands of dollars)
(The development stage was from May 12, 2004 to August 12, 2004)

| ITEMS | May 12 - September 30, 2004 | | January 1 - September 30, 2005 | |
|---|-----------------------------|-----------------|--------------------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from investing activities | | | | |
| Increase in short-term investments | (734,000) | (21,595) | (70,167) | (2,115) |
| Increase in restricted assets - current | (500,000) | (14,710) | (800,000) | (24,111) |
| Acquisition of long-term investments in stocks | (18) | (1) | - | - |
| Acquisition of property and equipment | (13,660) | (402) | (79,684) | (2,402) |
| Disposal of property and equipment | - | - | 852 | 26 |
| Increase in operating deposits | (150,098) | (4,416) | - | - |
| (Increase) decrease in settlement and clearance funds | (64,000) | (1,883) | 27,674 | 834 |
| Increase in guarantee deposits paid | (8,839) | (260) | (1,631) | (49) |
| Increase in deferred debits | (2,147) | (63) | (14,609) | (440) |
| Net cash used in investing activities | <u>(1,472,762)</u> | <u>(43,330)</u> | <u>(937,565)</u> | <u>(28,257)</u> |
| Cash flows from financing activities | | | | |
| Increase in guarantee deposits-in | - | - | 1,475 | 44 |
| Capital increase from cash contribution | <u>3,500,000</u> | <u>102,971</u> | <u>500,000</u> | <u>15,070</u> |
| Net cash provided by financing activities | <u>3,500,000</u> | <u>102,971</u> | <u>501,475</u> | <u>15,114</u> |
| Increase (decrease) in cash and cash equivalents | 1,706,470 | 50,205 | (306,681) | (9,243) |
| Cash and cash equivalents at the beginning of period | <u>-</u> | <u>-</u> | <u>1,857,623</u> | <u>55,986</u> |
| Cash and cash equivalents at the end of period | <u>\$1,706,470</u> | <u>\$50,205</u> | <u>\$1,550,942</u> | <u>\$46,743</u> |
| Supplemental disclosure of cash flows information | | | | |
| Interest paid during period | <u>\$15</u> | <u>\$ -</u> | <u>\$6,432</u> | <u>\$194</u> |
| Interest paid (excluding capitalized interest) | <u>\$15</u> | <u>\$ -</u> | <u>\$6,432</u> | <u>\$194</u> |
| Income tax paid | <u>\$1,385</u> | <u>\$41</u> | <u>\$4,496</u> | <u>\$136</u> |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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 unaudited financial statements

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

As of September 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 dealing, brokerage and underwriting, margin lending and securities lending, dealing and 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 September 30, 2004 and 2005, the Company had 90 and 148 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 unaudited financial statements (continued)

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

As of September 30, 2004 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 revenue or interest expense.

(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 unaudited financial statements (continued)

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

As of September 30, 2004 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) on futures contracts” 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 not 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.

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(9) Property and equipment

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

(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.

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

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

(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 has established a retirement plan and reserved for a retirement fund in an amount equal to 2% of total regular salaries and wages paid. Starting from 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.

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The Labor Pension Act of the ROC (“the Act”), which adopted a defined contribution scheme, took effect on 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.

(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\$6,028) 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\$6,028). 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.

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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 or interest 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.

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 or interest 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.

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In accordance with Article 49 of the 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.

(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\$33.99 and NT\$33.18 to US\$1.00 effective on September 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.

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3. Revenue and expenses during the development stage

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

4. Changes in accounting and its effects

None

5. Breakdown of significant accounts

(1) Cash and cash equivalents

| Item | September 30, 2004 | | September 30, 2005 | |
|---------------------------------------|--------------------|-------------|--------------------|-------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash on hand | \$90 | \$3 | \$100 | \$3 |
| Savings accounts | 886,356 | 26,077 | 23,152 | 698 |
| Checking accounts | 30,024 | 883 | 1,346 | 40 |
| Time deposits | 790,000 | 23,242 | 1,526,344 | 46,002 |
| Total | \$1,706,470 | \$50,205 | \$1,550,942 | \$46,743 |
| Annual interest rate of time deposits | 0.65%-0.90% | 0.65%-0.90% | 0.95%-1.35% | 0.95%-1.35% |

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

(2) Short-term investments - net

| Item | September 30, 2004 | | September 30, 2005 | |
|--|--------------------|----------|--------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Open-end funds | \$734,000 | \$21,595 | \$725,027 | \$21,851 |
| Less: allowance for decline in market value | - | - | - | - |
| Net | \$734,000 | \$21,595 | \$725,027 | \$21,851 |

As of September 30, 2004 and 2005, none of the short-term investments were pledged to other parties.

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(3) Investments in bonds with resale agreements

| Item | September 30, 2004 | | September 30, 2005 | |
|---------------------------------------|--------------------|---------|--------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Central government construction bonds | \$70,000 | \$2,059 | \$532,067 | \$16,036 |

As of September 30, 2004 and 2005, investments in bonds with resale agreements were due within one year with annual interest rates ranging between 0.975%-1.000% and 1.250%-1.360%, respectively. These bonds were made available for resale at an agreed aggregate amount of NT\$70,013 (US\$2,060) and NT\$532,290 (US\$16,042) between October 4 - October 6, 2004 and October 4 - October 7, 2005, respectively.

(4) Operating securities - dealing

| Item | September 30, 2004 | | September 30, 2005 | |
|--|--------------------|-------|--------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$2,926 | \$86 | \$- | \$- |
| GreTai (Over-the-counter) (OTC) stocks | 1,826 | 54 | - | - |
| Central government construction bonds | - | - | 258,103 | 7,779 |
| OTC convertible corporate bonds | 19,233 | 566 | 2,385 | 72 |
| Subtotal | 23,985 | 706 | 260,488 | 7,851 |
| Less: Allowance for valuation loss on operating securities – dealing | (156) | (5) | (763) | (23) |
| Net operating securities – dealing | \$23,829 | \$701 | \$259,725 | \$7,828 |

As of September 30, 2004 and 2005, none of the operating securities were pledged to other parties.

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(5) Operating securities - hedging

| Item | September 30, 2004 | | September 30, 2005 | |
|--|--------------------|------|--------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$- | \$- | \$29,990 | \$904 |
| GreTai (Over-the-counter) (OTC) stocks | - | - | 2,623 | 79 |
| Subtotal | - | - | 32,613 | 983 |
| Less: Allowance for valuation loss on operating securities – hedging | - | - | (1,006) | (30) |
| Net operating securities – hedging | \$- | \$- | \$31,607 | \$953 |

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

(6) Receivable amount for margin loans

| Item | September 30, 2004 | | September 30, 2005 | |
|------------------------------------|--------------------|---------|--------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Receivable amount for margin loans | \$282,151 | \$8,301 | \$- | \$- |
| Less: Allowance for bad debts | - | - | - | - |
| Net | \$282,151 | \$8,301 | \$- | \$- |

A. From May 12 to September 30, 2004, receivable amount for margin loans had an annual interest rate of 6.25%.

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

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(7) Long-term investments in stocks

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

As of September 30, 2004 and 2005, none of the long-term investments in stocks were pledged to other parties.

(8) Property and equipment

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

| Item | September 30, 2005 | | | | | |
|--------------------------|--------------------|----------------|--------------------------|--------------|------------------|----------------|
| | Cost | | Accumulated depreciation | | Carrying amount | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Computer equipment | \$63,088 | \$1,901 | \$9,497 | \$286 | \$53,591 | \$1,615 |
| Office equipment | 13,246 | 399 | 1,267 | 38 | 11,979 | 361 |
| Transportation equipment | 2,390 | 72 | 457 | 14 | 1,933 | 58 |
| Leasehold improvement | 25,593 | 771 | 2,267 | 68 | 23,326 | 703 |
| Prepayment for equipment | 9,283 | 280 | - | - | 9,283 | 280 |
| Total | <u>\$113,600</u> | <u>\$3,423</u> | <u>\$13,488</u> | <u>\$406</u> | <u>\$100,112</u> | <u>\$3,017</u> |

A. As of September 30, 2004 and 2005, none of the property and equipment were pledged to other parties.

B. As of September 30, 2005, the insurance coverage for property and equipment amounted to NT\$63,315 (US\$1,908).

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(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\$4,416) and NT\$150,098 (US\$4,524) as of September 30, 2004 and 2005, respectively.

(10) Settlement and clearance funds

As stipulated in the Rules Governing Securities Firms and OTC regulations, the Company deposited NT\$64,000 (US\$1,883) and NT\$37,435 (US\$1,128) in settlement and clearance funds as of September 30, 2004 and 2005, respectively.

(11) Securities brokerage debit accounts - net

| Item | September 30, 2004 | | September 30, 2005 | |
|------------------------------------|--------------------|--------|--------------------|--------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Debit balance: | | | | |
| Cash and cash equivalents – | | | | |
| settlement amount | \$- | \$- | \$28 | \$1 |
| Proceeds receivable from investors | 192,581 | 5,666 | 341,244 | 10,285 |
| Accounts receivable – brokering | 73,589 | 2,165 | 139,922 | 4,217 |
| Debit transaction | 5,299 | 156 | 23,677 | 713 |
| Clearance | 140,125 | 4,123 | 133,485 | 4,023 |
| Subtotal | 411,594 | 12,110 | 638,356 | 19,239 |
| Credit balance: | | | | |
| Proceeds payable to investors | 326,533 | 9,607 | 314,269 | 9,472 |
| Accounts payable – brokering | 73,517 | 2,163 | 320,660 | 9,664 |
| Subtotal | 400,050 | 11,770 | 634,929 | 19,136 |
| Net | \$11,544 | \$340 | \$3,427 | \$103 |

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(12) Bonds sold under repurchase agreements

| Item | September 30, 2004 | | September 30, 2005 | |
|--|--------------------|---------|--------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Central government construction bonds | \$70,000 | \$2,059 | \$796,707 | \$24,012 |

As of September 30, 2004 and 2005, bonds sold under repurchase agreements were due within one year with annual interest rates ranging between 0.90%-0.95% and 1.25%-1.37%, respectively. These bonds were made available for repurchase at an agreed aggregate amount of NT\$70,012 (US\$2,060) and NT\$796,869 (US\$24,017) between October 4 – October 6, 2004 and October 3 – October 7, 2005, respectively.

(13) Capital Stock

- A. As of September 30, 2004 and 2005, the Company's total authorized shares were 350,000,000 and 370,000,000, respectively with a par value of NT\$10 per share.
- B. On February 2, 2005, the Company's board of directors resolved to increase its capital by NT\$500,000 (US\$15,070) by issuing 20,000,000 common shares at NT\$25 per share. After this capital increase, the Company's total capital increased to NT\$3,700,000 (US\$111,513).

The Company's aforementioned increase in capital was approved by the relevant governmental regulatory authority.

(14) Capital surplus

- A. 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 offset such losses.

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- B. On August 3, 2005, the Company's board of directors resolved to use capital surplus of NT\$41,566 (US\$1,253) to offset its accumulated deficits.

(15) Retained earnings

- A. According to the Company Law and the Company's articles of incorporation, 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.
- 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 September 30, 2004 and January 1 to September 30, 2005, are as follows:

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| Item | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|--|------------------------------|---------|---------------------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Income (loss) before income taxes | \$(16,621) | \$(489) | \$105,560 | \$3,181 |
| Adjustments: | | | | |
| Interest income taxed on a separate basis | (5,759) | (169) | (19,543) | (589) |
| Gain on disposal of short-term investments | - | - | (4,860) | (146) |
| Adjusted revenue and expense from dealing departments | 7,680 | 226 | 32,789 | 988 |
| Loss on default | 577 | 17 | 3,805 | 115 |
| Loss carryforwards | - | - | (36,158) | (1,090) |
| Taxable income | (14,123) | (415) | 81,593 | 2,459 |
| Times: tax rates; less: progressive difference | 25% | 25% | 25%-10 | 25% |
| Subtotal | - | - | 20,388 | 614 |
| Add: Extra 10% income tax on unappropriated retained earnings | - | - | - | - |
| Less: Tax effects under integrated income tax system | - | - | - | - |
| Subtotal | - | - | 20,388 | 614 |
| Tax on a separate basis | 1,103 | 32 | 3,911 | 118 |
| Deferred tax benefit | (3,675) | (108) | 8,089 | 244 |
| Total income tax expense (benefit) | \$(2,572) | \$(76) | \$32,388 | \$976 |

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

| | September 30, 2004 | | September 30, 2005 | |
|---|--------------------|-------|--------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| a. Total deferred income tax assets | \$3,675 | \$108 | \$1,347 | \$40 |
| b. Total deferred income tax liabilities | \$- | \$- | \$5 | \$- |
| c. Temporary differences: | | | | |
| Loss on default | \$577 | \$17 | \$5,390 | \$162 |
| Unrealized gains from financial derivatives | - | - | (18) | (1) |
| Loss carryforwards | 14,123 | 415 | - | - |

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| | | | | |
|--|----------------|--------------|----------------|-------------|
| d. Deferred income tax assets – current | \$3,675 | \$108 | \$- | \$- |
| Deferred income tax liabilities – current | - | - | (5) | - |
| Net offset balance of deferred income tax assets (liabilities) – current | <u>\$3,675</u> | <u>\$108</u> | <u>\$(5)</u> | <u>\$-</u> |
| Deferred income tax assets – noncurrent | \$- | \$- | \$1,347 | \$40 |
| Deferred income tax liabilities – noncurrent | - | - | - | - |
| Net balance of deferred income tax assets – noncurrent | <u>\$-</u> | <u>\$-</u> | <u>\$1,347</u> | <u>\$40</u> |

C. Information related to tax imputation:

| | <u>September 30, 2004</u> | | <u>September 30, 2005</u> | |
|--------------------------------------|---------------------------|-------------|---------------------------|--------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance of imputation credit account | <u>\$1,103</u> | <u>\$32</u> | <u>\$4,839</u> | <u>\$146</u> |
| | <u>September 30, 2004</u> | | <u>September 30, 2005</u> | |
| Imputation credit account ratio | - | | - | |

D. Related information on undistributed earnings:

| | <u>September 30, 2004</u> | | <u>September 30, 2005</u> | |
|---------------|---------------------------|------------|---------------------------|------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Prior to 1997 | \$- | \$- | \$- | \$- |
| After 1998 | - | - | - | - |
| Total | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> |

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

E. The Company's income tax returns of 2004 have not been cleared yet.

(17) Personnel, depreciation, depletion and amortization

The Company's personnel, depreciation, depletion and amortization expenses from

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May 12 to September 30, 2004 and January 1 to September 30, 2005 are summarized as follows:

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

| Item | January 1 to September 30, 2005 | | | January 1 to September 30, 2005 | | |
|-----------------------------------|---------------------------------|--------------------|----------|---------------------------------|--------------------|---------|
| | (NT\$) | | | (US\$) | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$- | \$95,250 | \$95,250 | \$- | \$2,871 | \$2,871 |
| Labor & health insurance expenses | - | 5,407 | 5,407 | - | 163 | 163 |
| Pension expenses | - | 3,107 | 3,107 | - | 94 | 94 |
| Other expenses | - | 4,016 | 4,016 | - | 121 | 121 |
| Depreciation | - | 12,814 | 12,814 | - | 386 | 386 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 4,332 | 4,332 | - | 131 | 131 |

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(18) Earnings per share

| | May 12 to September 30, | | January 1 to September 30, | |
|--|-------------------------|-------------|----------------------------|-------------|
| | 2004 | | 2005 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income (loss) from continuing operations before income taxes (A) | \$(16,621) | \$(489) | \$105,560 | \$3,181 |
| Net income (loss) (B) | \$(14,049) | \$(413) | \$73,172 | \$2,205 |
| 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 | 357,545,788 | 357,545,788 |
| Earnings per share before income tax (A)/(C) (dollars) | \$(0.05) | \$(0.001) | \$0.30 | \$0.01 |
| Earnings per share after income tax (B)/(C) (dollars) | \$(0.04) | \$(0.001) | \$0.20 | \$0.01 |

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 |

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(2) Transactions with related parties

A. Cash in bank

| | | May 12 to September 30, 2004 | | |
|---------------------------------|--|------------------------------|---------------|--------------------|
| Name | Item | Ending balance | Interest rate | Interest income |
| | | NT\$ | | |
| Cathay United Bank Co., Ltd. | Savings accounts | \$886,307 | 0.10% | \$324 |
| | Checking accounts | \$30,024 | - | \$- |
| | Time deposits | \$690,000 | 0.65% | \$2,435 |
| | Negotiable certificates of deposit | \$600,000 | 0.85%-0.90% | \$5,759 |

| | | May 12 to September 30, 2004 | | |
|---------------------------------|--|------------------------------|---------------|--------------------|
| Name | Item | Ending balance | Interest rate | Interest income |
| | | US\$ | | |
| Cathay United Bank Co., Ltd. | Savings accounts | \$26,076 | 0.10% | \$10 |
| | Checking accounts | \$883 | - | \$- |
| | Time deposits | \$20,300 | 0.65% | \$72 |
| | Negotiable certificates of deposit | \$17,652 | 0.85%-0.90% | \$169 |

| | | January 1 to September 30, 2005 | | |
|---------------------------------|--|---------------------------------|---------------|--------------------|
| Name | Item | Ending balance | Interest rate | Interest income |
| | | NT\$ | | |
| Cathay United Bank Co., Ltd. | Savings accounts | \$22,045 | 0.1% | \$58 |
| | Checking accounts | \$1,346 | - | \$- |
| | Time deposits | \$12,000 | 0.95%-1.36% | \$226 |
| | Negotiable certificates of deposit | \$2,675,000 | 0.85%-1.32% | \$19,574 |

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| Name | Item | January 1 to September 30, 2005 | | |
|---------------------------------|------------------------------------|---------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | US\$ | | US\$ |
| Cathay United Bank Co., Ltd. | Savings accounts | \$664 | 0.1% | \$2 |
| | Checking accounts | \$41 | - | \$- |
| | Time deposits | \$362 | 0.95%-1.36% | \$7 |
| | Negotiable certificates of deposit | \$80,621 | 0.85%-1.32% | \$590 |

As of September 30, 2004, except for NT\$500,000 (US\$14,710) pledged as collateral for the over-loaning of settlement accounts and recognized under restricted assets, the remaining time deposits have not been pledged as collateral.

As of September 30, 2005, NT\$12,000 (US\$362) in time deposits reflect premiums for structured notes products and are recognized under guarantee deposits paid.

As of September 30, 2005, except for NT\$1,300,000 (US\$39,180) 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 | | September 30, 2004 | | September 30, 2005 | |
|------------------------------------|--------------|--------------------|------|--------------------|---------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Securities Investment Trust | Cost | \$- | \$- | \$265,000 | \$7,987 |
| Co., Ltd. - Cathay Bond Fund | Market value | \$- | \$- | \$265,765 | \$8,010 |

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C. Bonds sold under repurchase agreements

| Name | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|---|------------------------------|------------------|---------------------------------|------------------|
| | Ending balance | Interest expense | Ending balance | Interest expense |
| | NT\$ | NT\$ | NT\$ | NT\$ |
| Cathay Securities Investment Trust Co., Ltd.-Cathay Bond Fund | \$- | \$- | \$46,000 | \$1,966 |

| Name | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|---|------------------------------|------------------|---------------------------------|------------------|
| | Ending balance | Interest expense | Ending balance | Interest expense |
| | US\$ | US\$ | US\$ | US\$ |
| Cathay Securities Investment Trust Co., Ltd.-Cathay Bond Fund | \$- | \$- | \$1,386 | \$59 |

D. Prepayments

| Name | September 30, 2004 | | September 30, 2005 | |
|------|------------------------------|---------|--------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| | Cathay United Bank Co., Ltd. | \$7,865 | \$231 | \$- |

E. Accounts receivable

| Name | September 30, 2004 | | September 30, 2005 | |
|------|---------------------------------|------|--------------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| | Cathay Life Insurance Co., Ltd. | \$- | \$- | \$158,000 |

F. Notes payable

| Name | September 30, 2004 | | September 30, 2005 | |
|------|------------------------------|---------|--------------------|------|
| | NT\$ | US\$ | NT\$ | US\$ |
| | Cathay United Bank Co., Ltd. | \$7,865 | \$231 | \$- |

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G. Other payables

| Name | September 30, 2004 | | September 30, 2005 | |
|-------------------------------------|--------------------|------|--------------------|-------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Financial Holdings Co., Ltd. | \$- | \$- | \$19,437 | \$586 |

H. Brokerage commissions

| Name | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|--|---------------------------------|-------|------------------------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay United Bank Co., Ltd. | \$717 | \$21 | \$9,171 | \$276 |
| Cathay Life Insurance Co., Ltd. | 8,305 | 245 | 54,594 | 1,645 |
| Cathay Century Insurance Co., Ltd. | 50 | 1 | 690 | 21 |
| Cathay II Venture Capital Co., Ltd. | - | - | 21 | 1 |
| Cathay Pacific Venture Capital Co., Ltd. | - | - | 46 | 1 |
| Total | \$9,072 | \$267 | \$64,522 | \$1,944 |

I. Revenue from underwriting commissions

| Name | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|---------------------------------|---------------------------------|------|------------------------------------|---------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$- | \$- | \$158,000 | \$4,762 |

J. Brokerage commissions for introducing futures contracts

| Name | May 12 to September 30, 2004 | | | | January 1 to September 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. | \$367 | \$11 | \$- | \$- | \$1,331 | \$40 | \$134 | \$4 |

Brokerage commissions receivable at the end of the period are included in accounts receivable.

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

| Name | January 1 to September 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\$ | | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | | |
| Cathay Futures Co., Ltd. | \$48 | \$2 | \$37 | \$1 | \$23 | \$1 | \$31,100 | \$937 | | |

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

L. Rental expenses and guarantee deposits paid

| Name | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|---------------------------------|------------------------------|-------------------------|---------------------------------|-------------------------|
| | Rental expenses | Guarantee deposits paid | Rental expenses | Guarantee deposits paid |
| | NT\$ | NT\$ | NT\$ | NT\$ |
| | NT\$ | NT\$ | NT\$ | NT\$ |
| Cathay United Bank Co., Ltd. | \$1,573 | \$2,334 | \$5,882 | \$3,652 |
| Cathay Life Insurance Co., Ltd. | 2,553 | 3,323 | 11,722 | 3,647 |
| Seaward Leasing Ltd. | - | - | 244 | - |
| Total | \$4,126 | \$5,657 | \$17,848 | \$7,299 |

| Name | May 12 to September 30, 2004 | | January 1 to September 30, 2005 | |
|---------------------------------|------------------------------|-------------------------|---------------------------------|-------------------------|
| | Rental expenses | Guarantee deposits paid | Rental expenses | Guarantee deposits paid |
| | US\$ | US\$ | US\$ | US\$ |
| | US\$ | US\$ | US\$ | US\$ |
| Cathay United Bank Co., Ltd. | \$46 | \$69 | \$177 | \$110 |
| Cathay Life Insurance Co., Ltd. | 75 | 98 | 353 | 110 |
| Seaward Leasing Ltd. | - | - | 7 | - |
| Total | \$121 | \$167 | \$537 | \$220 |

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M. Operating expenses

| Name | Description | May 12 to | | January 1 to | |
|---------------------------------|-----------------|--------------------|------|--------------------|-------|
| | | September 30, 2004 | | September 30, 2005 | |
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | Insurance | \$- | \$- | \$1,034 | \$31 |
| Seaward Card Co., Ltd. | Service expense | - | - | 329 | 10 |
| Symphox Information Co., Ltd | Cable service | - | - | 2,231 | 67 |
| | Other fees | - | - | 991 | 30 |
| Subtotal | | - | - | 3,222 | 97 |
| Total | | \$- | \$- | \$4,585 | \$138 |

7. Pledged assets

| Item | September 30, 2004 | | September 30, 2005 | |
|-----------------------------------|--------------------|----------|--------------------|----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Restricted assets - time deposits | \$500,000 | \$14,710 | \$1,300,000 | \$39,180 |

(1) As of September 30, 2004 and 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\$ |
| October 1, 2005 ~ September 30, 2006 | \$21,009 | \$633 |
| October 1, 2006 ~ September 30, 2007 | 18,446 | 556 |
| October 1, 2007 ~ September 30, 2008 | 4,642 | 140 |
| October 1, 2008 ~ September 30, 2009 | 1,770 | 53 |
| October 1, 2009 ~ September 30, 2010 | 1,770 | 53 |
| Total | \$47,637 | \$1,435 |

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9. Serious damages

None.

10. Subsequent events

None.

11. Other important events

(1) Information related to financial instruments

| | September 30, 2004 | | | |
|---|--------------------|-------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Non-derivative | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$1,706,470 | \$1,706,470 | \$50,205 | \$50,205 |
| Short-term investments – net | 734,000 | 734,140 | 21,595 | 21,599 |
| Investments in bonds with resale agreements | 70,000 | 70,000 | 2,059 | 2,059 |
| Operating securities - net | 24,467 | 24,467 | 720 | 720 |
| Receivable amount for margin loans | 282,151 | 282,151 | 8,301 | 8,301 |
| Securities refinancing margin deposits | 715 | 715 | 21 | 21 |
| Receivables – net | 9,336 | 9,336 | 275 | 275 |
| Restricted assets | 500,000 | 500,000 | 14,710 | 14,710 |
| Long-term investments in stocks | 18 | 18 | 1 | 1 |
| Operating deposits | 150,098 | 150,098 | 4,416 | 4,416 |
| Settlement and clearance funds | 64,000 | 64,000 | 1,883 | 1,883 |
| Guarantee deposits paid | 8,839 | 8,839 | 260 | 260 |
| Liabilities: | | | | |
| Bonds sold under repurchase agreements | 70,000 | 70,000 | 2,059 | 2,059 |
| Securities financing guarantee deposits-in | 9,314 | 9,314 | 274 | 274 |
| Deposit payable for securities financing | 10,298 | 10,298 | 303 | 303 |
| Payables | 11,890 | 11,890 | 350 | 350 |

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Derivative

None

| | September 30, 2005 | | | |
|---|--------------------|-------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | (NT\$) | (NT\$) | (US\$) | (US\$) |
| Non-derivative | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$1,550,942 | \$1,550,942 | \$46,743 | \$46,743 |
| Short-term investments – net | 725,027 | 727,078 | 21,851 | 21,913 |
| Investments in bonds with resale agreements | 532,067 | 532,067 | 16,036 | 16,036 |
| Operating securities – net | 291,332 | 291,332 | 8,781 | 8,781 |
| Receivables – net | 164,446 | 164,446 | 4,956 | 4,956 |
| Restricted assets – current | 1,300,000 | 1,300,000 | 39,180 | 39,180 |
| Long-term investments in stocks | 18 | 18 | 1 | 1 |
| Operating deposits | 150,098 | 150,098 | 4,524 | 4,524 |
| Settlement and clearance funds | 37,435 | 37,435 | 1,128 | 1,128 |
| Guarantee deposits paid | 21,560 | 21,560 | 650 | 650 |
| Liabilities: | | | | |
| Bonds sold under repurchase agreements | 796,707 | 796,707 | 24,012 | 24,012 |
| Payables | 39,763 | 39,763 | 1,199 | 1,199 |

Derivative

Assets:

| | | | | |
|---|--------|--------|-------|-------|
| Call options | 25 | 25 | 1 | 1 |
| Margin for futures trading – own funds | 31,100 | 31,100 | 937 | 937 |
| Derivative financial instrument assets – | | | | |
| GreTai (over-the-counter) | 5,505 | 5,505 | 166 | 166 |
| Liabilities: | | | | |
| Put options | 177 | 177 | 5 | 5 |
| Derivative financial instrument liabilities – | | | | |
| GreTai (over-the-counter) | 51,105 | 51,105 | 1,540 | 1,540 |

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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, securities refinancing margin deposits, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements, securities financing guarantee deposits-in, deposit payable for securities financing and payables.
- b. The fair value of short-term investments, operating securities and long-term investments in stocks are estimated based on market prices or net asset values, if available. If the investment is not traded on the open market, the carrying amount 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 :

| | September 30, 2004 | | September 30, 2005 | |
|-----------------------------|--------------------|-------------|--------------------|-------------|
| | Nominal principal | | Nominal principal | |
| Financial instruments | /contract amount | Credit risk | /contract amount | Credit risk |
| <u>For trading purposes</u> | | | | |
| Equity-linked notes | NT\$- | \$- | NT\$48,200 | \$- |
| | (US\$-) | | (US\$1,453) | |

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 structured notes being issued.

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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.

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

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| Balance sheet | September 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 | \$5,505 | \$166 | \$51,105 | \$1,540 |

| Statement of income | From January 1 to September 30, 2005 | | |
|----------------------------|--|-------|---------------------|
| | Revenue from derivative financial instruments – GreTai (over-the-counter) | | Comments |
| | NT\$ | US\$ | NT\$/US\$ |
| Principal guaranteed notes | \$3,911 | \$118 | Market value method |
| Equity-linked notes | 1,917 | 58 | Market value method |
| Total | \$5,828 | \$176 | |

B. Futures and options transactions

As of September 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 | 375 | \$144 | \$4 | \$100 | \$3 |
| Options | TXO-Put | Sell | 372 | \$170 | \$5 | \$77 | \$2 |
| Options | TXO-Call | Buy | 3 | \$20 | \$1 | \$20 | \$1 |
| Options | TXO-Put | Buy | 3 | \$18 | \$1 | \$5 | \$- |
| Futures | TAIEX futures | Buy | 5 | \$6,102 | \$184 | \$6,095 | \$184 |

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a. Nominal principal or contract amount and credit risk

| | September 30, 2005 | |
|-----------------------------|---------------------------------------|-------------|
| Financial instruments | Nominal principal/ contract amount | Credit risk |
| <u>For trading purposes</u> | | |
| TXO | NT\$352(US\$11) | \$- |
| TAIEX futures | NT\$6,102(US\$184) | \$- |

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 September 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 September 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.

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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 September 30, 2005, the account had NT\$31,100 (US\$937). From January 1 to September 30, 2005, the related gain/loss of futures and options on the statement of income is as follows:

| | From January 1 to September 30, 2005 | |
|--|---|--------|
| | (NT\$) | (US\$) |
| Futures | | |
| Gain on futures contracts | \$345 | \$10 |
| (Includes unrealized gain on futures contracts of NT\$7 (US\$-)) | | |
| Options | | |
| Loss from options transactions | \$279 | \$8 |
| (Includes unrealized gains from options transactions of NT\$124 (US\$3)) | | |

(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\$12,505). 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

① Unaudited balance sheet of futures department:

Cathay Securities Corporation - Futures Department
Unaudited balance sheets
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(Expressed in thousands of dollars)

| Items | September 30, 2004 | | September 30, 2005 | | Items | September 30, 2004 | | September 30, 2005 | |
|---|--------------------|-----------------|--------------------|-----------------|--|--------------------|-----------------|--------------------|-----------------|
| | (NT\$) | (US\$) | (NT\$) | (US\$) | | (NT\$) | (US\$) | (NT\$) | (US\$) |
| Current assets | | | | | Current liabilities | | | | |
| Cash and cash equivalents | \$590,015 | \$17,358 | \$550,437 | \$16,589 | Put options | \$- | \$- | \$177 | \$5 |
| Call options | - | - | 25 | 1 | Accounts payable | - | - | 54 | 2 |
| Margins for futures trading - own funds | - | - | 31,100 | 937 | Other payable | - | - | 495 | 15 |
| Prepayments | 2 | - | - | - | Taxes payable | - | - | 2 | - |
| Other receivables - net | 3 | - | 845 | 26 | Inter-departmental account-credit | 3,634 | 106 | - | - |
| Total current assets | 590,020 | 17,358 | 582,407 | 17,553 | Total current liabilities | 3,634 | 106 | 728 | 22 |
| Property and equipment | | | | | Other liabilities | | | | |
| Equipment | 23 | 1 | 1,455 | 44 | Reserve for trading losses | - | - | 52 | 2 |
| Leasehold improvement | - | - | 861 | 26 | Accrued pension liability - noncurrent | - | - | 39 | 1 |
| Less: Accumulated depreciation | (1) | - | (315) | (9) | Total other liabilities | - | - | 91 | 3 |
| Net property and equipment | 22 | 1 | 2,001 | 61 | Total liabilities | 3,634 | 106 | 819 | 25 |
| Other assets | | | | | Assigned working capital | 600,000 | 17,652 | 600,000 | 18,083 |
| Operating deposits | 10,000 | 294 | 10,000 | 301 | Retained earnings | | | | |
| Guarantee deposits paid | 1,360 | 40 | 1,360 | 41 | Unappropriated retained earnings | (2,232) | (65) | (5,051) | (152) |
| Total other assets | 11,360 | 334 | 11,360 | 342 | Total capital | 597,768 | 17,587 | 594,949 | 17,931 |
| Total assets | \$601,402 | \$17,693 | \$595,768 | \$17,956 | Total liabilities and capital | \$601,402 | \$17,693 | \$595,768 | \$17,956 |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 to US\$1.00, respectively)

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 statements of income
From September 23 to September 30, 2004 and January 1 to September 30, 2005
(Expressed in thousands of dollars)

| Items | From September 23 to September 30, 2004 | | From January 1 to September 30, 2005 | |
|--|---|----------------------|--------------------------------------|----------------------|
| | (NT\$) | (US\$) | (NT\$) | (US\$) |
| Revenue | | | | |
| Gain on futures contracts | \$- | \$- | \$345 | \$10 |
| Gain from options transactions | - | - | 279 | 8 |
| Non-operating revenue and profits | 20 | 1 | 4,855 | 147 |
| Total revenue | <u>20</u> | <u>1</u> | <u>5,479</u> | <u>165</u> |
| Expenses | | | | |
| Dealing securities transaction charges | - | - | (109) | (3) |
| Clearing and settlement fees | - | - | (48) | (2) |
| Operating expenses | (2,252) | (66) | (4,923) | (148) |
| Total expenses | <u>(2,252)</u> | <u>(66)</u> | <u>(5,080)</u> | <u>(153)</u> |
| Income (loss) before income taxes | (2,232) | (65) | 399 | 12 |
| Income tax expense | - | - | (972) | (29) |
| Net loss | <u><u>\$(2,232)</u></u> | <u><u>\$(65)</u></u> | <u><u>\$(573)</u></u> | <u><u>\$(17)</u></u> |

(The exchange rate of September 30, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$33.99 and NT\$33.18 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 unaudited financial statements (continued)

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

As of September 30, 2004 and 2005

- 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 | $\frac{\text{Total capital}}{\text{(Total liabilities less equity of futures customers, reserve for trading losses, and reserve for default losses)}}$ | $\frac{\text{NT\$594,949}}{\text{NT\$767}}$ | 776 | 1 | Meets regulatory requirement |
| 17 | $\frac{\text{Current assets}}{\text{Current liabilities}}$ | $\frac{\text{NT\$582,407}}{\text{NT\$728}}$ | 800 | 1 | " |
| 22 | $\frac{\text{Total capital}}{\text{Minimum paid-in capital}}$ | $\frac{\text{NT\$594,949}}{\text{NT\$400,000}}$ | 149% | (1) 60% (2) 40% | " |
| 22 | $\frac{\text{Adjusted net capital}}{\text{Total margin required for the non-offset position of futures customers}}$ | $\frac{\text{NT\$585,131}}{\text{NT\$3,906}}$ | 14,980% | (1) 20% (2) 15% | " |