

**Cathay Securities Corporation  
Financial Statements  
Together with  
Independent Auditors' Report  
As of December 31, 2004 and 2005**

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English Translation of Report Originally Issued in Chinese

Independent auditors' report

To: Board of Directors  
Cathay Securities Corporation

We have audited the accompanying balance sheets of Cathay Securities Corporation (the "Company") as of December 31, 2004 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows from May 12, 2004 to December 31, 2004 and January 1, 2005 to December 31, 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 December 31, 2004 and 2005, and the results of its operations and their cash flows from May 12, 2004 to December 31, 2004 and January 1, 2005 to December 31, 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  
January 12, 2006

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 sheets  
As of December 31, 2004 and 2005  
(Expressed in thousands of dollars)  
(The development stage was from May 12, 2004 to August 12, 2004)

ASSETS	NOTES	December 31, 2004		December 31, 2005	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,5(1),6	\$1,857,623	\$58,526	\$1,463,108	\$44,607
Short-term investments	2,5(2),6	650,000	20,479	760,000	23,171
Investments in bonds with resale agreements	2,5(3),6	672,686	21,194	-	-
Operating securities - dealing	2,5(4)	126,742	3,993	84,978	2,591
Allowance for valuation loss on operating securities - dealing	2,5(4)	(880)	(28)	(1,211)	(37)
Operating securities - stock warrants		12	-	-	-
Allowance for valuation loss on operating securities - stock warrants		(1)	-	-	-
Operating securities - hedging	2,5(5)	169,293	5,334	40,384	1,231
Allowance for valuation loss on operating securities - hedging	2,5(5)	-	-	(326)	(10)
Receivable amount for margin loans	5(6)	189,445	5,969	-	-
Securities refinancing margin deposits		687	22	-	-
Margin for futures trading - own funds	2,5(7),6,11	-	-	61,813	1,885
Derivative financial instrument assets - GreTai (over-the-counter)	2,11	-	-	5,245	160
Notes receivable - net		-	-	49	1
Accounts receivable - net	5(21)	8,838	278	1,179	36
Accounts receivable-related parties - net	5(21),6	144	5	215	7
Prepayments		840	26	1,087	33
Other receivables - net		10,227	322	4,481	137
Other receivables - related parties - net	6	2,569	81	-	-
Restricted assets - current	7	500,000	15,753	1,300,000	39,634
Deferred income tax assets - current	2, 5(18)	9,035	285	-	-
Deferred losses on financial instruments		1,203	38	-	-
Other current assets		802	25	175	5
Total current assets		<u>4,199,265</u>	<u>132,302</u>	<u>3,721,177</u>	<u>113,451</u>
<b>Funds and long-term investments</b>					
Long-term investments in stocks	2,5(8)				
Long-term investments 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>
<b>Property and equipment</b>	2,5(9),6				
Equipment		27,563	868	82,313	2,509
Prepayment for equipment		-	-	17,339	529
Leasehold improvement		10,046	317	25,593	780
Less: Accumulated depreciation		(1,738)	(55)	(19,465)	(593)
Net property and equipment		<u>35,871</u>	<u>1,130</u>	<u>105,780</u>	<u>3,225</u>
<b>Intangible assets</b>					
Deferred pension cost	2, 5(14)	1,680	53	1,400	42
Total intangible assets		<u>1,680</u>	<u>53</u>	<u>1,400</u>	<u>42</u>
<b>Other assets</b>					
Operating deposits	5(10)	150,098	4,729	215,098	6,558
Settlement and clearance funds	5(11)	65,109	2,051	43,035	1,312
Guarantee deposits paid	6	19,929	628	19,225	586
Deferred debits		4,445	140	17,938	547
Deferred income tax assets - noncurrent	2,5(18)	396	12	2,070	63
Total other assets		<u>239,977</u>	<u>7,560</u>	<u>297,366</u>	<u>9,066</u>
Securities brokerage debit accounts - net	5(12)	3,495	110	8,675	264
<b>Total assets</b>		<u>\$4,480,306</u>	<u>\$141,156</u>	<u>\$4,134,416</u>	<u>\$126,049</u>

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 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 sheets

As of December 31, 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	December 31, 2004		December 31, 2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Bonds sold under repurchase agreements	2,5(13)	\$776,327	\$24,459	\$-	\$-
Put options	2, 11	-	-	133	4
Securities financing guarantee deposits-in		744	23	-	-
Deposit payable for securities financing		822	26	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	2, 11	226,285	7,129	61,163	1,865
Accounts payable		3,830	121	6,911	211
Accounts payable - related parties	6	-	-	42	1
Accounts collected in advance		175	6	5,254	160
Receipts under custody		1,933	61	3,767	115
Other payables		8,035	253	14,685	448
Other payables - related parties	6	-	-	15,031	458
Deferred income tax liabilities - current	2,5(18)	-	-	237	7
Other current liabilities		40	1	121	3
Total current liabilities		<u>1,018,191</u>	<u>32,079</u>	<u>107,344</u>	<u>3,272</u>
Other liabilities					
Reserve for default losses	2	1,585	50	7,095	216
Reserve for trading losses	2	123	4	420	13
Guarantee deposits-in		163	5	1,638	50
Accrued pension liability	2, 5(14)	1,810	57	2,586	79
Total other liabilities		<u>3,681</u>	<u>116</u>	<u>11,739</u>	<u>358</u>
Total liabilities		<u>1,021,872</u>	<u>32,195</u>	<u>119,083</u>	<u>3,630</u>
Stockholders' equity					
Capital stock					
Common stock	5(15)	3,500,000	110,271	3,700,000	112,805
Capital surplus	5(16)	-	-	258,434	7,879
Retained earnings	5(17)				
Unappropriated retained earnings (Accumulated deficit)		(41,566)	(1,310)	56,899	1,735
Total stockholders' equity		<u>3,458,434</u>	<u>108,961</u>	<u>4,015,333</u>	<u>122,419</u>
Total liabilities and stockholders' equity		<u>\$4,480,306</u>	<u>\$141,156</u>	<u>\$4,134,416</u>	<u>\$126,049</u>

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 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

Statements of income

From May 12 to December 31, 2004 and January 1 to December 31, 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 - December 31, 2004		January 1 - December 31, 2005	
		NT\$	US\$	NT\$	US\$
Revenue	2,6				
Brokerage commissions		\$48,658	\$1,533	\$167,687	\$5,112
Revenue from underwriting commissions		-	-	158,761	4,840
Profit from trading securities - dealing		424	13	-	-
Profit from trading securities - stock warrants		-	-	2	-
Profit from trading securities - hedging		2,581	81	1,953	60
Interest revenue		7,537	238	13,091	399
Dividend revenue		-	-	423	13
Brokerage commissions for introducing futures contracts		862	27	1,966	60
Gain on futures contracts	11	-	-	1,110	34
Gain from options transactions	11	-	-	236	7
Gain from derivative financial instruments - GreTai (over-the-counter)	11	132	4	5,215	159
Other operating revenue		141	5	2,089	64
Non-operating revenue and profits		16,186	510	43,006	1,311
Total revenue		<u>76,521</u>	<u>2,411</u>	<u>395,539</u>	<u>12,059</u>
Expenses	2,6				
Brokerage securities transaction charges		(3,677)	(116)	(12,787)	(390)
Dealing securities transaction charges		(105)	(3)	(945)	(29)
Refinancing transaction fees		(4)	-	-	-
Underwriting transaction fees		-	-	(11)	-
Loss from trading securities - dealing		-	-	(3,166)	(96)
Loss from trading securities - stock warrants		(294)	(9)	-	-
Interest expense		(1,211)	(38)	(8,926)	(272)
Loss from trading - RS short covering		-	-	(76)	(2)
Loss from decline in price of operating securities		(881)	(28)	(656)	(20)
Clearing and settlement fees		-	-	(104)	(3)
Loss from derivative financial instruments - GreTai (over the counter)	11	-	-	(860)	(26)
Operating expenses		(119,455)	(3,764)	(279,998)	(8,537)
Non-operating expenses and losses		(107)	(3)	(2,229)	(68)
Total expenses		<u>(125,734)</u>	<u>(3,961)</u>	<u>(309,758)</u>	<u>(9,443)</u>
Income (loss) from continuing operations before income taxes		(49,213)	(1,550)	85,781	2,616
Income tax (expense) benefit	2,5(18)	7,647	240	(28,882)	(881)
Net income (loss) from continuing operations		<u>\$(41,566)</u>	<u>\$(1,310)</u>	<u>\$56,899</u>	<u>\$1,735</u>
Net income (loss)		<u>\$(41,566)</u>	<u>\$(1,310)</u>	<u>\$56,899</u>	<u>\$1,735</u>
Earnings per share (in dollars)	2,5(20)				
Income (loss) before income taxes		<u>\$(0.14)</u>	<u>\$(0.004)</u>	<u>\$0.24</u>	<u>\$0.007</u>
Net income (loss)		<u>\$(0.12)</u>	<u>\$(0.004)</u>	<u>\$0.16</u>	<u>\$0.005</u>

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 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

Statements of changes in stockholders' equity

From May 12 to December 31, 2004 and January 1 to December 31, 2005

(Expressed in thousands of dollars)

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

SUMMARY	Common stock		Capital surplus		Unappropriated retained earnings (Accumulated deficit)		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Incorporated on May 12, 2004	\$3,500,000	\$110,271	\$-	\$-	\$-	\$-	\$3,500,000	\$110,271
Net loss from May 12 to December 31, 2004					(41,566)	(1,310)	(41,566)	(1,310)
Balance on December 31, 2004	<u>\$3,500,000</u>	<u>\$110,271</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(41,566)</u>	<u>\$(1,310)</u>	<u>\$3,458,434</u>	<u>\$108,961</u>
Balance on January 1, 2005	\$3,500,000	\$106,707	\$-	\$-	\$(41,566)	\$(1,267)	\$3,458,434	\$105,440
Capital increase from cash contribution	200,000	6,098	300,000	9,146	-	-	500,000	15,244
Make up accumulated deficit from capital surplus	-	-	(41,566)	(1,267)	41,566	1,267	-	-
Net income from January 1 to December 31, 2005	-	-	-	-	56,899	1,735	56,899	1,735
Balance on December 31, 2005	<u>\$3,700,000</u>	<u>\$112,805</u>	<u>\$258,434</u>	<u>\$7,879</u>	<u>\$56,899</u>	<u>\$1,735</u>	<u>\$4,015,333</u>	<u>\$122,419</u>

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 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  
Statements of cash flows  
From May 12 to December 31, 2004 and January 1 to December 31, 2005  
(Expressed in thousands of dollars)  
(The development stage was from May 12, 2004 to August 12, 2004)

ITEMS	May 12 - December 31, 2004		January 1 - December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss)	\$(41,566)	\$(1,310)	\$56,899	\$1,735
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,738	55	18,791	573
Amortization	422	13	6,264	191
Gain on disposal of short-term investments	(2,645)	(83)	(9,250)	(282)
Reserve for trading losses	123	4	297	9
Reserve for default losses	1,585	50	5,510	168
Loss on disposal of property and equipment	107	3	1,779	54
Loss on valuation for operating securities	881	28	656	20
Changes in assets and liabilities:				
(Increase) decrease in investments in bonds with resale agreements	(672,686)	(21,194)	672,686	20,509
(Increase) decrease in operating securities - dealing	(126,742)	(3,993)	41,764	1,273
(Increase) decrease in operating securities - stock warrants	(12)	-	12	-
(Increase) decrease in operating securities - hedging	(169,293)	(5,334)	128,909	3,930
(Increase) decrease in receivable amount for margin loans	(189,445)	(5,969)	189,445	5,776
(Increase) decrease in securities refinancing margin deposits	(687)	(22)	687	21
Increase in margin for futures trading - own funds	-	-	(61,813)	(1,885)
Increase in derivative financial instrument assets - GreTai (over-the-counter)	-	-	(5,245)	(160)
Increase in notes receivable	-	-	(49)	(1)
(Increase) decrease in accounts receivable	(8,838)	(278)	7,659	234
Increase in accounts receivable - related parties	(144)	(5)	(71)	(2)
Increase in prepayments	(840)	(26)	(247)	(7)
(Increase) decrease in other receivables	(10,227)	(322)	5,746	175
(Increase) decrease in other receivables - related parties	(2,569)	(81)	2,569	78
Decrease in deferred losses on financial instruments	-	-	1,203	37
(Increase) decrease in other current assets	(802)	(25)	626	19
Increase in securities brokerage debit accounts - net	(3,495)	(110)	(5,180)	(158)
Increase (decrease) in bonds sold under repurchase agreements	776,327	24,459	(776,327)	(23,669)
Increase in put options	-	-	133	4
Increase (decrease) in securities financing guarantee deposits-in	744	23	(744)	(23)
Increase (decrease) in deposit payable for securities financing	822	26	(822)	(25)
Increase (decrease) in derivative financial instrument liabilities - GreTai (over-the-counter)	225,082	7,091	(165,122)	(5,034)
Increase in accounts payable	3,830	121	3,081	94
Increase in accounts payable - related parties	-	-	42	1
Increase in accounts collected in advance	175	6	5,078	155
Increase in receipts under custody	1,933	61	1,834	56
Increase in other payables	8,035	253	6,650	203
Increase in other payables - related parties	-	-	15,031	458
Increase in other current liabilities	40	1	81	2
Net change in deferred income tax assets/liabilities	(9,431)	(297)	7,599	232
Increase in accrued pension liability	130	4	1,056	32
Net cash provided by (used in) operating activities	(217,448)	(6,851)	157,217	4,793

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 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

Statements of cash flows

From May 12 to December 31, 2004 and January 1 to December 31, 2005

(Expressed in thousands of dollars)

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

ITEMS	May 12 - December 31, 2004		January 1 - December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cash flows from investing activities				
Increase in short-term investments	(647,355)	(20,396)	(100,750)	(3,072)
Increase in restricted assets - current	(500,000)	(15,753)	(800,000)	(24,390)
Acquisition of long-term investments in stocks	(18)	(1)	-	-
Acquisition of property and equipment	(37,716)	(1,188)	(91,329)	(2,784)
Disposal of property and equipment	-	-	852	26
Increase in operating deposits	(150,098)	(4,729)	(65,000)	(1,982)
(Increase) decrease in settlement and clearance funds	(65,109)	(2,051)	22,074	673
(Increase) decrease in guarantee deposits paid	(19,929)	(628)	703	21
Increase in deferred debits	(4,867)	(153)	(19,757)	(602)
Net cash used in investing activities	<u>(1,425,092)</u>	<u>(44,899)</u>	<u>(1,053,207)</u>	<u>(32,110)</u>
Cash flows from financing activities				
Increase in guarantee deposits-in	163	5	1,475	45
Capital increase from cash contribution	<u>3,500,000</u>	<u>110,271</u>	<u>500,000</u>	<u>15,244</u>
Net cash provided by financing activities	<u>3,500,163</u>	<u>110,276</u>	<u>501,475</u>	<u>15,289</u>
Increase (decrease) in cash and cash equivalents	1,857,623	58,526	(394,515)	(12,028)
Cash and cash equivalents at the beginning of period	<u>-</u>	<u>-</u>	<u>1,857,623</u>	<u>56,635</u>
Cash and cash equivalents at the end of period	<u><u>\$1,857,623</u></u>	<u><u>\$58,526</u></u>	<u><u>\$1,463,108</u></u>	<u><u>\$44,607</u></u>
Supplemental disclosure of cash flows information				
Interest paid during the period	<u>\$1,183</u>	<u>\$37</u>	<u>\$8,674</u>	<u>\$264</u>
Interest paid (excluding capitalized interest)	<u>\$1,183</u>	<u>\$37</u>	<u>\$8,674</u>	<u>\$264</u>
Income tax paid	<u>\$1,720</u>	<u>\$54</u>	<u>\$6,162</u>	<u>\$188</u>

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 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 December 31, 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 December 29, 2004, the names of the Company’s Xin-yi and Bo-ai branch offices were changed to Banqiao and Guanqian, respectively.

The parent company of the Company is Cathay Financial Holdings Co., Ltd. As of December 31, 2004 and 2005, the Company had 96 and 147 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

**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 December 31, 2004 and 2005**

accepted accounting principles in the ROC. A summary of significant accounting policies is as follows:

(1) Current and noncurrent assets and liabilities

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

(2) Cash and cash equivalents

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

(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 - securities financing

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.

According to an explanatory letter of the Securities and Futures Bureau ("SFB"), investments in bonds with resale agreements - securities financing, in conjunction with operating securities - dealing, are valued at the lower of aggregate cost or market value at the balance sheet date. Gains or losses should be recognized at the date the bonds were repurchased.

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**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 December 31, 2004 and 2005**

(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 recognized in current period earnings. The difference between the settlement price and the average cost of unexercised options at the balance sheet date is recognized in current period earnings.

(6) 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.

(7) 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.

(8) Long-term investments in stocks

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

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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.

(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

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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).

(11) Reserve for default losses

According to the Regulations 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 SFB, Financial Supervisory Commission.

When the accumulated reserve for breach of contract losses reaches NT\$200,000(US\$6,098) reserving will be suspended.

(12) Reserve for trading losses

According to the Regulations 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\$6,098). Such provision can only be used to offset the excess of securities trading

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losses over gains.

(13) 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.

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.

(14) Derivative financial instrument assets/liabilities – GreTai (over-the-counter)

A. Interest rate swaps

Interest rate swaps do not involve the exchange of nominal principal and are recorded by memorandum entries at the contract dates. The difference between interest received and paid at the settlement date and balance sheet date is recognized as "gain (loss) from derivative financial instruments".

Interest rate swaps for trading purposes are valued at fair value on the balance sheet date. The Company uses market value as the basis for fair value.

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B. 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 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.



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(15) 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 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, taxes payable and other receivables 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

(16) 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 from margin loans, investments in bonds with resale agreements and bonds sold under repurchase agreements are recognized on an accrued basis.

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(17) Futures transactions

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

(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\$31.74 and NT\$32.80 to US\$1.00 effective on December 31, 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	May 12 to August 12, 2004	
	NT\$	US\$
Financial revenue	\$6,377	\$201
Net income during the development stage	\$6,377	\$201

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

None

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**5. Breakdown of significant accounts**

(1) Cash and cash equivalents

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$100	\$3	\$100	\$3
Savings accounts	237,293	7,476	45,861	1,398
Checking accounts	80,151	2,525	328	10
Time deposits	1,540,079	48,522	1,416,819	43,196
Total	<u>\$1,857,623</u>	<u>\$58,526</u>	<u>\$1,463,108</u>	<u>\$44,607</u>
Annual interest rate of time deposits	0.65%-1.15%		0.75%-1.42%	

As of December 31, 2004 and 2005, none of the cash and cash equivalents were pledged to other parties.

(2) Short-term investments

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Open-end funds	\$650,000	\$20,479	\$760,000	\$23,171
Less: allowance for decline in market value	-	-	-	-
Net	<u>\$650,000</u>	<u>\$20,479</u>	<u>\$760,000</u>	<u>\$23,171</u>

As of December 31, 2004 and 2005, none of the short-term investments were pledged to other parties.

(3) Investments in bonds with resale agreements

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Central government construction bonds	<u>\$672,686</u>	<u>\$21,194</u>	<u>\$-</u>	<u>\$-</u>

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As of December 31, 2004, investments in bonds with resale agreements were due within one year with annual interest rates ranging between 0.96%-1.00%. These bonds were made available for resale at an agreed aggregate amount of NT\$672,910 (US\$21,201) between January 3 – January 7, 2005.

(4) Operating securities – dealing

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,960	\$125	\$18,936	\$577
GreTai (Over-the-counter) (OTC) stocks	385	12	16,042	489
Central government construction bonds	102,669	3,235	-	-
OTC corporate bonds	19,728	621	50,000	1,525
Subtotal	126,742	3,993	84,978	2,591
Less: Allowance for valuation loss on operating securities – dealing	(880)	(28)	(1,211)	(37)
Net operating securities – dealing	\$125,862	\$3,965	\$83,767	\$2,554

As of December 31, 2004 and 2005, none of the operating securities were pledged to other parties.

(5) Operating securities – hedging

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$169,293	\$5,334	\$32,376	\$987
GreTai (Over-the-counter) (OTC) stocks	-	-	8,008	244
Subtotal	169,293	5,334	40,384	1,231
Less: Allowance for valuation loss on operating securities – hedging	-	-	(326)	(10)
Net operating securities – hedging	\$169,293	\$5,334	\$40,058	\$1,221

As of December 31, 2004 and 2005, none of the operating securities were pledged to

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other parties.

(6) Receivable amount for margin loans

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Receivable amount for margin loans	\$189,445	\$5,969	\$-	\$-
Less: Allowance for bad debts	-	-	-	-
Net	\$189,445	\$5,969	\$-	\$-

A. From May 12 to December 31, 2004, receivable amount for margin loans had an annual interest rate of 6.25%.

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

(7) Margin for futures trading - own funds

Futures trading company	January 1 to December 31, 2005					
	Account balance		Gain (loss) on outstanding futures contracts		Net value of the account	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$62,068	\$1,892	\$(255)	\$(7)	\$61,813	\$1,885

From May 12 to December 31, 2004, there were no transactions.

(8) Long-term investments in stocks

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Taiwan International Mercantile Exchange Corporation	\$18	\$1	\$18	\$1

As of December 31, 2004 and 2005, none of the long-term investments in stocks were

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pledged to other parties.

(9) Property and equipment

Item	December 31, 2004					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$27,563	\$868	\$1,519	\$48	\$26,044	\$820
Leasehold improvement	10,046	317	219	7	9,827	310
<b>Total</b>	<b>\$37,609</b>	<b>\$1,185</b>	<b>\$1,738</b>	<b>\$55</b>	<b>\$35,871</b>	<b>\$1,130</b>

  

Item	December 31, 2005					
	Cost		Accumulated depreciation		Carrying amount	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Equipment	\$82,313	\$2,509	\$16,134	\$492	\$66,179	\$2,017
Leasehold improvement	25,593	780	3,331	101	22,262	679
Prepayment for equipment	17,339	529	-	-	17,339	529
<b>Total</b>	<b>\$125,245</b>	<b>\$3,818</b>	<b>\$19,465</b>	<b>\$593</b>	<b>\$105,780</b>	<b>\$3,225</b>

A. As of December 31, 2004 and 2005, none of the property and equipment were pledged to other parties.

B. As of December 31, 2004 and 2005, the insurance coverage for property and equipment amounted to NT\$63,315 (US\$1,995) and NT\$114,524 (US\$3,492), respectively.

(10) Operating deposits

As stipulated in the Regulations Governing Securities Firms, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, and the Rules Governing Futures Commission Merchants, the Company provided time deposits as operating deposits amounting to NT\$150,098 (US\$4,729) and NT\$215,098 (US\$6,558) as of December 31, 2004 and 2005, respectively.

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(11) Settlement and clearance funds

As stipulated in the Regulations Governing Securities Firms and OTC regulations, the Company deposited NT\$65,109 (US\$2,051) and NT\$43,035 (US\$1,312) in settlement and clearance funds as of December 31, 2004 and 2005, respectively.

(12) Securities brokerage debit accounts – net

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Debit balance:				
Cash and cash equivalents – settlement amount	\$259	\$8	\$5,730	\$175
Proceeds receivable from investors	973,542	30,672	597,519	18,217
Accounts receivable – brokering	748,291	23,576	968,098	29,515
Debit transaction	5,273	166	15,580	475
Subtotal	<u>1,727,365</u>	<u>54,422</u>	<u>1,586,927</u>	<u>48,382</u>
Credit balance:				
Proceeds payable to investors	595,284	18,755	576,944	17,590
Accounts payable – brokering	87,216	2,748	337,034	10,276
Clearance	1,041,370	32,809	664,274	20,252
Subtotal	<u>1,723,870</u>	<u>54,312</u>	<u>1,578,252</u>	<u>48,118</u>
Net	<u>\$3,495</u>	<u>\$110</u>	<u>\$8,675</u>	<u>\$264</u>

(13) Bonds sold under repurchase agreements

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Central government construction bonds	<u>\$776,327</u>	<u>\$24,459</u>	<u>\$-</u>	<u>\$-</u>

As of December 31, 2004, bonds sold under repurchase agreements were due within one year with annual interest rates ranging between 0.950%-1.025%. These bonds were made available for repurchase at an agreed aggregate amount of NT\$776,426

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(US\$24,462) between January 3 – January 7, 2005.

(14) Pension/Accrued pension liability

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

A. Net pension cost

	May 12 to December 31, 2004		January 1 to December 31, 2005	
	NT\$	US\$	NT\$	US\$
1) Service cost	\$-	\$-	\$3,988	\$122
2) Interest cost	-	-	87	3
3) Expected return on pension assets	-	-	(64)	(2)
4) Amortization of recognized transition net benefit obligation	-	-	139	4
Net pension cost	\$-	\$-	\$4,150	\$127

B. Pension funding status

	May 12 to December 31, 2004		January 1 to December 31, 2005	
	NT\$	US\$	NT\$	US\$
1) Vested benefit obligation (VBO)	\$163	\$5	\$849	\$26
2) Non-vested benefit obligation	1,517	48	3,057	93
3) Accumulated benefit obligation (ABO)	1,680	53	3,906	119
4) Additional benefits based on future salaries	1,355	43	2,484	76
5) Projected benefit obligation (PBO)	3,035	96	6,390	195
6) Fair value of pension fund assets	-	-	(1,575)	(48)
7) Pension funding status	3,035	96	4,815	147
8) Unrecognized transitional net benefit obligation	(3,035)	(96)	(2,897)	(88)
9) Unrecognized pension gain (loss)	-	-	668	20
10) Additional accrued pension liability	1,810	57	-	-
11) Accrued pension liability = 7)+8)+9)+10)	\$1,810	\$57	\$2,586	\$79



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C. Actuarial assumptions

	May 12 to December 31, 2004	January 1 to December 31, 2005
Discount rate	3%	3%
Rate of increase in future salaries	3%	3%
Expected long-term rate of return on pension assets	3%	3%

(15) Capital Stock

- A. As of December 31, 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\$15,244) 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\$112,805).

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

(16) 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.
- B. On August 3, 2005, the Company's board of directors resolved to use capital surplus of NT\$41,566 (US\$1,267) to offset its accumulated deficits.

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(17) 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.
- D. The appropriation of 2005 retained earnings has not yet been recommended by the board of directors as of the date of the Independent Auditors' Report. Information on board of directors' recommendations and shareholders' approvals can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

(18) 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 statements of income from May 12 to December 31, 2004 and January 1 to December 31, 2005, are as follows:

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Item	May 12 to December 31, 2004		January 1 to December 31, 2005	
	NT\$	US\$	NT\$	US\$
Income (loss) before income taxes	\$(49,213)	\$(1,550)	\$85,781	\$2,616
Adjustments:				
Interest income taxed on a separate basis	(9,168)	(289)	(28,303)	(863)
Gain on disposal of short-term investments	(2,645)	(83)	(9,250)	(282)
Adjusted revenue and expense from dealing departments	23,159	730	45,236	1,380
Unrealized loss from decline in price of operating securities - hedging	-	-	326	10
Unrealized gain from derivative financial instruments	(18)	(1)	(1,276)	(39)
Reserve for default losses	1,585	50	5,510	168
Provision for pensions	-	-	1,056	33
Realized gain from derivative financial instruments	-	-	18	(1)
Loss carryforwards	-	-	(36,193)	(1,103)
Others	92	3	(424)	(13)
Taxable income	(36,208)	(1,140)	62,481	1,906
Times: tax rates	25%	25%	25%	25%
Subtotal	-	-	15,620	476
Add: Extra 10% income tax on unappropriated retained earnings	-	-	-	-
Less: Tax effects under integrated income tax system	-	-	-	-
Subtotal	-	-	15,620	476
Tax on a separate basis	1,784	57	5,664	173
Deferred tax expense (benefit)	(9,431)	(297)	7,598	232
Total income tax expense (benefit)	\$(7,647)	\$(240)	\$28,882	\$881

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

	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
a. Total deferred income tax assets	\$9,436	\$297	\$2,152	\$66
b. Total deferred income tax liabilities	\$5	\$-	\$319	\$10
c. Temporary differences:				
Reserve for default losses	\$1,585	\$50	\$7,095	\$216
Provision for pensions	-	-	1,186	36
Unrealized gain from derivative financial instruments	(18)	(1)	(1,276)	(39)
Loss carryforwards	36,158	1,139	-	-
Unrealized loss from decline in price of operating securities - hedging	-	-	326	10
d. Deferred income tax assets - current	\$9,040	\$285	\$82	\$3
Deferred income tax liabilities - current	(5)	-	(319)	(10)
Net deferred income tax assets (liabilities) - current	\$9,035	\$285	\$(237)	\$(7)
Deferred income tax assets - noncurrent	\$396	\$12	\$2,070	\$63
Deferred income tax liabilities - noncurrent	-	-	-	-
Net deferred income tax assets (liabilities) - noncurrent	\$396	\$12	\$2,070	\$63

C. Information related to tax imputation:

	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$1,136	\$36	\$6,385	\$195
Imputation credit account ratio	-		December 31, 2005 (Estimated)	13.09%

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D. Information related to undistributed earnings:

	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
After 1998	\$ (41,566)	\$ (1,310)	\$56,899	\$1,735

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

(19) Personnel, depreciation, depletion and amortization

The Company's personnel, depreciation, depletion and amortization expenses from May 12 to December 31, 2004 and January 1 to December 31, 2005 are summarized as follows:

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

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Item	January 1 to December 31, 2005 (NT\$)			January 1 to December 31, 2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$138,669	\$138,669	\$-	\$4,228	\$4,228
Labor & health insurance expenses	-	7,626	7,626	-	233	233
Pension expenses	-	4,150	4,150	-	127	127
Other expenses	-	5,464	5,464	-	167	167
Depreciation	-	18,791	18,791	-	573	573
Depletion	-	-	-	-	-	-
Amortization	-	6,264	6,264	-	191	191

(20) Earnings per share

	May 12 to December 31, 2004		January 1 to December 31, 2005	
	NT\$	US\$	NT\$	US\$
Income (loss) from continuing operations before income taxes (A)	\$ (49,213)	\$ (1,550)	\$ 85,781	\$ 2,616
Net income (loss) (B)	\$ (41,566)	\$ (1,310)	\$ 56,899	\$ 1,735
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	360,684,932	360,684,932
Earnings per share before income tax (A)/(C) (dollars)	\$ (0.14)	\$ (0.004)	\$ 0.24	\$ 0.007
Earnings per share after income tax (B)/(C) (dollars)	\$ (0.12)	\$ (0.004)	\$ 0.16	\$ 0.005

(21) Presentation of financial statements:

Certain accounts in the financial statements for the year ended December 31, 2004 have been reclassified in order to be comparable with those in the financial statements

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**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 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

A. Cash in bank

Name	Item	May 12 to December 31, 2004		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Savings accounts	\$237,117	0.10%	\$423
	Checking accounts	\$80,151	-	\$-
	Negotiable certificates of deposit	\$1,890,000	0.85%-1.10%	\$9,137

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		May 12 to December 31, 2004		
Name	Item	Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Savings accounts	\$7,471	0.10%	\$13
	Checking accounts	\$2,525	-	\$-
	Negotiable certificates of deposit	\$59,546	0.85%-1.10%	\$288
		January 1 to December 31, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Savings accounts	\$51,444	0.10%	\$134
	Checking accounts	\$328	-	\$-
	Negotiable certificates of deposit	\$2,565,000	0.85%-1.32%	\$28,302
		January 1 to December 31, 2005		
Name	Item	Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Savings accounts	\$1,568	0.10%	\$4
	Checking accounts	\$10	-	\$-
	Negotiable certificates of deposit	\$78,201	0.85%-1.32%	\$863

As of December 31, 2004 and 2005, except for NT\$500,000 (US\$15,753) and NT\$1,300,000 (US\$39,634) 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.



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B. Short-term investments

Name		December 31, 2004		December 31, 2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	Cost	\$350,000	\$11,027	\$400,000	\$12,195
	Market value	\$350,000	\$11,027	\$400,000	\$12,195

C. Bonds sold under repurchase agreements

Name	May 12 to December 31, 2004		January 1 to December 31, 2005	
	Ending balance	Interest expense	Ending balance	Interest expense
	NT\$	NT\$	NT\$	NT\$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	\$78,816	\$250	\$-	\$1,988

Name	May 12 to December 31, 2004		January 1 to December 31, 2005	
	Ending balance	Interest expense	Ending balance	Interest expense
	US\$	US\$	US\$	US\$
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	\$2,483	\$8	\$-	\$61

D. Other receivables

Name	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,569	\$81	\$-	\$-

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E. Property and equipment

Name	Description	December 31, 2004		December 31, 2005	
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	Leasehold improvement - IT infrastructure	\$8,000	\$252	\$1,898	\$58

F. Other payables

Name	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holdings Co., Ltd. (See note)	\$-	\$-	\$14,558	\$444
Cathay Life Insurance Co., Ltd.	-	-	403	12
Others	-	-	70	2
Total	\$-	\$-	\$15,031	\$458

Note: Payable due to the adoption of the Integrated Income Tax System.

G. Brokerage commissions

Name	May 12 to December 31, 2004		January 1 to December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$2,500	\$79	\$10,870	\$331
Cathay Life Insurance Co., Ltd.	21,617	681	78,435	2,391
Cathay Century Insurance Co., Ltd.	244	8	1,108	34
Total	\$24,361	\$768	\$90,413	\$2,756

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H. Revenue from underwriting commissions

Name	May 12 to December 31, 2004		January 1 to December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$158,000	\$4,817

I. Brokerage commissions for introducing futures contracts

Name	May 12 to December 31, 2004				January 1 to December 31, 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.	\$862	\$27	\$144	\$5	\$1,966	\$60	\$215	\$7

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

Name	January 1 to December 31, 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.	\$104	\$3	\$79	\$2	\$42	\$1	\$61,813	\$1,885

From May 12 to December 31, 2004, there were no transactions.

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K. Rental expenses and guarantee deposits paid

Name	May 12 to December 31, 2004		January 1 to December 31, 2005	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	NT\$	NT\$	NT\$	NT\$
Cathay United Bank Co., Ltd.	\$3,933	\$2,334	\$6,991	\$1,318
Cathay Life Insurance Co., Ltd.	6,293	3,323	15,776	3,647
Seaward Leasing Ltd.	108	-	325	-
<b>Total</b>	<b>\$10,334</b>	<b>\$5,657</b>	<b>\$23,092</b>	<b>\$4,965</b>

Name	May 12 to December 31, 2004		January 1 to December 31, 2005	
	Rental expenses	Guarantee deposits paid	Rental expenses	Guarantee deposits paid
	US\$	US\$	US\$	US\$
Cathay United Bank Co., Ltd.	\$124	\$73	\$213	\$40
Cathay Life Insurance Co., Ltd.	198	105	481	111
Seaward Leasing Ltd.	3	-	10	-
<b>Total</b>	<b>\$325</b>	<b>\$178</b>	<b>\$704</b>	<b>\$151</b>

L. Operating expenses

Name	Description	May 12 to December 31, 2004		January 1 to December 31, 2005	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Management fee	\$568	\$18	\$-	\$-
	Insurance	292	9	1,437	44
Subtotal		860	27	1,437	44
Seaward Card Co., Ltd.	Service expense	-	-	458	14
Cathay Century Insurance Co., Ltd.	Insurance	257	8	328	10
Symphox Information Co., Ltd	Cable service	1,342	42	2,945	90

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	Other fees	299	10	1,241	38
Subtotal		1,641	52	4,186	128
Cathay United Bank Co., Ltd.	Other fees	-	-	1,614	49
Total		\$2,758	\$87	\$8,023	\$245

**7. Pledged assets**

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Restricted assets - time deposits	\$500,000	\$15,753	\$1,300,000	\$39,634

- (1) As of December 31, 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 entered into several operating lease agreements and the future payments over the next five years are as follows:

Year	Amount	
	NT\$	US\$
January 1, 2006 ~ December 31, 2006	\$21,020	\$641
January 1, 2007 ~ December 31, 2007	14,857	453
January 1, 2008 ~ December 31, 2008	3,477	106
January 1, 2009 ~ December 31, 2009	1,770	54
January 1, 2010 ~ December 31, 2010	1,475	45
Total	\$42,599	\$1,299

**9. Serious damages**

None.

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**10. Subsequent events**

None.

**11. Other important events**

(1) Information related to financial instruments

	December 31, 2004			
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	(NT\$)	(NT\$)	(US\$)	(US\$)
<b>Non-derivative</b>				
Assets:				
Cash and cash equivalents	\$1,857,623	\$1,857,623	\$58,526	\$58,526
Short-term investments	650,000	650,000	20,479	20,479
Investments in bonds with resale agreements	672,686	672,686	21,194	21,194
Operating securities - net	295,166	295,166	9,299	9,299
Receivable amount for margin loans	189,445	189,445	5,969	5,969
Securities refinancing margin deposits	687	687	22	22
Receivables - net	21,778	21,778	686	686
Restricted assets - current	500,000	500,000	15,753	15,753
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,729	4,729
Settlement and clearance funds	65,109	65,109	2,051	2,051
Guarantee deposits paid	19,929	19,929	628	628
Liabilities:				
Bonds sold under repurchase agreements	776,327	776,327	24,459	24,459
Securities financing guarantee deposits-in	744	744	23	23
Deposit payable for securities financing	822	822	26	26

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Payables	11,865	11,865	374	374
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**Derivative**

Assets:

Deferred losses on financial instruments	1,203	1,203	38	38
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Liabilities:

Derivative financial instrument liabilities – GreTai(over-the-counter)	226,285	226,285	7,129	7,129
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December 31, 2005

Carrying amount	Fair value	Carrying amount	Fair value
(NT\$)	(NT\$)	(US\$)	(US\$)

**Non-derivative**

Assets:

Cash and cash equivalents	\$1,463,108	\$1,463,108	\$44,607	\$44,607
Short-term investments	760,000	760,060	23,171	23,173
Operating securities – net	123,825	123,975	3,775	3,780
Receivables – net	5,924	5,924	181	181
Restricted assets – current	1,300,000	1,300,000	39,634	39,634
Long-term investments in stocks	18	18	1	1
Operating deposits	215,098	215,098	6,558	6,558
Settlement and clearance funds	43,035	43,035	1,312	1,312
Guarantee deposits paid	19,225	19,225	586	586

Liabilities:

Payables	36,669	36,669	1,118	1,118
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**Derivative**

Assets:

Margin for futures trading – own funds	61,813	61,813	1,885	1,885
Derivative financial instrument assets – GreTai (over-the-counter)	5,245	5,245	160	160

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Liabilities:

Put options	133	133	4	4
Derivative financial instrument liabilities - GreTai (over-the-counter)	61,163	61,163	1,865	1,865

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. Derivative financial instruments - GreTai (over-the-counter)



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a. Structured notes transactions

(a) Nominal principal or contract amount and credit risk

	December 31, 2004		December 31, 2005	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Equity-linked notes	\$-	\$-	NT\$58,200 (US\$1,774)	\$-
Principal guaranteed notes	NT\$225,100 (US\$7,092)	\$-	\$-	\$-

The Company's credit risk derives from a breach of contract by a counterparty. The Company believes it is not exposed to credit risk because contract amounts are collected in advance of structured 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.

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(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.

b. Interest rate swaps

The Company has entered into interest rate swap contracts for trading purposes. As of December 31, 2005, all interest rate swap contracts have been settled.

c. Financial statement presentation of derivative financial instruments

As of December 31, 2004 and 2005, the disclosure of interest rate swap and structured notes transactions on the balance sheets and statements of income are summarized as follows:

<b>Balance sheet</b>	December 31, 2004			
	Derivative financial instrument assets – GreTai (over-the-counter)		Derivative financial instrument liabilities – GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Principal guaranteed notes	\$-	\$-	\$226,285	\$7,129

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<b>Statement of income</b>	May 12 to December 31, 2004		Comments
	Gain from derivative financial instruments - GreTai (over-the-counter)		
	NT\$	US\$	
Principal guaranteed notes	\$132	\$4	Market value method

<b>Balance sheet</b>	December 31, 2005			
	Derivative financial instrument assets - GreTai (over-the-counter)		Derivative financial instrument liabilities - GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Equity-linked notes	\$5,245	\$160	\$61,163	\$1,865

<b>Statement of income</b>	January 1 to December 31, 2005		Comments
	Gain (loss) from derivative financial instruments - GreTai (over-the-counter)		
	NT\$	US\$	
Interest rate swaps	\$(790)	\$(24)	
Principal guaranteed notes	3,911	119	Market value method
Equity-linked notes	1,234	38	Market value method
Total	\$4,355	\$133	

B. Futures and options transactions

As of December 31, 2005, the Company's unexercised futures and options were as follows:

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Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Options	TXO-Call	Sell	14	\$6	\$-	\$5	\$-
Options	TXO-Put	Sell	826	\$217	\$7	\$128	\$4
Futures	TAIEX futures	Buy	35	\$46,420	\$1,415	\$46,165	\$1,407

a. Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$224 (US\$7)	\$-
TAIEX futures	NT\$46,420 (US\$1,415)	\$-

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 December 31, 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 December 31, 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

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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 December 31, 2005, the account had NT\$61,813 (US\$1,885). From January 1 to December 31, 2005, the related gain (loss) of futures and options on the statement of income is as follows:

	January 1 to December 31, 2005	
	(NT\$)	(US\$)
Futures		
Gain on futures contracts	\$1,110	\$34
(Includes unrealized loss on futures contracts of NT\$255 (US\$8))		
Options		
Gain from options transactions	\$236	\$7
(Includes unrealized gain from options transactions of NT\$90 (US\$3))		

(3) Others

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

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with its business, assets and liabilities, were assigned to the Company through a business assignment, which amounted to NT\$414,930 (US\$13,073). The Xin-yi and Bo-ai branch offices were established at the same locations as at the assignment. The assignment date was August 13, 2004, the application date for the assignment was June 15, 2004 and the authorities approved it on June 28, 2004. Based on the resolution of the board of directors on December 29, 2004, the name of the Company's Xin-yi and Bo-ai branch offices were changed to Banqiao and Guanqian, respectively.