

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
Together with
Review Report
As of March 31, 2004 and 2003

Name of the company: Cathay Financial Holding Co., Ltd.

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Review report

To: Board of Directors
Cathay Financial Holding Co., Ltd. and Subsidiaries

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of March 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our reviews. We did not review the financial statements of Cathay United Bank Co., Ltd. (United World Chinese Commercial Bank Co., Ltd. and Cathay United Bank Co., Ltd. were merged on October 27, 2003. United World Chinese Commercial Bank Co., Ltd. was the surviving company but the merged bank was re-named under Cathay United Bank Co., Ltd.) and Cathay Pacific Venture Capital Co., Ltd., wholly-owned subsidiaries of the Company. Total asset of such subsidiaries is NT\$945,228 million (US\$28,643 million) constituting 38.46% of the total consolidated assets of the Company and its Subsidiaries as of March 31, 2004, and total revenue of such subsidiaries is NT\$11,700 million (US\$355 million) constituting 8.88% of total consolidated revenues of the Company and its Subsidiaries for the three-month period ended March 31, 2004. We did not review the financial statements of United World Chinese Commercial Bank Co., Ltd. and Cathay United Bank Co., Ltd. (formerly), wholly-owned subsidiaries of the Company. Total asset of such subsidiaries is NT\$839,388 million (US\$24,155 million) constituting 39.44% of the total consolidated assets of the Company and its Subsidiaries as of March 31, 2003, and total revenue of such subsidiaries is NT\$10,853 million (US\$312 million) constituting 9.51% of total consolidated revenues of the Company and its Subsidiaries for the three-month period ended of March 31, 2003. These statements were reviewed by other auditors whose reports have been furnished to us, and our review report, insofar as it relates to the amounts, is based solely on the report of such other auditors.



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We conducted our reviews in accordance with generally accepted auditing standards 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 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 and the report of other auditors, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

The accompanying financial statements as of and for the three-month periods ended March 31, 2004 and 2003, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation and, in our review report, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(27) to the financial statements.

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China

April 16, 2004

Notice to Readers

The accompanying consolidated 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 jurisdiction. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

Cathay Financial Holding Co.,Ltd. and Subsidiaries

Consolidated balance sheets
(Expressed in thousands of dollars)
As of March 31, 2004 and 2003

Assets	2004			2003		
	NT \$	US \$	%	NT \$	US \$	%
Current assets						
Cash and cash equivalents (Notes 2,4)	\$159,168,906	\$4,823,300	6.48	\$153,612,587	\$4,420,506	7.22
Due from Central Bank	71,182,900	2,157,058	2.90	76,410,457	2,198,862	3.59
Short-term investments (Notes 2,5)	586,415,584	17,770,169	23.86	431,569,676	12,419,271	20.28
Receivables (Note 2)	98,659,419	2,989,679	4.01	69,271,498	1,993,424	3.25
Deferred income tax assets-current (Note 2)	77,952	2,362	0.00	48,918	1,408	0.00
Prepayments	1,450,931	43,968	0.06	1,436,727	41,345	0.07
Subtotal	916,955,692	27,786,536	37.31	732,349,863	21,074,816	34.41
Exchange bills negotiated discounted and loans (Notes 2,6)	1,002,211,266	30,370,038	40.77	990,014,116	28,489,615	46.52
Long-term investments in stock, bonds and real estate						
Long-term investments in stocks (Notes 2,7)						
Long-term investments under equity method	8,088,030	245,092	0.33	8,326,310	239,606	0.39
Long-term investments under cost method	50,067,084	1,517,184	2.04	50,014,714	1,439,272	2.35
Allowance for valuation loss on long-term investments in stocks	(113,254)	(3,432)	0.00	(92,744)	(2,669)	(0.01)
Long-term investments in bonds (Notes 2,8)	280,287,350	8,493,556	11.40	147,387,957	4,241,380	6.93
Investments in real estate (Notes 2,9)	100,761,068	3,053,366	4.10	93,959,827	2,703,880	4.42
Other long-term investments	1,101,014	33,364	0.04	1,000,000	28,777	0.05
Subtotal	440,191,292	13,339,130	17.91	300,596,064	8,650,246	14.13
Property and equipment (Note 2)						
Land	20,072,044	608,244	0.82	20,058,225	577,215	0.94
Buildings and structures	20,500,357	621,223	0.83	20,209,162	581,559	0.95
Furniture and fixtures	3,685,834	111,692	0.15	2,699,320	77,678	0.13
Transportation and communication equipment	231,236	7,007	0.01	232,927	6,703	0.01
Other equipment	7,983,175	241,914	0.32	7,618,177	219,228	0.36
Subtotal	52,472,646	1,590,080	2.13	50,817,811	1,462,383	2.39
Less: Accumulated depreciation	(12,380,863)	(375,178)	(0.50)	(11,500,715)	(330,956)	(0.54)
Construction in progress	969,140	29,368	0.04	1,693,633	48,738	0.08
Subtotal	41,060,923	1,244,270	1.67	41,010,729	1,180,165	1.93
Intangible assets (Note 2)	9,582	291	0.00	5,137	148	0.00
Other assets						
Net non-operating assets	3,098,226	93,886	0.12	4,134,299	118,973	0.19
Miscellaneous assets	30,943,945	937,695	1.26	54,892,662	1,579,645	2.58
Deferred income tax assets -noncurrent (Note 2)	3,361,018	101,849	0.14	4,084,283	117,533	0.19
Deferred charges	688,868	20,875	0.03	597,188	17,185	0.03
Investment-linked products assets	19,432,998	588,879	0.79	383,097	11,025	0.02
Subtotal	57,525,055	1,743,184	2.34	64,091,529	1,844,361	3.01
Total assets	2,457,953,810	\$74,483,449	100.00	\$2,128,067,438	\$61,239,351	100.00
Liabilities & stockholders' equity						
Current liabilities						
Due to Central Bank	77,624,168	2,352,247	3.16	\$48,550,367	\$1,397,133	2.28
Payables	22,602,469	684,923	0.92	38,935,286	1,120,440	1.83
Deferred income tax liabilities-current	1,075,917	32,604	0.04	1,214,028	34,936	0.06
Accounts collected in advance	460,575	13,957	0.02	669,416	19,264	0.03
Subtotal	101,763,129	3,083,731	4.14	89,369,097	2,571,773	4.20
Deposits and remittances (Note 10)	733,508,243	22,227,523	29.84	651,170,873	18,738,730	30.60
Bankers acceptances and funds borrowed	2,027,403	61,436	0.08	2,544,823	73,232	0.12
Long-term liabilities						
Bonds payable (Notes 2,11)	24,609,818	745,752	1.00	25,227,181	725,962	1.18
Reserve for land revaluation increment tax	37,845	1,147	0.00	37,845	1,089	0.00
Accrued pension liabilities	921,459	27,923	0.04	130,022	3,742	0.01
Subtotal	25,569,122	774,822	1.04	25,395,048	730,793	1.19
Other liabilities						
Reserve for operations and liabilities (Notes 2,12)	1,389,193,082	42,096,760	56.52	1,237,451,522	35,610,116	58.15
Miscellaneous liabilities	29,620,380	897,587	1.21	3,134,990	90,216	0.15
Investment-linked products liabilities	19,432,998	588,879	0.79	383,097	11,024	0.02
Subtotal	1,438,246,460	43,583,226	58.52	1,240,969,609	35,711,356	58.32
Total liabilities	2,301,114,357	69,730,738	93.62	2,009,449,450	57,825,884	94.43
Stockholders' Equity						
Capital stock						
Common stock (Note 13)	83,074,891	2,517,421	3.38	83,074,891	2,390,644	3.90
Capital surplus (Note 14)	53,650,859	1,625,784	2.18	55,839,804	1,606,901	2.63
Retained earnings (Note 15)						
Legal reserve	1,335,046	40,456	0.05	13,713	395	0.00
Special reserve	1,833,255	55,553	0.07	0	0	0.00
Unappropriated retained earnings	28,947,370	877,193	1.18	16,642,940	478,933	0.78
Equity adjustments						
Unrealized valuation losses on long term equity investments (Notes 2,7)	(113,254)	(3,432)	0.00	(592,256)	(17,043)	(0.03)
Cumulative conversion adjustments (Notes 2)	119,807	3,631	0.01	183,374	5,277	0.01
Net loss not yet recognized as net pension cost	(1,971)	(60)	0.00	0	0	0.00
Treasury stock (Notes 2,16)	(12,006,550)	(363,835)	(0.49)	(36,544,478)	(1,051,640)	(1.72)
Total stockholders' equity	156,839,453	4,752,711	6.38	118,617,988	3,413,467	5.57
Total liabilities and stockholders' equity	2,457,953,810	\$74,483,449	100.00	\$2,128,067,438	\$61,239,351	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NTS33.00 and NTS34.75 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co.,Ltd. and Subsidiaries
Consolidated statements of income
(Expressed in thousands of dollars,except earning per share)
For the three-month periods ended March 31, 2004 and 2003

	2004			2003		
	NT \$	US \$	%	NT \$	US \$	%
Operating revenues (Note2)						
Interest income	\$20,779,623	\$629,685	15.77	\$20,086,834	\$578,038	17.60
Premiums income	61,721,410	1,870,346	46.85	56,990,159	1,640,005	49.94
Reinsurance commission earned	96,031	2,910	0.07	83,473	2,402	0.07
Claims recovered from reinsures	346,561	10,502	0.26	300,499	8,647	0.26
Recovered premiums reserve	27,436,133	831,398	20.82	30,693,258	883,259	26.90
Recovered special reserve	18,187	551	0.01	169,613	4,881	0.15
Recovered claims reserve	10,173	308	0.01	9,520	274	0.01
Commission and handling fee earned	1,600,457	48,499	1.22	967,950	27,855	0.85
Investment-linked products revenues	6,086,012	184,425	4.62	118,172	3,401	0.10
Gain on disposal of investments	10,784,551	326,805	8.19	2,505,217	72,093	2.20
Gain on long-term equity investments	109,743	3,325	0.08	246,500	7,093	0.22
Gain on investments-real estate	1,012,481	30,681	0.77	1,084,587	31,211	0.95
Other operating income	1,758,336	53,283	1.33	857,830	24,686	0.75
Subtotal	131,759,698	3,992,718	100.00	114,113,612	3,283,845	100.00
Operating costs (Note 2)						
Interest expenses	(2,020,702)	(61,233)	(1.53)	(2,540,025)	(73,094)	(2.23)
Insurance expenses	(741,736)	(22,477)	(0.56)	(716,168)	(20,609)	(0.63)
Brokerage expenses	(4,724,613)	(143,170)	(3.59)	(5,215,090)	(150,074)	(4.57)
Commissions expenses	(137,636)	(4,171)	(0.10)	(59,914)	(1,724)	(0.05)
Insurance claims payment	(30,459,604)	(923,018)	(23.12)	(29,180,790)	(839,735)	(25.57)
Provision for premiums reserve	(63,960,855)	(1,938,208)	(48.54)	(57,289,155)	(1,648,609)	(50.20)
Provision for special reserve	(2,751,411)	(83,376)	(2.09)	(642,875)	(18,500)	(0.56)
Contribution to the stabilization funds	(63,635)	(1,928)	(0.05)	(58,872)	(1,694)	(0.05)
Provision for claims reserve	(23,476)	(711)	(0.02)	(47,634)	(1,371)	(0.04)
Handling fee paid	(484,002)	(14,667)	(0.37)	(562,108)	(16,176)	(0.50)
Provision for securities trading losses reserve	(19,853)	(602)	(0.02)	(64,331)	(1,851)	(0.06)
Investment-linked products expenses	(6,086,012)	(184,425)	(4.62)	(118,172)	(3,401)	(0.11)
Provision for possible losses	(2,372,402)	(71,891)	(1.80)	(2,675,048)	(76,980)	(2.34)
Other operating cost	(912,268)	(27,644)	(0.69)	(470,137)	(13,529)	(0.41)
Subtotal	(114,758,205)	(3,477,521)	(87.10)	(99,640,319)	(2,867,347)	(87.32)
Operating gross profit	17,001,493	515,197	12.90	14,473,293	416,498	12.68
Operating expenses	(6,031,333)	(182,768)	(4.58)	(5,700,442)	(164,042)	(5.00)
Operating income	10,970,160	332,429	8.32	8,772,851	252,456	7.68
Non-operating revenues	2,165,733	65,628	1.64	433,124	12,464	0.38
Non-operating expenses	(74,388)	(2,254)	(0.05)	(42,938)	(1,236)	(0.03)
Income from continuing operations before income taxes	13,061,505	395,803	9.91	9,163,037	263,684	8.03
Income taxes (Notes 2, 18)	(1,021,510)	(30,955)	(0.77)	(1,917,268)	(55,173)	(1.68)
Consolidated net income	\$12,039,995	\$364,848	9.14	\$7,245,769	\$208,511	6.35
Earnings per share(expressed in dollars) (Note19)						
Primary earnings per share:						
Income from continuing operations before income taxes	\$1.63	\$0.05		\$1.23	\$0.04	
Net income	\$1.51	\$0.05		\$0.97	\$0.03	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	\$1.57	\$0.05		\$1.19	\$0.03	
Net income	\$1.44	\$0.04		\$0.94	\$0.03	

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the three-month periods ended March 31, 2003 and 2002

Summary	Retained earnings										Equity adjustments						Treasury stock		Total	
	Common stock		Capital surplus		Legal reserve		special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		NT \$	US \$	NT \$	US \$
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$				
Balance on January 1, 2003	\$84,531,631	\$2,432,565	\$56,807,974	\$1,634,762	\$13,713	\$395	\$0	\$0	\$13,085,153	\$376,551	\$(1,032,426)	\$(29,710)	\$199,570	\$5,743	\$0	\$0	\$(42,706,265)	\$(1,228,958)	\$110,899,350	\$3,191,348
Retired treasury stock	(1,456,740)	(41,921)	(978,976)	(28,172)					(3,687,982)	(106,129)							6,123,698	176,222	0	0
Cumulative conversion adjustments													(16,196)	(466)					(16,196)	(466)
Unrealized valuation losses on long-term equity investments											440,170	12,667							440,170	12,667
Treasury stock																	(5,075)	(146)	(5,075)	(146)
Treasury stock transactions			10,806	311													43,164	1,242	53,970	1,553
Consolidated net income after the three-month period ended March 31, 2003									7,245,769	208,511									7,245,769	208,511
Balance on March 31, 2003	<u>\$83,074,891</u>	<u>\$2,390,644</u>	<u>\$55,839,804</u>	<u>\$1,606,901</u>	<u>\$13,713</u>	<u>\$395</u>	<u>\$0</u>	<u>\$0</u>	<u>\$16,642,940</u>	<u>\$478,933</u>	<u>\$(592,256)</u>	<u>\$(17,043)</u>	<u>\$183,374</u>	<u>\$5,277</u>	<u>\$0</u>	<u>\$0</u>	<u>\$(36,544,478)</u>	<u>\$(1,051,640)</u>	<u>\$118,617,988</u>	<u>\$3,413,467</u>
Balance on January 1, 2004	\$83,074,891	\$2,517,421	\$53,651,046	\$1,625,789	\$1,335,046	\$40,456	\$1,833,255	\$55,553	\$16,916,694	\$512,627	\$(136,202)	\$(4,127)	\$176,537	\$5,350	\$(1,971)	\$(60)	\$(15,039,516)	\$(455,743)	\$141,809,780	\$4,297,266
Capital Surplus			(187)	(5)															(187)	(5)
Cumulative conversion adjustments													(56,730)	(1,719)					(56,730)	(1,719)
Unrealized valuation losses on long-term equity investments											22,948	695							22,948	695
Treasury stock transactions									(9,319)	(282)							3,032,966	91,908	3,023,647	91,626
Consolidated net income for the three-month period ended March 31, 2004									12,039,995	364,848									12,039,995	364,848
Balance on March 31, 2004	<u>\$83,074,891</u>	<u>\$2,517,421</u>	<u>\$53,650,859</u>	<u>\$1,625,784</u>	<u>\$1,335,046</u>	<u>\$40,456</u>	<u>\$1,833,255</u>	<u>\$55,553</u>	<u>\$28,947,370</u>	<u>\$877,193</u>	<u>\$(113,254)</u>	<u>\$(3,432)</u>	<u>\$119,807</u>	<u>\$3,631</u>	<u>\$(1,971)</u>	<u>\$(60)</u>	<u>\$(12,006,550)</u>	<u>\$(363,835)</u>	<u>\$156,839,453</u>	<u>\$4,752,711</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co., Ltd. And Subsidiaries
Consolidated statements of cash flows
(Expressed in thousands of dollars)
For the three-month periods ended March 31, 2004 and 2003

	2004		2003	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$12,039,995	\$364,848	\$7,245,769	\$208,511
Adjustments:				
Loss (gain) on bad debt	(15,313)	(464)	1,133,165	32,609
Amortizations and depreciation expenses	874,056	26,487	808,771	23,274
Provision for reserve for operations	69,108,145	2,094,186	58,788,455	1,691,754
Recovered reserve for operations	(26,429,372)	(800,890)	(30,260,481)	(870,805)
Applicant terminates the insurance contract income	(1,035,121)	(31,367)	(611,910)	(17,609)
Loss(gain) on mortgaged property and collated assumed	0	0	24,074	693
Loss (gain) on disposal of property and equipment	(1,133,295)	(34,342)	28,184	811
Increase (decrease) in bonds payable redemption premium	167,727	5,083	210,702	6,063
Loss (gain) on disposal of investments	(59,811)	(1,812)	(1,988,654)	(57,227)
Amortization long-term investments in bonds	15,125	458	8,545	246
Investment gains recognized by equity method smaller (excess) of cash dividends received	(109,743)	(3,326)	(246,500)	(7,094)
Effects of exchange rate changes	247,310	7,494	1,165	34
Decrease (increase) in short-term investments	(11,175,291)	(338,645)	(37,119,723)	(1,068,194)
Decrease (increase) in receivables	(721,417)	(21,861)	3,995,867	114,989
Decrease (increase) in prepayments	97,281	2,948	432,045	12,433
Decrease (increase) in overdue receivables	33,415	1,013	36,982	1,064
Decrease (increase) in deferred income tax assets	97,532	2,955	(75,243)	(2,165)
Increase (decrease) in other liabilities	945,899	28,664	721,262	20,756
Increase (decrease) in payables	(2,152,781)	(65,236)	(3,439,280)	(98,972)
Increase (decrease) in accounts collected in advance	(832,422)	(25,225)	(80,215)	(2,308)
Increase (decrease) in claims reserve	32,351	980	53,218	1,531
Increase (decrease) in deferred income tax liabilities	(49,326)	(1,495)	(1,978)	(57)
Increase (decrease) in other current liabilities	121,340	3,677	1,571,497	45,223
Net cash provided by (used in) operating activities	40,066,284	1,214,130	1,235,717	35,560
Cash flows from investing activities				
Decrease (increase) in forward exchange receivable	(7,811,002)	(236,697)	0	0
Increase (decrease) in forward exchange payable	0	0	68,102	1,960
Decrease (increase) in exchange bills negotiated, discounted and loans	(13,387,060)	(405,668)	6,930,471	199,438
Acquisition of long-term investments in stocks	(9,062,133)	(274,610)	(1,805,000)	(51,942)
Disposal of long-term investments in stocks	4,495,143	136,216	12,574,926	361,868
Decrease (increase) in long-term investments in bonds	(5,210,279)	(157,887)	(540,240)	(15,547)
Deposal of investment in real estate	1,489,104	45,124	2,775	80
Acquisition of investment in real estate	(8,327,440)	(252,347)	(353,262)	(10,166)
Disposal of property and equipment	1,764,438	53,468	29,851	859

Cathay Financial Holding Co., Ltd. And Subsidiaries
Consolidated statements of cash flows
(Expressed in thousands of dollars)
For the three-month periods ended March 31, 2004 and 2003

	2004		2003	
	NT \$	US \$	NT \$	US \$
Acquisition of property and equipment	(336,400)	(10,194)	(547,636)	(15,759)
Acquisition of intangible assets	(3,321)	(101)	(27)	(1)
Decrease (increase) in deferred charges	1,122	34	(2,541)	(73)
Decrease (increase) in non-operation assets	605,260	18,341	(69,846)	(2,010)
Decrease (increase) in guarantee deposits paid	(233,953)	(7,089)	(737,839)	(21,233)
Decrease (increase) in due form Central Bank and call loans to banks	(16,878,526)	(511,470)	1,292,166	37,185
Net cash provided by (used in) investing activities	(52,895,047)	(1,602,880)	16,841,900	484,659
Cash flows from financing activities				
Increase (decrease) in bonds payable	(693,000)	(21,000)	0	0
Paid other payable for acquisition of property and equipment in prior period	0	0	(16,479)	(474)
Increase (decrease) in funds held for reinsures	(99)	(3)	(409)	(12)
Increase (decrease) in guarantee deposits received	(151,917)	(4,604)	(19,445)	(560)
Increase (decrease) in due to Central Bank and commercial banks	(3,368,525)	(102,076)	1,829,224	52,640
Increase (decrease) in deposits and remittances payable	48,501,324	1,469,737	5,914,441	170,200
Increase (decrease) in banker's acceptances and funds borrowed	273,879	8,299	338,237	9,733
Disposal of treasury stock	3,023,647	91,626	0	0
Net cash provided by (used in) financing activities	47,585,309	1,441,979	8,045,569	231,527
Effects of exchange rate changes	(291,461)	(8,832)	(17,487)	(503)
Increase (decrease) in cash and cash equivalents	34,465,085	1,044,397	26,105,699	751,243
Cash and cash equivalents at the beginning of period	124,703,821	3,778,903	127,506,888	3,669,263
Cash and cash equivalents at the end of period	\$159,168,906	\$4,823,300	\$153,612,587	\$4,420,506
Supplemental disclosure of cash flows information				
Interest paid during the period	\$1,821,116	\$55,185	\$2,495,756	\$71,820
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$1,821,116	\$55,185	\$2,495,756	\$71,820
Income tax paid	\$121,377	\$3,678	\$303,667	\$8,739

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

1. Organization of business scope

(1) Cathay Financial Holding Co., Ltd.

On December 31, 2001 Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”). On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank (formerly)”) joined the Company, as two subsidiaries of the Company by stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank (formerly) were merged on October 27, 2003. UWCCB was the Surviving Company but the merged bank was re-named under Cathay United Bank Co., Ltd. (“Cathay United Bank (merged)”). On July 29, 2003, the Company listed its partial shares of stock on the Luxembourg Stock Exchange in the form of Global Depository Shares. The Company mainly engages in financial holding business activities.

(2) Subsidiaries

- A. Cathay Life was incorporated in Taiwan on October 23, 1962, under the provisions of the ROC Company Law (the “Company Law”). Cathay Life mainly engages in the business of life insurance. The Company’s ownership interest is 100% of the common stock.
- B. Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law. Cathay Century mainly engages in the business of property and casualty insurance. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on June 28, 2002. The Company’s ownership interest is 100% of the common stock.
- C. Cathay United Bank (merged) was formerly UWCCB and was enfranchised by the ROC government in January 1975, and started its operations on May 20, 1975. It engages in the following operations:
 - a. All commercial banking operations authorized by the ROC Banking Law (“Banking Law”);
 - b. International banking business and related operations;
 - c. Trust and stockbrokerage business;

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

- d. Off-shore banking business;
- e. Other financial operations related to the promotion of investments of Overseas Chinese.

On April 21, 2003, under the Financial Institution Merger Law, UWCCB decided to merger with Cathay United Bank (formerly). After the merger on October 27, 2003, Cathay United Bank (formerly) was a merged bank, while UWCCB was the surviving bank and changed its name as Cathay United Bank.

D. The predecessor of Cathay United Bank (formerly) was Taiwan First Investment & Trust Co., which was incorporated in June 1971 and transformed into a commercial bank on November 16, 1998, and renamed Cathay United Bank Co., Ltd. Cathay United Bank (formerly) is permitted under the Banking Law to engage in:

- a. All commercial banking operations allowed by the provisions of the Banking Law;
- b. Trust operations;
- c. Short-term bill agency services and trading securities;
- d. Offshore banking operations;
- e. Other related operations as authorized by the central government authorities.

The Company's ownership interest is 100% of the common stock. UWCCB and Cathay United Bank (formerly) were merged on October 27, 2003. Cathay United Bank (formerly) was a merged bank.

E. Cathay Pacific Venture Capital Co., Ltd. was incorporated in Taiwan on April 10, 2003, under the provisions of the Company Law. Cathay Pacific Venture Capital Co., Ltd. mainly engages in the business of investment. The Company's ownership interest is 100% of the common stock.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with generally accepted accounting principles, "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies." Summary of significant accounting policies is as follows:

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

(1) Principles of consolidation

According to the rules and regulations stated in the Financial Holding Company Act, a financial holding company should include consolidated financial statements along with the annual and interim reports. When compiling the consolidated financial statements, the financial results of bank, insurance and securities subsidiaries must be included in the consolidated financial statements, and all other subsidiaries should be reported in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7. In addition, as stated by the ROC Securities and Futures Commission (the “SFC”), stocks that can be traded publicly should be compiled within the annual and interim financial statements, and subsidiary companies that are controlled by the parent company have to be compiled in the financial statements in accordance with SFAS No. 7. According to Article 4 of the Financial Holding Company Act, a financial holding company has to meet either one of the following criteria: the Company has to hold more than twenty-five percent of the voting stock or total capital of a bank, insurance or securities company, or it has to directly or indirectly appoint or elect more than half of the directors on the board of a bank, insurance or securities company.

The consolidated financial statements of the Company as of and for the three-month period March 31, 2004 include the Company and its subsidiaries, which include Cathay Life, Cathay Century, Cathay United Bank (merged). As of and three-month period March 31, 2003 the consolidated financial statements include the Company, Cathay Life, Cathay Century, Cathay United Bank (formerly) and UWCCB. The consolidated financial statements of the Company as of March 31, 2004 exclude Cathay Venture Pacific Co., Ltd., because its total assets and operating revenues are not up to 10% of the Company.

These consolidated financial statements exclude important inter-company transactions.

(2) Distinguish assets and liabilities, current and non-current

Current assets are assets, which can be liquidated or disposed within one year. Assets that do not belong to current assets are called non-current assets. Current liabilities are debts, which will be paid-off within one year. Debts, which do not belong to current liabilities, are called non-current liabilities.

(3) Basis for preparation of financial statements

Cathay United Bank (merged) financial statements include the accounts of the domestic head office branches and foreign branches and representative offices. All inter-branch and inter-office account balances and transactions have been eliminated when the financial statements were prepared.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

(4) Cash and cash equivalents

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

(5) Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.

Beneficiary certificates are stated at the lower of cost or market value. The cost of beneficiary certificates sold is determined based on the weighted-average cost method.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined by the specific identification method.

When market value is available, short-term notes are stated at the lower of aggregate cost or market value. The costs of these notes, interest income, and gain or loss due to maturity or as a result of sales of notes are determined by the specific identification method.

(6) Allowance for bad and doubtful debts

For Cathay Life and Cathay Century, allowance for bad debts and doubtful accounts on notes receivable, premium receivable, overdue accounts and loans are determined based on the aging analysis of outstanding balances of such accounts and experience.

For Cathay United Bank (merged), allowance for doubtful accounts on receivables, bills and loans are provided based on the results of review of the collectibility of accounts balances and the guideline issued by the relevant regulations. Whenever the management of Cathay United Bank (merged) deems the receivables to be uncollectible, a charge-off that conforms to Cathay United Bank's (merged) relevant regulations is recommended to and approved by the Board of Directors.

(7) Long - term investments

A. Long-term investments in stocks

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Long-term investments in listed companies in which the Company's ownership interest is less than 20% of the voting stock, and which the Company lacks significant influence over operating and financial policies of an investee, are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's ownership interest accounted for less than 20% of the common stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and is already less than cost, the market value becomes the new cost basis and the difference is accounted for as if it were a realized loss, and included in the determination of net income. Stock dividends are not recognized as income but treated as an increase in the number of shares held. Upon sales of long-term equity investments (accounted for under cost method), the difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company has significant operational influence.

If changes occur in the capital structure of the investee companies causing an increase or decrease of the value of the stocks, and the Company can no longer maintain its original shareholding, adjustments will be made in the capital surplus and long-term equity investments accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

The cost of the disposal of an investment is determined by the weighted-average method.

B. Transactions with affiliated companies

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the subsidiary and the Company are amortized to income over the economic service lives of the asset. Gains or losses from other types of inter-company transactions are recognized when realized.

C. Long-term investments in bonds

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Long-term investments in bonds are accounted for at cost, and any premium or discount is amortized based on a reasonable and systematic basis.

D. Investments in real estate

Investments in real estate are stated at cost when acquired. The cost of investments in real estate and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. Gain or loss resulting from disposal of an investment in real estate is classified as an operating gain or loss.

Depreciation is calculated by the straight-line method pursuant to the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is building lease and all are intended for business leasing; rents can be paid yearly, semi-yearly, quarter and lump sum.

(8) Property and equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenance are expensed immediately. Upon disposal of an item of property and equipment, the related cost and accumulated depreciation are removed from the accounts.

Depreciation on depreciable assets is calculated on a straight-line method, based on the useful lives prescribed by the Executive Yuan Depreciation Table. When their economic useful lives expire, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

(9) Deferred charges

Deferred charges are expense, which are effective more than one year. Deferred charges are amortized over the economic useful life by the straight-line method.

(10) Guaranteed depository insurance payment

Cathay Life and Cathay Century are required under the Article 141 of the ROC Insurance Law (“Insurance Law”) to deposit an amount equal to 15% of the capital stock in the Central Bank. Such deposit is the “Guaranteed Depository Insurance.” The amount was deposited in the form of a bond.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

(11) Reserves for operations

A. Cathay Life

Reserves for operations are organized according to the Insurance Law. These reserves include unearned premium reserve, claim reserve, special reserve and reserve for life insurance. Actuaries provide the figures of such reserve in the financial statements.

The ROC Ministry of Finance (“MOF”) passed a new regulation on December 24, 2002. When the accumulated gross amount of “Special Reserve for the Loss Movement” exceeds 30% of the gross amount of “net earned premium,” its surplus should be treated as income under this regulation.

In addition, according to the MOF regulation passed on December 30, 2002, the surplus from the “Special Reserve for the Loss Movement” should be placed as special reserve under proprietary equity after the Board of Directors has approved the surplus appropriation. This amount may not be allocated or used for other purposes unless approved by the MOF.

Cathay Life had a surplus of NT \$6,249,135 (US\$189,368) from the “Special Reserve for the Loss Movement” in 2003.

B. Cathay Century

Cathay Century’s reserves for operations are organized according to the Insurance Law. These reserves include unearned premium reserve, claim reserve and special reserve. The actuary provides the figures of such reserves in the financial statements.

(12) Reserves for losses on trading securities

Pursuant to the MOF regulations, a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT\$200 million (US\$6.06 million). The reserve cannot be used for other purposes except to offset trading losses.

(13) Foreclosed properties

Foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

(14) Reserves for losses on guarantees

Reserves for losses on guarantees are computed at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for custom duties, commodity taxes and contracts performance obligations.

(15) Reserves for losses on stock brokerage transactions

Pursuant to the MOF regulations, a reserve for possible losses is provided based on 0.0028% of the amount of total stock brokerage transactions each month until such reserve has reached the amount of NT\$200 million (US\$6.06 million).

(16) Convertible bonds payable

The difference between the redemption price and the face value of a convertible bond is amortized by the interest method and is credited to the reserve for bonds redemption accounts. In addition, this amortization is treated as interest expense.

The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible bonds payable and reserve amount for bonds redemption are transferred to the accounts of capital stock and capital surplus and accordingly, no gain or loss is recognized upon conversion.

(17) Insurance premiums income and expenses

For Cathay Life and Cathay Century, direct premiums are recognized on the date the policies became effective. Policy-related expenses are recognized when they are incurred.

Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end and based on past experience.

(18) Recognition of interest revenue and service fees

Interest income is recognized on an accrual basis. The loans for which interests have been discontinued to accrue are credited to income when received.

Service fees are recognized when earned.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

(19) Pension plan

The company has established a pension plan for all employees. Pension plan benefits are based primarily on participants' compensation and the number of years of credited service.

According to the SFAS No. 23 "Interim Financial Reporting and Disclosures", the interim financial statement is not required to follow the principles outlined in the SFAS No. 18 "Accounting for Pensions".

(20) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency transactions should be accounted for at cost and recognized on a straight-line method recorded in NT dollars at the spot rate when the transactions occur. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income in the period of actual conversion or settlement. Foreign currency of long-term investment accounted cumulative translation adjustments are treated as adjustments of stockholders' equity. Year-end foreign currency assets and liabilities are converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

Assets and liabilities of Cathay United Bank's (merged) foreign branches, which are denominated in their respective local currencies, are converted into NT dollars using the method described in the preceding paragraph. Local currencies denominated income and expenses of such branches are translated at weighted-average rate. Gains or losses resulting from the translation are treated as "Cumulative conversion adjustments" account under shareholders' equity.

B. Conversion of foreign subsidiaries' statements

Financial statements of foreign subsidiaries accounted for by the equity method are converted into NT dollars as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income statement items are converted by the weighted-average exchange rate for the year. Differences arising from a conversion are reported as "Cumulative Conversion Adjustments" in the section of stockholders' equity as a separate item.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements should be first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same results as if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is recognized in the current period because it directly affects the cash flows of the foreign operation.

(21) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes," which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences deferred income tax liabilities, deferred income tax assets, prior year's loss carry-forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with article 49 of Financial Holding Company Act, the Company and its subsidiaries company jointly filed corporation income tax returns and 10% surcharge on its inappropriate retained earnings under the Integrated Income Tax System. If there is any tax effects due to adopt forgoing Integrated Income Tax System, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable(tax refund receivable) among the Company and its subsidiaries.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. But if deferred asset or liability cannot be related to an assets or liability in the financial statements, it will be classified as current or noncurrent on the basis of the expected reversal date of the temporary differences.

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits," for deductible income tax. The deductible income tax resulting from the expenditure on the purchase of equipment, R&D, education, training and investment in equity shall be dealt with under the current recognition method.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date of the stockholders' meeting.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

(22) Capital expenditure expenses

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and generate revenues in future periods. Otherwise, it is expensed in the year of expenditure.

(23) Treasury stock

The issued stocks can be purchased back by the company and treated as treasury stock, and the cost for this purchase should be credited under the category “Treasury Stock”, the face value of these treasury stocks should be calculated separately based on the reason of purchase and in accordance with stock type (common or preferred stock) using the weighted average method. It should be debited under the treasury stock category at time the treasury stock is written off and credited to “capital surplus-stock premium” and capital stock according to stock equity ratio. If the book value of treasury stock is higher than the sum of face value and stock premium, the difference should be charged off to the capital surplus of the same type of treasury stock, the insufficient amount, if any, should be credited to retained earning; if however, the face value of treasury stock is lowered than the sum of face value and stock premium, the difference should be debited to capital surplus that derived from stock exchange of the same type of treasury stock. According to the Ministry of Finance Security and Future Committee (91) article 108164 ruled that the company:

In accordance with article 38 of the financial holding company act, that based on the principle of strict prohibition in cross holding, the initial listing and over the counter financial institution must act in accordance with article 28 of the security exchange to buy back company shares prior to the conversion to a subsidiary of a financial holding company. In addition, article 31 of the financial holding company act indicated that the adjustable period for such conversion is 3 yeas maximum, the past due is deemed as unissued shares and should undergo registration amendment and be charged off accordingly.

Under the previous circumstance, subsidiary of a financial holding company holds shares that are treated as treasury stock of the subsidiary should act in accordance with article 28-2, that is, ineligibility of equity right before the conversion of those shares.

According to the Ministry of Finance Security and Future Committee (91) article 111467 ruled that a financial institution acted in accordance with security exchange article 28-2, item 1, that the buy back of treasury shares where the conversion to a

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

subsidiary of a financial hold is taking place, the mentioned treasury shares, according to Financial Holding Company Act, article 31, although converted to financial holding common shares, should still be listed as treasury shares and deducted from shareholder equity, the same applied to the holding of subsidiary common shares, that the holder of financial holding shares as a result of this conversion, the company should act in accordance with SFAS NO.30 "Treasury Stock Accounting Principle" and treated shares held by the subsidiary as treasury stock in its financial report and income statement.

(24) Derivative financial products transaction

A. Transactions on forward exchange contracts are converted into NT dollars based on the spot rate on the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At year-end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and resulting gains or losses are credited or charged to current income. The net value of receivables and payables of the forward exchange contracts is represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of forward contracts are credited or charged to current income in the year of settlement.

B. Options

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged against current income. As of the balance sheet dates, any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

C. Interest rate swaps ("IRS")

Interest rate swap transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment obligation based on a notional principal amount. For interest rate swap transactions undertaken for hedging purposes, income and expenses arising upon settlement are netted off and recognized in the statement of income and expenditure.

D. Cross currency swaps ("CCS")

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contract date. Interest is calculated according to the agreed period at the applicable interest rate. The difference is credited or charged to the current income.

E. Forward rate agreements (“FRA”)

Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading FRA, differences in the present value of interest revenue or expense on the balance sheet date are reported as exchange gains or losses. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

(25) Commitments and contingent liabilities

A loss is recognized if it is probable that an asset will be impaired or a liability might be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonable estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

(26) The interim financial statement

The interim financial statements are recorded and disclosed according to the SFAS No. 23, “Interim Financial Report and Disclosures”.

(27) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the March 31, 2004 and 2003 NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.00 and 34.75 to US\$1.00 effective on March 31, 2004 and 2003, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
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3. Changes in accounting and its effects:

Effective January 1, 2004, Cathay United Bank (merged) adopted the new “Regulations Governing the Preparation of Financial Statements of Public Banks” to account for its bills transactions related to resell or repurchase agreement using the financing method which resulted in an increase of NT\$51 (US\$2) in net income for the three-month period ended March 31, 2004.

4. Cash and cash equivalents

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Petty cash and cash on hand	\$7,755,170	\$235,005	\$7,741,521	\$222,777
Cash in banks	36,011	1,091	873,952	25,150
Time deposits	61,430,708	1,861,537	68,357,290	1,967,116
Cash equivalents	74,510,428	2,257,892	69,935,115	2,012,521
Checks for clearing	5,780,333	175,161	3,986,091	114,708
Due from commercial banks	9,656,256	292,614	2,718,618	78,234
Total	<u>\$159,168,906</u>	<u>\$4,823,300</u>	<u>\$153,612,587</u>	<u>\$4,420,506</u>

5. Short-term investments

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Stock	\$64,906,758	\$1,966,871	\$47,599,391	\$1,369,767
Beneficiary certificates	73,409,207	2,224,521	67,938,938	1,955,077
Government bonds and corporate bonds	57,986,961	1,757,181	83,891,485	2,414,144
Oversea investments	175,310,298	5,312,433	89,733,413	2,582,256
Appoint purpose trust fund	51,716,548	1,567,168	49,592,739	1,427,129
Financial debentures	18,203,179	551,612	15,299,550	440,275
Certificates of Deposit	128,809,249	3,903,311	43,476,396	1,251,119
Short-term notes	16,282,326	493,404	39,534,283	1,137,677
Subtotal	<u>586,624,526</u>	<u>17,776,501</u>	<u>437,066,195</u>	<u>12,577,444</u>
Less: Allowance for valuation loss	(208,942)	(6,332)	(5,496,519)	(158,173)
Total	<u>\$586,415,584</u>	<u>\$17,770,169</u>	<u>\$431,569,676</u>	<u>\$12,419,271</u>

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6. Exchange bills negotiated discounted and loans, net

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Exchange bills negotiated				
discounted	\$854,832	\$25,904	\$866,842	\$24,945
Short-term loans and				
overdrafts	229,194,081	6,945,275	220,968,631	6,358,810
Short-term secured loans and				
overdrafts	113,064,793	3,426,206	111,177,294	3,199,347
Medium-term loans	47,897,460	1,451,438	50,436,470	1,451,409
Medium-term secured loans	128,613,448	3,897,377	154,848,825	4,456,081
Long-term loans	19,827,101	600,821	23,132,309	665,678
Long-term secured loans	468,383,953	14,193,453	435,597,369	12,535,176
Subtotal	1,007,835,668	30,540,474	997,027,740	28,691,446
Less: Allowance for bad debts	(5,624,402)	(170,436)	(7,013,624)	(201,831)
Total	<u>\$1,002,211,266</u>	<u>\$30,370,038</u>	<u>\$990,014,116</u>	<u>\$28,489,615</u>

For Cathay Life and Cathay Century's secured loans are secured by government bonds, stock, corporate bonds and real estate secure loans. Loans with terms for less than one year are classified as short-term loans; loans with terms of more than one year but less than seven years are classified as medium-term loans ; and loans with terms of more than seven years are classified as long-term loans.

Cathay United Bank's (merged) non-accrual accounts amounted to NT\$10,874,401 (US\$329,527) and NT\$12,719,815 (US\$366,038) at March 31, 2004 and 2003, respectively. The unrecognized interests on the non-accrual accounts amounted to NT\$114,075 (US\$3,457) and NT\$205,311 (US\$5,908) for the three-month periods ended March 31, 2004 and 2003, respectively.

For Cathay United Bank (formerly), as of March 31, 2003, the past-due loans and other credit loans without accrued interest amounted to NT\$5,696,734 (US\$163,935) and there are categorized under loans and delinquent loans, respectively. The non-accrued interest income amounted to NT\$113,231 (US\$3,258) for the three-month period ended March 31, 2003.

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7. Long-term investments in stocks

Investee	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$11,377	\$380,209	\$10,941
Vista Technology Venture Capital Corp.	95,453	2,893	99,593	2,866
Omnitek Venture Capital Corp.	150,572	4,563	152,693	4,394
Wa Tech Venture Capital Co., Ltd.	179,871	5,451	176,034	5,066
IBT Venture Capital Corp.	565,288	17,130	590,214	16,985
Cathay Insurance (Bermuda) Co., Ltd.	55,359	1,677	53,071	1,527
Symphox Information Co., Ltd.	255,548	7,744	255,171	7,343
Cathay Securities Investment Trust Co., Ltd.	213,685	6,475	200,429	5,768
Cathay Venture Capital Crop.	545,911	16,543	286,354	8,240
Lin Yuan Property Management Co., Ltd.	16,140	489	34,761	1,000
Cathay Securities Investment Co., Ltd.	18,577	563	6,411	185
Cathay Pacific Venture Capital Co., Ltd.	590,573	17,896	0	0
Cathay Futures Corp. (formerly Seaward Futures Corp.)	730,065	22,123	1,672,355	48,125
Seaward Leasing Ltd.	2,316,052	70,183	2,079,034	59,828
Huong Yee Co., Ltd.	0	0	614,003	17,669
Seaward Insurance Agent Corp.	0	0	50,665	1,458
Seaward Card Co., Ltd.	46,760	1,417	36,948	1,063
Indovina Bank	439,039	13,304	451,751	13,000
Taiwan Real-estate Management Corp.	54,162	1,641	54,162	1,559
Taiwan Finance Corp.	1,244,395	37,709	1,098,095	31,600
Seaward Property Insurance Agent Corp.	0	0	2,000	58
Cathay Bank Property Agency of Association	8,073	245	8,555	246
Cathay Bank Life Insurance Agency of Association	105,663	3,202	18,884	543
Subtotal	<u>8,006,626</u>	<u>242,625</u>	<u>8,321,392</u>	<u>239,464</u>
Less: Unrealized gain from intercompany transactions	<u>(31,850)</u>	<u>(965)</u>	<u>(87,826)</u>	<u>(2,527)</u>
Long-term investment under the equity method-net	7,974,776	241,660	8,233,566	236,937
B. Long-term investment under the cost method	<u>50,067,084</u>	<u>1,517,184</u>	<u>50,014,714</u>	<u>1,439,272</u>
Total	<u><u>\$58,041,860</u></u>	<u><u>\$1,758,844</u></u>	<u><u>\$58,248,280</u></u>	<u><u>\$1,676,209</u></u>

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8. Long-term investments in bonds

Most of the Long-term bond investments constitute mainly the government bonds. As of March 31, 2004 and 2003, long-term investments in bonds amounted to NT\$280,287,350 (US\$8,493,556) and NT\$147,387,957 (US\$4,241,380), respectively.

9. Investment in real estate

Item	March 31, 2004								
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Investments in real									
estate	\$94,101,363	\$2,851,556	\$4,747	\$144	(\$12,093,966)	(\$366,484)	\$82,012,144	\$2,485,216	
Construction	10,548,924	319,665	0	0	0	0	10,548,924	319,665	
Prepayments for									
buildings and land	8,200,000	248,485	0	0	0	0	8,200,000	248,485	
Total	\$112,850,287	\$3,419,706	\$4,747	\$144	(\$12,093,966)	(\$366,484)	\$100,761,068	\$3,053,366	

Item	March 31, 2003								
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Investments in real									
estate	\$93,988,166	\$2,704,695	\$5,132	\$148	(\$10,745,472)	(\$309,222)	\$83,247,826	\$2,395,621	
Construction	10,711,587	308,247	0	0	0	0	10,711,587	308,247	
Prepayments for									
buildings and land	414	12	0	0	0	0	414	12	
Total	\$104,700,167	\$3,012,954	\$5,132	\$148	(\$10,745,472)	(\$309,222)	\$93,959,827	\$2,703,880	

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Real estate investment's rents can be paid yearly, semi-yearly, quarter and lump sum.
- (3) No investments in real estate were pledged as collateral. The insurance coverage on investments in real estate was stated at book value.

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10. Deposits and remittances

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Check deposit	\$12,209,425	\$369,983	\$10,904,990	\$313,813
Demand deposits	98,856,404	2,995,649	63,514,276	1,827,749
Demand savings deposits	450,553,233	13,653,128	307,845,648	8,858,867
Time deposits	144,617,708	4,382,355	255,173,218	7,343,114
Discretionary pension trust funds	0	0	3,636,750	104,655
Remittances payable	221,473	6,711	95,991	2,762
Bank's debenture	27,050,000	819,697	10,000,000	287,770
Total	<u>\$733,508,243</u>	<u>\$22,227,523</u>	<u>\$651,170,873</u>	<u>\$18,738,730</u>

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Banker's debenture	\$14,700,000	\$445,455	\$0	\$0
Subordinate Banker's debenture	12,350,000	374,242	10,000,000	287,770
Total	<u>\$27,050,000</u>	<u>\$819,697</u>	<u>\$10,000,000</u>	<u>\$287,770</u>

On May 23, 2002, Cathay United Bank (merged) issued five-year subordinate banker's debenture amounting to NT\$5,000,000 (US\$151,515) with a stated interest rate of 4.15%. On September 10, 2002, Cathay United Bank (merged) issued another five-year and six-month subordinate banker's debenture amounting to NT\$5,000,000 (US\$151,515) with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinate banker's debenture are repayable at maturity, and the interests are payable annually and semiannually, respectively.

On April 28, 2003, Cathay United Bank (merged) issued five-year subordinate banker's debenture amounting to NT\$2,350,000 (US\$71,212) with a stated interest rate of 2%. The subordinate banker's debenture are repayable at maturity, and the interests are payable annually.

Each subordinate Banker's debenture has lower priority claim on assets and income than other debt. That is, its principal and interests are repayable only after more senior debt with higher priority has been satisfied. Subordinate Banker's debenture is senior to common stock.

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On June 20, 2003, Cathay United Bank (merged) issued five-year and six month banker's debenture amounting to NT\$5,000,000 (US\$151,515) with a stated interest rate of 3.019%. On December 4, 2003, December 10, 2003, and December 11, 2003, Cathay United Bank (merged) issued five-year banker's debenture amounting to NT\$3,200,000 (US\$96,970), NT\$2,700,000 (US\$81,818), and NT\$1,800,000 (US\$54,545), respectively, with floating interest rate; thereafter a six-year banker's debenture amounting to NT\$2,000,000 (US\$60,606) was issued with floating interest rate on March 29, 2004. The banker's debentures are repayable at maturity, and the interests are payable quarterly or semiannually. The priority claim of Banker's debentures, including principles and interests, mentioned above is equal to other debts of Cathay United Bank (merged), while that is senior to common stock.

11. Bonds payable

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Zero Coupon Convertible Notes	\$24,500,000	\$742,424	\$24,500,000	\$705,036
Exchange loss (gain)	(1,400,000)	(42,424)	0	0
Redemption premium payable	1,509,818	45,752	727,181	20,926
Total	<u>\$24,609,818</u>	<u>\$745,752</u>	<u>\$25,227,181</u>	<u>\$725,962</u>

Please see note 25(5), "Zero coupon convertible notes related information" for details.

12. Reserve for operations and liabilities

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Unearned premium reserve	\$12,684,694	\$384,385	\$13,075,487	\$376,273
Reserve for life insurance	1,356,970,260	41,120,311	1,209,621,962	34,809,265
Special reserve	18,375,982	556,848	13,666,268	393,274
Claims reserve	960,813	29,116	900,228	25,906
Reserve for losses on guarantees	28,724	870	48,913	1,408
Reserve for losses on stock brokerage transactions	41,628	1,261	36,432	1,048
Reserves for losses on trading securities	130,981	3,969	102,232	2,942
Total	<u>\$1,389,193,082</u>	<u>\$42,096,760</u>	<u>\$1,237,451,522</u>	<u>\$35,610,116</u>

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13. Common stock

As of March 31, 2004 and 2003, the numbers of issued shares, par value of NT10 dollars (US0.3 dollars), were 8,307,489,100 shares.

On July 29, 2003, the Company listed its partial shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Shares.

14. Capital surplus

(1) Capital Surplus was NT\$53,650,859 (US\$1,625,784) and NT\$55,839,804 (US\$1,606,901) in March 31, 2004 and 2003. Before conversion into financial holding company, NT\$267,215 (US\$8,097) and NT\$1,917,548 (US\$55,181) constituted retained earnings of certain Subsidiaries of the Company.

(2) The additional paid-in capital of par value through the exchange of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.

(3) In addition, pursuant to the Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

15. Retained earnings

(1) Legal reserve

Pursuant to the Company Law, 10% and the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficit but not for cash dividend distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

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(2) Unappropriated retained earnings

- A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. After distributing 0.01%~0.05% of total distribution for employee's bonus, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.
- B. As the stockholder's meeting of the company resolved on June 6, 2003, declared cash dividends NT\$1.5 dollars each stock and bonus from retained earnings of NT\$13,085,153 (US\$396,520) in 2002 and capital surplus from unappropriated earnings with both the subsidiary before conversion amounted to NT\$1,917,548 (US\$58,108) and the disposition of fixed assets amounted to NT\$128,170 (US\$ 3,884), respectively. The issuance date of cash dividends was on July 11, 2003.
- C. Cathay life had acquired 156,927,000 shares of treasury stock. After conversion into a financial holding company, Cathay life treasury stock is treated as the Company's treasury stock without any stockholder rights. As of March 31, 2004, Cathay life had been transferred to employees.
- D. According to the revised Income Tax Law of 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- E. Under the regulations of the Securities and Futures commission, a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets, other than the deficit, is made from unappropriated retained earnings. However, the special reserve of equal amounts for prior years' accumulated shareholders' equity contra accounts should only be provided from prior years' unappropriated earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.
- F. In accordance with SFC regulations, subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock as of January 1, 2002. The cost of these shares cannot be distributed as special reserve.
- G. Dividends policy

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According to the operating program, stock dividends are for the purpose of retaining operating capital. The remainder is distributed in cash, but cash dividends are a minimum of 10% of the dividends declared.

16. Treasury stock

(1) The following is a summary of the movement of treasury stock for the three-month period ended March 31, 2004.

(Unit: in thousands of shares)

Reason for Transfer	January 1,			March 31,			Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	2004	Increase	Decrease	2004	thousands of dollars)	thousands of dollars)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)	Market Value (in NT dollars)	Market Value (in US dollars)
Subsidiaries												
translated it to employees	51,551	0	51,551	0	\$0	\$0						
Parent's stock that the subsidiaries held were treated as treasury stock												
	11,705	0	0	11,705	555,788	16,842	\$47.48	\$1.44	\$61.96	\$1.88		
Holding subsidiaries' stocks by conversion were treated as treasury stock												
	254,911	0	0	254,911	11,450,762	346,993	\$44.92	\$1.36	\$61.96	\$1.88		
Total	318,167	0	51,551	266,616	\$12,006,550	\$363,835						

(2) The Companies' stocks held by subsidiaries are illustrated as follows:

(Unit: in thousands of shares)

Name	Holding share	Amount (in NT thousands of dollars)	Amount (in US thousands of dollars)	Cause	About retained earnings limit	Legal time limit	Pro forma way by the board of directors determine
Cathay Century	3,397	\$210,475	\$6,378	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay United Bank (merged)	8,308	500,400	15,164	"	None	Within three years	None
Total	11,705	\$710,875	\$21,542				

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(3) Cathay Life

A. Cathay Life's treasury stock variation for the three-month period ended March 31, 2004 are as follows :

(Unit: in thousands of shares)

Reason for transfer	Jan. 1, 2004	Increase	Decrease	Mar. 31, 2004
Transferred it to employees	51,551	0	51,551	0

B. Pursuant to the ROC Securities and Exchange Law, the outstanding issued shares, which a company can acquire as treasury stocks should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 30, 2001, Cathay Life had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$222,238).

C. Treasury stock of Cathay Life was converted into common stock of the Company on December 31, 2001.

D. Cathay Life had been transferred 51,551,000 shares to its employees at transferred price of NT58.83 dollars/share (US1.78dollars/share) and was approved by the SFC on March 13, 2004. After the transfer transaction, the treasury stock holdings of Cathay Life have been reduced to 0 shares.

17. Personnel, depreciation, depletion and amortizations

(1) The Company

Item	For the three-month period ended March 31,2004 (NT\$)			For the three-month period ended March 31,2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	0	18,295	18,295	0	12,530	12,530
Labor & health Insurance expenses	0	691	691	0	164	164
Pension expenses	0	922	922	0	0	0
Other expenses	0	9,406	9,406	0	7,647	7,647
Depreciation	0	245	245	0	180	180
Depletion	0	0	0	0	0	0
Amortizations	0	36,342	36,342	0	36,342	36,342

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Item	For the three-month period ended March 31, 2004 (US\$)			For the three-month period ended March 31, 2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	0	554	554	0	361	361
Labor & health						
Insurance expenses	0	21	21	0	5	5
Pension expenses	0	28	28	0	0	0
Other expenses	0	285	285	0	220	220
Depreciation	0	7	7	0	5	5
Depletion	0	0	0	0	0	0
Amortizations	0	1,101	1,101	0	1,046	1,046

The total number of employees is 53 on March 31, 2004.

(2) Cathay Life

Item	For the three-month period ended March 31, 2004 (NT\$)			For the three-month period ended March 31, 2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	3,966,314	1,285,463	5,251,777	4,398,364	1,225,649	5,624,013
Labor & health						
Insurance expenses	287,653	50,050	337,703	303,714	45,383	349,097
Pension expenses	211,131	36,736	247,867	239,837	35,838	275,675
Other expenses	239,970	48,734	288,704	253,667	48,610	302,277
Depreciation	0	561,640	561,640	0	550,899	550,899
Depletion	0	0	0	0	0	0
Amortizations	0	0	0	0	0	0

Item	For the three-month period ended March 31, 2004 (US\$)			For the three-month period ended March 31, 2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	120,191	38,954	159,145	126,572	35,270	161,842
Labor & health						
Insurance expenses	8,717	1,516	10,233	8,740	1,306	10,046
Pension expenses	6,398	1,113	7,511	6,902	1,031	7,933
Other expenses	7,272	1,477	8,749	7,300	1,399	8,699
Depreciation	0	17,019	17,019	0	15,853	15,853
Depletion	0	0	0	0	0	0
Amortizations	0	0	0	0	0	0

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The total number of employees is 28,332 on March 31, 2004.

(3) Cathay Century

Item	For the three-month period ended March 31,2004			For the three-month period ended March 31,2003		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	0	115,160	115,160	0	172,942	172,942
Labor & health Insurance expenses	0	8,106	8,106	0	7,531	7,531
Pension expenses	0	8,722	8,722	0	7,576	7,576
Other expenses	0	49,494	49,494	0	48,450	48,450
Depreciation	0	4,829	4,829	0	6,034	6,034
Depletion	0	0	0	0	0	0
Amortizations	0	1,000	1,000	0	1,033	1,033

Item	For the three-month period ended March 31,2004			For the three-month period ended March 31,2003		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	0	3,490	3,490	0	4,976	4,976
Labor & health Insurance expenses	0	246	246	0	217	217
Pension expenses	0	264	264	0	218	218
Other expenses	0	1,500	1,500	0	1,394	1,394
Depreciation	0	146	146	0	173	173
Depletion	0	0	0	0	0	0
Amortizations	0	30	30	0	30	30

The total number of employees is 791 on March 31, 2004.

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(4) Cathay United Bank (merged)

Item	For the three-month period ended March 31, 2004 (NT\$)			For the three-month period ended March 31, 2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	0	895,766	895,766	0	681,398	681,398
Labor & health Insurance expenses	0	69,411	69,411	0	60,347	60,347
Pension expenses	0	89,522	89,522	0	82,936	82,936
Other expenses	0	267,786	267,786	0	165,931	165,931
Depreciation	0	214,694	214,694	0	154,855	154,855
Depletion	0	0	0	0	0	0
Amortizations	0	55,307	55,307	0	15,367	15,367

Item	For the three-month period ended March 31, 2004(US\$)			For the three-month period ended March 31, 2003(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	0	\$27,144	\$27,144	0	\$19,609	\$19,609
Labor & health Insurance expenses	0	2,103	2,103	0	1,737	1,737
Pension expenses	0	2,713	2,713	0	2,386	2,386
Other expenses	0	8,115	8,115	0	4,775	4,775
Depreciation	0	6,506	6,506	0	4,456	4,456
Depletion	0	0	0	0	0	0
Amortizations	0	1,676	1,676	0	442	442

The total number of employees was 3,558 on March 31, 2004.

18. Estimated income taxes

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(1) Income tax expenses include the following:

	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Expected income tax expense	\$105,183	\$3,187	\$1,498,683	\$43,127
Plus: Interest income of tax on a separate basis	52,924	1,604	64,789	1,864
Extra 10% income tax on undistributed retained earnings	330,098	10,003	10,108	291
Deferred income tax expenses (benefits)	878,736	26,628	334,643	9,630
Adjustment of income tax	(13,002)	(394)	12,083	348
Less: Income tax credit	(2,331)	(70)	(3,038)	(87)
Tax effects under integrated income tax systems	(330,098)	(10,003)	0	0
Total income tax expenses (benefit)	<u>\$1,021,510</u>	<u>\$30,955</u>	<u>\$1,917,268</u>	<u>\$55,173</u>

In accordance with Article 49 of Financial Holding Company Act, the Company were selected as representative taxpayer of the holding group and filed income tax returns with a 10% surcharge on the undistributed retained earnings for both itself and its domestic subsidiaries, on the basis that the Company holds more than 90% of the outstanding issued shares of subsidiaries for the entire tax year.

(2) Income tax return:

- A. The Company's income tax returns, up until 2001, have been examined and cleared by the Tax Authority.
- B. Cathay Life's income tax returns, up until 2000 except for 1999, have been examined and cleared by the Tax Authority.

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- C. Cathay Century's income tax returns, up until 2001 except for 1999, have been examined and cleared by the Tax Authority.
- D. Cathay United Bank's (merged) income tax returns for the year 1998 and the years prior to the 1998 had determined by the Tax Authority.
- E. Cathay United Bank's (merged) income tax returns for the years from 1999 to 2003 are being examining by the Tax Authority.
- F. A valuation allowance has been established for Cathay United Bank's (merged) income tax returns assessment for the years from 1995 to 1998. However, Cathay United Bank's (merged) disagreed with the assessment and appealed to the Tax Authorities. After taking the further review of the claim, the tax authority has reversed its pervious decision and re-determined the income tax obligation of Cathay United Bank (formerly) for the year 1996 on February 20, 2004.
- G. Except for 1999, the tax authority has examined and assessed the Cathay United Bank's (formerly) income tax returns through 2001. In connection with such examinations, withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors (the "bond withholding taxes") amounting to of NT\$46,298, NT\$37,542 and NT\$4,658, in 1994, 1995 and 2001 respectively were disallowed by the tax authorities as deduction against Cathay United Bank's (formerly) income tax obligations. Cathay United Bank's (formerly) is contesting the decisions made by the tax authorities and the amounts related to the disallowed bond withholding taxes have been accrued as taxes payable and tax expense for financial reporting purposes. On February 13, March 2, and March 5, 2004, the tax authority has reversed its original decision and has allowed the partial reduction amount on the income tax obligation of Cathay Untied Bank for the years 1994, 1995 and 2001.

(3) Information related tax imputation:

A. The Company

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$2,090,022	\$63,334	\$1,958,610	\$56,363

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	March 31,	
	2004 (Estimate)	2003 (Actual)
Imputation credit account ratio	12.34%	35.19%

B. Cathay Life

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$1,438,949	\$43,605	\$3,850,520	\$110,806

	March 31,	
	2004 (Estimate)	2003 (Actual)
Imputation credit account ratio	5.90%	30.71%

C. Cathay Century

	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$177,123	\$5,367	\$184,686	\$5,315

	March 31,	
	2004 (Estimate)	2003 (Actual)
Imputation credit account ratio	29.89%	29.82%

D. Cathay United Bank (merged)

	March 31			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$292,355	\$8,859	\$37,542	\$1,080

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(4) Information relating of undistributed earnings:

Year	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Prior to 1997	\$267,215	\$8,097	\$869,860	\$25,032
After 1998	16,916,694	512,627	14,132,841	406,700
Total	\$17,183,909	\$520,724	\$15,002,701	\$431,732

Net income after tax for the three-month periods ended March 31, 2004 and 2003 were not induced in unappropriated earnings computation since 1998.

The undistributed earnings include additional paid-in capital from the stock conversion, which comes from the original financial institution's unappropriated retained earnings and is allowed to be distributed as cash dividends.

Undistributed retained earnings before 1997 includes subsidiary's unappropriated retained earnings before the stock conversion subsidiary's unappropriated retained earnings before 1997.

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19. Earnings per share

	For the three-month period ended March 31, 2004								
	Income (Numerator)				Shares (denominator)	EPS			
	Before income taxes (in thousands of dollars)		Consolidated net income (in thousands of dollars)			Before income taxes EPS (in dollars)		Consolidated net income EPS (in dollars)	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Net Income	<u>\$13,061,505</u>	<u>\$395,803</u>	<u>\$12,039,995</u>	<u>\$364,848</u>					
Primary earnings per share									
Net income for common stock holder	\$13,061,505	\$395,803	\$12,039,995	\$364,848	7,998,385,588	\$1.63	\$0.05	\$1.51	\$0.05
Effect of potentially dilutive common stock									
Convertible bonds payable	<u>\$167,727</u>	<u>\$5,083</u>	<u>\$125,796</u>	<u>\$3,812</u>	431,864,407				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	<u>\$13,229,232</u>	<u>\$400,886</u>	<u>\$12,165,791</u>	<u>\$368,660</u>	<u>8,430,249,995</u>	\$1.57	\$0.05	\$1.44	\$0.04
	For the three-month period ended March 31, 2003								
	Income (Numerator)				Shares (denominator)	EPS			
	Before income taxes (in thousands of dollars)		Consolidated net income (in thousands of dollars)			Before income taxes EPS (in dollars)		Consolidated net income EPS (in dollars)	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
	Net Income	<u>\$9,163,037</u>	<u>\$263,684</u>	<u>\$7,245,769</u>	<u>\$208,511</u>				
Primary earnings per share									
Net income for common stock holder	\$9,163,037	\$263,684	\$7,245,769	\$208,511	7,433,031,035	\$1.23	\$0.04	\$0.97	\$0.03
Effect of potentially dilutive common stock									
Convertible bonds payable	<u>\$210,702</u>	<u>\$6,064</u>	<u>\$158,026</u>	<u>\$4,548</u>	418,890,994				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	<u>\$9,373,739</u>	<u>\$269,748</u>	<u>\$7,403,795</u>	<u>\$213,059</u>	<u>7,851,922,029</u>	\$1.19	\$0.03	\$0.94	\$0.03

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20. Related party transactions

(1) Related parties

Name	Relationship
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay General Hospital	Their chairman is an immediate family member of the company's chairman
Cathay Life Charity Foundation	Their chairman is an immediate family member of the company's chairman
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Lin Yuan Property Management Co., Ltd.	The investee is accounted for using the equity method
Cathay Venture Capital Corp.	The investee is accounted for using the equity method
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	The investee is accounted for using the equity method
Symphox Information Co., Ltd.	The investee is accounted for using the equity method
Cathay Life Insurance Agent Co., Ltd.	The investee is accounted for using the equity method
Cathay Property Insurance Agent Co., Ltd.	The investee is accounted for using the equity method
Cathay Futures Corp. (formerly Seaward Futures Corp.)	The investee is accounted for using the equity method
Seaward Leasing Ltd.	The investee is accounted for using the equity method

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Seaward Insurance Agent Corp.(merged with Cathay Life Insurance Agent Co., Ltd. on February 5 2004, Cathay Life Insurance Agent Co., Ltd was the surviving company)	The investee is accounted for using the equity method
Seaward Property Insurance Agent Corp. (liquidated in October, 2003)	The investee is accounted for using the equity method
Huong Yee Co., Ltd. (liquidated in July, 2003)	The investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee is accounted for using the equity method
Seaward Card Co., Ltd.	The investee is accounted for using the equity method
Indovina Bank	The investee is accounted for using the equity method
Vista Technology Venture Capital Crop.	The investee is accounted for using the equity method
China England Company Ltd. and etc.	Investee company of Cathay United Bank(merged)
Gemfor Tech Co.	Their Chairman of the Board is the director of the Cathay United Bank(merged)
KG Telecommunication Ltd.	Cathay Life is to occupy the supervisor for KG Telecommunication Ltd.
Taipei Smart Card Corp.	Investee Company of Cathay United Bank (merged)
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the Foundation

(2) Significant transactions with related parties:

A. Property transactions (from related parties):

- a. Transactions between the Company and related parties consist of real estate, constructions, and lease transactions. The terms of such transactions are based on market surveys and contracts of both parties.

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Name	For the three-month period ended March 31,2004		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$2,310	\$70
	Hsinyi District Base-D	4,773	145
	Ban Ciao Building	34,878	1,057
	Cathay General Hospital	7,120	216
	Siangyang Building	5,449	165
	Huanyu Building	4,985	151
	Tucheng Office Building	13,720	416
	Jhunan Building	7,160	217
	Other	5,693	172
Cathay Real Estate Development Co., Ltd.	Tucheng office Building	116	3
	Ban Ciao Building	524	16
	Total	<u>\$86,728</u>	<u>\$2,628</u>

Name	For the three-month period ended March 31,2003		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$2,310	\$66
	Hsinyi District Base-D	244,248	7,029
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	1,071	31
	Tucheng office Building	233	7
	Total	<u>\$247,862</u>	<u>\$7,133</u>

- (a) The total amount of construction contracts for real estate on March 31, 2004 and 2003 between Cathay Life and San Ching Engineering Co., Ltd. are \$9,576,421 (US\$290,195) and \$9,483,892 (US\$272,918), respectively. Up to March 31 in 2004 and 2003, \$10,063,975 (US\$304,969) and \$9,532,884 (US\$274,328) had been paid according to the schedule of construction contracts.
- (b) Cathay United Bank (merged) has paid NT\$330 (US\$10) and NT\$792 (US\$23) for the web design service provided by Gemfor Tech Co. during the three-month periods of 2004 and 2003, respectively.
- (c) Cathay United Bank (merged) has purchased equipment amounting to NT\$136 (US\$4) and NT\$32,917 (US\$947) from Gemfor Tech Co. during the three-month periods of 2004 and 2003.

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- (d) Cathay United Bank (merged) has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$56 (US\$2) and NT\$213 (US\$6) during the three-month periods of 2004 and 2003, respectively.
- (e) Cathay United Bank (merged) has paid the typing system for 24-hour self-service banking center to Sanching Engineering Corp. for NT\$ 52,625 (US\$1,595) during the three-month period of 2004.
- (f) For the three-month periods ended March 31, 2004 and 2003, the Company and the Subsidiaries did not repurchase any property and investments it had previously sold.
- (g) For the three-month period ended March 31, 2003, Cathay United Bank (formerly) engaged San Ching Engineering Co., Ltd. to install office equipment and furniture, and to decorate office buildings and workplaces. The installation fees amounted to NT\$14,075 (US\$405).

b. Real-estate rental income from Cathay Life and Cathay United Bank (merged)

Name	Rental income			
	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
NT\$	US\$	NT\$	US\$	
Cathay Real Estate Development Co., Ltd.	\$5,683	\$172	\$7,553	\$217
San Ching Engineering Co., Ltd.	3,603	109	5,043	145
Cathay Securities Investment Trust Co., Ltd.	2,167	66	2,272	65
Cathay General Hospital	39,791	1,206	21,571	621
Symphox Information Co., Ltd.	6,434	195	7,508	216
KG Telecommunication Co., Ltd.	5,834	177	0	0
Seaward Leasing Ltd.	471	14	499	14
Taipei Smart Card Corp.	1,427	43	1,556	45
Culture and Charity Foundation of the CUB	250	8	125	4
Other	1,157	35	1,061	31
Total	<u>\$66,817</u>	<u>\$2,025</u>	<u>\$47,188</u>	<u>\$1,358</u>

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Name	Guarantee deposits received			
	Mar. 31, 2004	Mar. 31, 2004	Mar. 31, 2003	Mar. 31, 2003
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$176	\$12,386	\$356
San Ching Engineering Co., Ltd.	7,079	214	6,779	195
Cathay General Hospital	2,337	71	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	65	2,144	62
KG Telecommunication Corp.	8,400	255	0	0
Other	1,459	44	1,486	43
Total	<u>\$27,215</u>	<u>\$825</u>	<u>\$24,778</u>	<u>\$713</u>

According to previously signed contracts, lease terms are usually 2 to 5 years; rental collections are received monthly.

c. Real estate rental expense from Cathay Life, Cathay United Bank (merged)

Name	Rental Expense			
	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
NT\$	US\$	NT\$	US\$	
Cathay Real Estate Development Co., Ltd.	\$7,435	\$225	\$11,487	\$330
Lin Yuan Investment Co., Ltd.	1,670	51	550	16
Seaward Leasing Ltd.	0	0	171	5
Total	<u>\$9,105</u>	<u>\$ 276</u>	<u>\$12,208</u>	<u>\$351</u>

Name	Guarantee Deposits paid			
	Mar. 31, 2004	Mar. 31, 2004	Mar. 31, 2003	Mar. 31, 2003
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,168	\$217	\$12,760	\$367
Lin Yuan Investment Co., Ltd.	1,650	50	1,650	48
Seaward Leasing Ltd.	42,000	1,273	42,180	1,214
Total	<u>\$50,818</u>	<u>\$1,540</u>	<u>\$56,590</u>	<u>\$1,629</u>

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Lease period and payment is 3-year in average according to contract except for those buildings agreed by Cathay Real Estate Development Co., Ltd. to use deposit and interest to offset rent fee which are paid on monthly basis.

d. Cathay Life disposal of property and equipment information

		For the three-month period ended March 31, 2004			
Name	Item	Sales Amount		Gain or (Loss) on Disposal of Assets	
		NT\$	US\$	NT\$	US\$
Cathay General Hospital	No 678 Sec. 2 Chung-Hwa Rd. Hsinchu	\$1,520,000	\$46,061	(\$8,390)	(\$254)

Cathay Life did not sell any real estate to its related parties for the three-month period ended March, 2003.

B. Short-term investment

Beneficiary certificates

Name	Transaction type	March 31,			
		<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay Securities Investment Trust Co., Ltd.	Equity Fund	\$814,613	\$24,685	\$433,402	\$12,472
	Bond Fund	3,597,668	109,020	3,133,658	90,177
	Total	<u>\$4,412,281</u>	<u>\$133,705</u>	<u>\$3,567,060</u>	<u>\$102,649</u>

C. Deposits

As of March 31, 2003, Cathay United Bank's (formerly) deposits from related parties amounted to NT\$2,394,512 (US\$68,907). The related interest expenses paid to related parties for the three-month period ended March 31, 2003, amounted to NT\$9,576 (US\$276).

Except for the staff savings accounts and 0% interest rate on checking accounts, all other interest expense was computed at the general market rate, ranging from 0% to 2.65% during the three-month period ended March 31, 2003. The details of deposit balances (over NT\$0.1 billion) were as follows:

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Name	March 31, 2003			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Expense NT\$
Cathay Real Estate Development Co., Ltd.	\$925,682	\$90,203	0%~0.50%	\$10

Name	March 31, 2003			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Expense US\$
Cathay Real Estate Development Co., Ltd.	\$26,638	\$2,596	0%~0.50%	\$0

D.Loans

As of March 31, 2003, Cathay United Bank (formerly) loans to related parties amounted to NT\$14,959 (US\$430).

The interest revenue received from related parties for the three-month period ended March 31, 2003, amounted to NT\$87 (US\$3), with interest rates ranging from 2.31% to 4.35%.

E. Regular secured loans

Name	March 31, 2004			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	\$1,173,181	\$1,172,992	3.50%	\$10,265
Wu Ming-Yang	2,374	1,737	2.48%	17
Total		<u>\$1,174,729</u>		<u>\$10,282</u>

Name	March 31, 2004			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	\$35,551	\$35,545	3.50%	\$311
Wu Ming-Yang	72	53	2.48%	1
Total		<u>\$35,598</u>		<u>\$312</u>

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Name	March 31, 2003			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General			4.00% ~	
Hospital	\$1,173,912	\$1,173,734	4.25%	\$12,071
Wu Ming-Yang	3,309	2,477	3.67%	27
Total		<u>\$1,176,211</u>		<u>\$12,098</u>

Name	March 31, 2003			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General			4.00% ~	
Hospital	\$33,782	\$33,777	4.25%	\$347
Wu Ming-Yang	95	71	3.67%	1
Total		<u>\$33,848</u>		<u>\$348</u>

F. Receivables

Name	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay General Hospital	\$1,172,390	\$35,527	\$34,448	\$991
Symphox Information Co., Ltd.	503	15	553	16
Cathay Futures Corp.	387	12	0	0
Cathay Real Estate Development Co., Ltd.	2	0	0	0
Cathay Insurance (Bermuda) Co., Ltd.	4,156	126	0	0
Total	<u>\$1,177,438</u>	<u>\$35,680</u>	<u>\$35,001</u>	<u>\$1,007</u>

G. Payable

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Name	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay Real Estate Development Co., Ltd.	\$1,025	\$31	\$1,961	\$57
Lin Yuan Property Management Co., Ltd.	37,753	1,144	53,038	1,526
Symphox Information Co., Ltd.	40,410	1,225	34,669	998
Seaward Card Co., Ltd.	35,076	1,063	18,494	532
Total	<u>\$114,264</u>	<u>\$3,463</u>	<u>\$108,162</u>	<u>\$3,113</u>

H. Prepayments

Name	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Symphox Information Co., Ltd.	\$16,704	\$506	\$38,651	\$1,112
Cathay Real Estate Development Co., Ltd.	1,989	60	0	0
Total	<u>\$18,693</u>	<u>\$566</u>	<u>\$38,651</u>	<u>\$1,112</u>

I. Accounts collected in advance

Name	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay General Hospital	\$425	\$13	\$119,205	\$3,430
Other	311	9	329	10
Total	<u>\$736</u>	<u>\$22</u>	<u>\$119,534</u>	<u>\$3,440</u>

J. Premium revenues

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Name	For the three-month period ended March 31, 2004			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$376	\$11	\$348	\$11
Cathay General Hospital	1,475	45	264	8
Seaward Leasing Co., Ltd.	901	27	1,299	39
Others	95	3	65	2
Total	\$2,847	\$86	\$1,976	\$60

Name	For the three-month period ended March 31, 2003			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$341	\$10	\$309	\$9
Cathay General Hospital	1,676	48	1,804	52
Others	242	7	107	3
Total	\$2,259	\$65	\$2,220	\$64

K. Reinsurance income

Name	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$12,790	\$388	\$4,942	\$142

Cathay Insurance (Bermuda) Co., Ltd. reinsurance effective April 1, 2000, assumed damage reinsurance from RGA and CRC and re-direct 90% of reinsurance to Cathay Life.

L. Commissions and handling fees

Related parties	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Futures Corp.	\$870	\$26	\$592	\$17

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M. Reinsurance claims payment

Name	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,714	\$52	\$877	\$25

N. Reinsurance commissions expense

Name	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,124	\$34	\$3,117	\$90

O. Reinsurance handing fee expense

Name	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,332	\$40	\$206	\$6

P. Miscellaneous income

Name	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$1,470	\$45	\$0	\$0

Q. Commissions expense

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Name	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$57,336	\$1,737	\$8,136	\$234
Seaward Insurance Agent Corp.	0	0	14,829	427
Total	<u>\$57,336</u>	<u>\$1,737</u>	<u>\$22,965</u>	<u>\$661</u>

R. Credit card processing charges

Related parties	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Seaward Card Co., Ltd.	<u>\$126,111</u>	<u>\$3,822</u>	<u>\$74,728</u>	<u>\$2,150</u>

S. Other expense

	For the three-month periods ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$162,083	\$4,912	\$184,329	\$5,304
Cathay Securities Investment Co., Ltd.	13,125	398	0	0
Cathay Real Estate Development Co., Ltd.	2,250	68	4,818	139
San Ching Engineering Co., Ltd.	2,250	68	0	0
Symphox Information Co., Ltd.	46,511	1,409	96,760	2,785
Total	<u>\$226,219</u>	<u>\$6,855</u>	<u>\$285,907</u>	<u>\$8,228</u>

T. Temporary payments and suspense accounts

Related parties	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Co., Ltd.	<u>\$0</u>	<u>\$0</u>	<u>\$2,263</u>	<u>\$65</u>

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21. Pledged assets

(1) Cathay Life:

Item	March 31,			
	2004	2004	2003	2003
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,927,253	\$240,220	\$7,724,837	\$222,297
Time Deposits	844,450	25,589	788,750	22,698
Total	<u>\$8,771,703</u>	<u>\$265,809</u>	<u>\$8,513,587</u>	<u>\$244,995</u>

The pledged assets are disclosed at their net carrying values.

As of March 31, 2004 and 2003, Cathay Life pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, Cathay Life agrees to purchase the time certificates by the security deposit received as a guarantee. In addition, these deposits serve as guarantees for the Law court. Further, pursuant to Article 141 of the Insurance Law, Cathay Life should deposit long-term investment in bonds equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

(2) Cathay Century:

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Government in bonds	<u>\$359,058</u>	<u>\$10,881</u>	<u>\$363,987</u>	<u>\$10,475</u>

A. According to Article 141 of the Insurance Law, Cathay Century should deposit long-term investment in government bonds, in an amount equal to 15% of its capital, into the Central Bank as capital guarantee deposits.

B. The pledged assets are disclosed at their net carrying values.

(3) Cathay United Bank (merged)

Securities purchased of NT\$16,793,507 (US\$508,894) and NT\$16,543,031 (US\$476,058) at March 31, 2004 and 2003, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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22. Other important matters and contingent liabilities

(1) Cathay Century

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in both years 2001 and 2000 tax returns, amounting to NT\$2,474(US\$75) and NT\$7,690(US\$233), respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century disputed the above tax assessments and had filed for reinvestigation.

B. By the date of March 31, 2004, Cathay Century had made some significant rental contracts, and based on which, we estimate that the rents for the following 5 years should be as below:

Year	Amount	
	NT\$	US\$
April 01, 04 ~ March 31, 05	\$55,349	\$1,677
April 01, 05 ~ March 31, 06	56,848	1,723
April 01, 06 ~ March 31, 07	58,508	1,773
April 01, 07 ~ March 31, 08	60,219	1,825
April 01, 08 ~ March 31, 09	61,980	1,878
Total	\$292,904	\$8,876

(2) Cathay United Bank(merged)

As of March 31, 2004, Cathay United Bank (merged) had the following commitments and contingent liabilities, which are not, reflected in the above mentioned financial statements:

A. Entrusted Items and Guarantees:

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	NT\$	US\$
Trust and security held for safe keeping	\$520,659,747	\$15,777,568
Guarantees on duties and contracts	16,162,473	489,772
Unused commercial letters of credit	2,770,032	83,940
Loan commitments	21,823,573	661,320
Credit card lines	223,516,819	6,773,237
Travelers checks for sale	726,015	22,000
Bills for collection	73,550,598	2,228,806
Stamp tax, securities and memorial currency consignments in	2,583	78

B. As of March 31, 2004, Cathay United Bank (merged) had various lawsuits, claims and proceedings considered normal to its operations are pending against Cathay United Bank (merged), the most significant ones are described below:

- a. In 1997, the certificate of certified deposit in the amount of NT\$600 million (US\$18.18 million) with Chung Shing Bank requested by Polaris International Securities Investment Trust Co., Ltd. (formerly Chronicle Securities Investment Trust Co., Ltd.) was found to be a forgery made by Mr. Chung-For Su. Cathay United Bank (merged) has filed a suit in the higher court claiming the NT\$600 million (US\$18.18 million).
- b. In 1996, the clients claimed that Cathay United Bank (merged) was responsible for making restitution for the amount of approximately NT\$24,000 (US\$727) because safe deposits were stolen at Chung-Li Branch. The higher court held Cathay United Bank (merged) responsible for making restitution. However, Cathay United Bank (merged) has filed an appeal and the highest court is being processed the claim. Cathay United Bank (merged) also has filed insurance claims against Taiwan Secom Co., Ltd. related to the loss mentioned above.
- c. In 2001 unauthorized transactions were made by Cathay United Bank's (merged) employees for the amount of approximately NT\$60,204 (US\$1,824) and NT\$89,307 (US\$2,706), respectively. Cathay United Bank (merged) has held the employee's personal properties or related deposits by court order or as collateral which maybe sold to cover the loss.

The management believes that the amount of contingent liability, if any, after deducting appropriate reserve with respect to these actions will not materially affect the financial statements of Cathay United Bank (merged).

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C. As of March 31, 2004, Cathay United Bank (merged) has entered into certain contracts to purchase premises and equipments totaling NT\$1,040,589 (US\$31,533) with prepayments of NT\$857,727 (US\$25,992).

23. Serious damages: None

24. Subsequent events: None

25. Other important events

(1) Pension related information

According to the ROC SFAS No. 23 “Interim Financial Reporting and Disclosures”, the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18 “Accounting for Pensions”.

(2) Derivative financial instruments related information

A. The Company

a. Credit and market price risk

The Company has entered into certain derivative transactions, including interest rate swaps (IRS) and foreign currency options with high credit rating financial institutions. Losses incurred from fluctuations of exchange rate and interest rate can be offset by forward hedging contracts.

b. Liquidity and cash requirement

The primary objective of IRS and foreign currency options is to limit exchange rate and interest rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments, and bearing fixed interest rates. As there will be cash inflow and cash outflow on the expiration date of an IRS contract, no material fund raising risk and cash flow risk.

c. Interest rate swaps (IRS)

(a) The purpose of the IRS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. IRS transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment obligation based on a notional principal amount. For interest rate swaps transactions undertaken for hedging purposes, income

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and expenses arises upon settlement are netted off and recognized in the statement of income.

- (b) The maturity dates of IRS are from May 20, 2002 to May 20, 2007.

As of March 31, 2004:

Item	Contract Amount	Due Value
IRS	USD 700,000	USD 700,000

As of March 31, 2003:

Item	Contract Amount	Due Value
IRS	USD 700,000	USD700,000

d. Foreign currency options

The Company uses foreign currency option contract - a European option to manage currency exposures.

As of March 31, 2004: None

As of March 31, 2003:

Counterpart	Effective Date	Put Date	Amount
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	USD 700,000

B. Cathay Life

a. Purpose

Effective March 31, 2004, Cathay Life hold derivative financial instruments: Futures, Forward Contracts and Interest Rate Swap Agreement. Futures hedge risk against stock price fluctuation; forward contacts hedge risk against foreign currency and exchange rate fluctuation; interest rate swap agreement hedges risk against interest rate fluctuation. These are tradable activities categorize as non-trade.

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b. Credit and market risk

The counterpart of future contract buy & sell, forward exchange trade, interest swap was an international financial organization with superior creditability; in addition, Cathay Life worked with several other financial institutions to diversify risks; possibility of breaching contract, as a result, was quite low. And if they did, Cathay Life would not encounter major loss due to the nature of risk avoidance the trading had. Further, Cathay Life was exposed to varied exchange rate market risk but the possible loss can be balanced out by gain/loss, which derived from risk avoidance foreign credits and debts exchange rate assessment.

c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of a forward contract, no demand for substantial cash flow is expected.

d. Product type and condition

(a) Futures

March 31, 2004						
	Item	Lot	Contract amount		Net loss of Fair Value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
			TX	Selling out	3,297	\$4,154,739
TE	Selling out	100	100,936	3,059	(4,644)	(141)
TF	Selling out	261	249,921	7,573	(15,516)	(470)
	Total		\$4,505,596	\$136,533	(\$138,333)	(\$4,192)

All futures transaction had offset on March 31, 2003.

(b) Forward contract

(i) Receivables and payables resulting from forward contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.

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(ii) As of March 31, 2004 and 2003, Cathay Life had forward exchange contracts of approximately US\$12,123,300 and US\$4,538,000, and CCS of approximately US\$1,729,000 and US\$2,565,000, respectively, in national value.

Item	Contract Amount	March 31, 2004			
		Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$13,852,300	\$459,115,595	\$13,912,594	\$467,797,939	\$14,175,695

Item	Contract Amount	March 31, 2003			
		Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$7,103,000	\$246,031,114	\$7,080,032	\$245,766,291	\$7,072,411

The above-mentioned forward contracts agreement hedges against risk in association with net capital exchange rate fluctuation.

Net capital	March 31,	
	2004	2003
Short-term investment	US\$13,852,300	US\$7,103,000

(c) Interest rate swap agreement (IRS)

IRS agreements are applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of March 31, 2004. The agreements of IRS are summarized as following:

Category	Period	Amount
IRS	2002.09.03~2010.11.07	NT\$11,385,000 (US\$345,000)

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C. Cathay Century

a. Credit and market risk

Cathay Century enters into forward contracts with financial institutions having good credit ratings. In addition, Cathay Century enters into contracts with many financial institutions to hedge risk. Forward hedging contracts can offset losses incurred from exchange rate fluctuation.

b. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward contract, no demand for substantial cash flow is expected.

c. Forward contract

(a) Receivables and payables resulting from forward contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.

(b) As of March 31, 2004 and 2003, Cathay Century has forward exchange contracts of approximately US\$54,000 and US\$11,600, respectively in notional value.

D. Cathay United Bank (merged)

In the normal course of business, Cathay United Bank (merged) entered into various derivative contracts, including forward exchange contracts, interest rate swaps, and cross-currency interest rate swaps, and options. These financial instruments involve varying degrees of risks. These transactions are typically customer-driven and are not for trading purpose. The related information is as follows:

a. The contract (nominal) amounts, credit risks, and fair values of derivative transactions were as follows(In thousands of US Dollars)

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Derivative Financial Instruments	March 31, 2004		
	Notional Amount	Credit Risk	Fair Market Value
For Trading Purpose			
Forward Contracts	\$3,679,985	\$61,779	\$145,644
Interest rate swaps	60,368	869	0
Options	47,665	8	(49)
For Non-trading Purpose			
Interest rate swaps	805,960	8,276	19,297
Cross-currency interest rate swaps	354,067	6,604	12,010
Derivative Financial Instruments	March 31, 2003		
	Notional Amount	Credit Risk	Fair Market Value
For Trading Purpose			
Forward Contracts	\$910,355	\$3,657	\$8,227
For Non-trading Purpose			
Options	4,820	5	0
Interest rate swaps	212,316	8,485	(10,316)
Cross-currency interest rate swaps	96,780	628	1,511

Credit risk is the possibility of loss if counter-party fails to perform its contractual obligations under the terms of a derivative financial instrument, and credits risk for different counter-party cannot be netted.

Foreign exchange contracts constitute agreements to exchange designated currencies at a specified date at a predetermined price. Cathay United Bank (merged) enters into foreign exchange contracts to provide foreign exchange to its clients as hedging instruments. All client positions are entered into under the approved credit limits and under the similar policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled. Certain clients are required to provide collateral, generally cash, before entering into these transactions. Such collateral is generally deemed necessary over the life of the contract to reduce Cathay United Bank's (merged) credit exposure in foreign exchange contracts.

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Interest rate swaps entered into by Cathay United Bank (merged) with remaining maturities ranging from three months to six years on March 31, 2004, represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, and based on a notional principal amount.

Cross-currency interest rate swaps entered into by Cathay United Bank's (merged), which have remaining maturities from one year and ten months to six years on March 31, 2004 involve an exchange of principal balance denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract, and re-exchange of the principal balance at a specified future date. The above non-trading swap transactions are used to hedge Cathay United Bank's (merged) foreign marketable securities, foreign certificates of deposit and foreign liquidity gap, since the swap contracts entered into by Cathay United Bank (merged) are made with major international financial institutions only within approved credit limits based on each financial institution's world ranking and credit rating. Therefore, the risks associated with these swap contracts are limited to some extent.

To limit the credit exposure arising from option transactions, Cathay United Bank (merged) maintains its transactions with major financial institutions or parties who have deposits in Cathay United Bank (merged). Consequently, Cathay United Bank (merged) does not anticipate significant loss due to credit risk.

b. Market risk

Market risk is the potential loss arising from adverse future changes in market rates and prices, such as interest rate, foreign currency exchange rate, and price of equity securities. Market risk includes interest rate risk, equity price risk and foreign exchange rate risk. The related risks for Cathay United Bank's (merged) derivative financial instruments are as follows: (In thousands of US Dollars)

Items	March 31,	
	2004	2003
Interest rate risk	\$246,524	\$73,508
Foreign exchange risk	205,692	226,218

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The overall market risk of Cathay United Bank's (merged) derivative financial instruments is less than the aggregate market risk of individual instruments mentioned above.

- c. Liquidity risk, cash flow risk and the uncertainty of amount and period of future cash flow

The table below summarizes the expected cash outflow for Cathay United Bank's (merged) derivative financial instrument activities: (In thousands of US Dollars)

Period	March 31,	
	2004	2003
0-1 year	\$2,134	\$1,374
1-2 year	2,834	1,619
2-3 year	2,409	1,619
3-4 year	1,272	1,402
4 year	964	1,360

The uncertainty in future interest rate and foreign exchange rate fluctuations will affect the above expected cash outflow. The longer the time frame, the more uncertainty there will be.

The liquidity of forward exchange contracts, which are entered into by Cathay United Bank (merged) with customers, could be low. However, when Cathay United Bank (merged) provides these financial instruments to its customers as a hedging instrument, it requires customers to provide related trading documents for approval. Since Cathay United Bank (merged) and customers both commit to perform according to the terms of forward exchange contracts, the liquidity risk of forward exchange contracts should be immaterial. In the meantime, Cathay United Bank (merged) also enters into forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because it could buy or sell forward exchange contracts at any time on secondary market. Though the liquidity of interest rate swaps and cross-currency interest rate swaps is not high, the liquidity risk associated with these financial instruments should be limited to a lesser extent because most of the trading participants will hold these financial statements to maturity.

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A summary of the notional amount of Cathay United Bank's (merged) liquidity risk related to outstanding derivative financial instruments appears in the table below: (In thousands of US Dollars)

Items	Notional Amount	
	March 31, 2004	March 31, 2003
Interest rate swaps	\$866,328	\$212,316
Cross-currency interest rate swaps	354,067	96,780

- d. The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

When Cathay United Bank (merged) entered into forward foreign exchange contracts for trading purposes, Cathay United Bank (merged) will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. At each financial reporting date, Cathay United Bank (merged) will adjust the receivable amount based on the spot rate and recognize the differences as gains or losses in the statements of income. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

The notional amount is not recorded for interest rate swaps. In the meantime, the differential to be received or paid which was calculated by fixed vs. floating is recorded as adjustment of interest income (expense).

Assets and liabilities caused by cross-currency interest rate swaps are recorded at the agree-upon forward rate. The differential to be received or paid is recorded as an adjustment of interest income (expense).

For options contracts only memorandum entries of notional principal are made on the contract date. Premiums paid or received for options purchased or sold are recorded as asset or liabilities. As of the balance sheet date, options are marked to market and the resulting gains and losses are recognized in earnings. Gain and losses on the exercise of options are recognized in the statement of income.

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Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading FRA, differences in the present value of interest revenue or expense on the balance sheet date are reported as exchange gains or losses. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

e. Off-balance-sheet credit risk

Cathay United Bank (merged) entered into certain transaction with customers to repurchase or resell securities or short-term notes for business purpose. Cathay United Bank (merged) also provides various types of loans and credit card services. The term for the related loans varies and depends on the credit status of the borrowers. The interest rates for credit card loans are in 19.7%. Cathay United Bank (merged) also provides guarantees for loans and commercial letters of credit services. These guarantees represent an irrecoverable obligation to pay a third-party beneficiary in the event that a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

f. A summary of the contract amount of each significant class of off-balance-sheet credit related financial instruments outstanding appear in the table below:

	March 31,			
	2004		2003	
	NT	US	NT	US
Securities purchase under agreements to resell(Note)	\$0	\$0	\$10,777,701	\$310,150
Securities sold under agreements to repurchase(Note)	0	0	18,476,801	531,707
Loan commitments	21,823,573	661,320	18,866,616	542,924
Credit card lines	223,516,819	6,773,237	38,288,342	1,101,823
Guaranty and Commercial letters of credit	18,932,505	573,712	14,583,875	419,680

Note: Cathay United Bank (merged) has adopted the law to account for its bills transactions related to resell or repurchase agreement since January 1, 2004.

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These financial instruments may not be fully paid before or at maturity. Therefore, the total amount of these contracts does not necessarily represent future cash requirement. The maximum amount of possible losses for the above off-balance-sheet credit related financial instruments is approximately equal to the contractual amount if borrowers failed to perform according to the terms of the contract, causing the existing collateral to become worthless.

Cathay United Bank (merged) maintains a strict policy to evaluate customers' credit rating when providing securities sold under agreements to repurchase, securities purchased under agreements to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank (merged) retains the legal right to foreclose or liquidated the collateral. Generally, the collateral includes cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancelled by Cathay United Bank (merged) following periodic review of the customers' credit status.

E. Cathay United Bank (formerly)

a. Foreign exchange forward and swap contracts

Cathay United Bank (formerly) enters into foreign exchange forward contracts and swap contracts for the purpose of hedging foreign exchange risk. The foreign exchange forward contracts and swap contracts are recorded at acquisition cost and valued at the spot currency rate on the balance sheet date. As of March 31, 2003, receivables and payables resulting from foreign exchange forward and swap contracts, which are recorded at net receivable amount, amounted to NT\$4,614 (US\$133). As of March 31, 2003, the unsettled balance of foreign exchange forward and swap contracts amounted to US\$36,932, CHF500, EUR3,800 and HK\$1,000, with maturity dates from April 3 to December 29, 2003.

Credit risk arises when the transaction counterparty fails to perform its contractual obligation. When derivative financial instruments are profitable, credit risk increases. To lower credit risk effectively, Cathay United Bank (formerly) takes the same policy as for loans, primarily by setting credit limiting and limits its selection of counterparties to those with high credit ratings. Because the counterparties of foreign forward contracts are international banking institutions with high credit ratings, the possibility of default on the contractual obligations is very low.

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Market risk is the possible loss arising from the fluctuations in market interest rates or exchange rates. To reduce interest and exchange rate exposures, Cathay United Bank (formerly) has maintained its net foreign currency positions within certain limits to reduce market risk.

Liquidity risk arises when the contract cannot be cleared in the anticipated time period. Cathay United Bank (formerly) monitors liquidity risk by requiring credit authorization, setting position limits, maintaining stop-loss levels and using internal control procedures. To manage adverse movements in interest rates and foreign exchange rates, Cathay United Bank (formerly) has diversified its selection of currencies to those with high liquidity (primarily the U.S. dollar, Euro, and Japanese Yen) for interest rate and foreign exchange contracts held or issued.

b. Options

Cathay United Bank (formerly) engaged in option transactions to comply with the new business of combined foreign currency deposits. Depositors include savings deposit clients and internationally well-know banks, which have to qualify under the risk management assessment of Cathay United Bank (formerly). The deposit clients are those who deposit their principal in Cathay United Bank (formerly) and use the interest earned to buy the options. Therefore, the credit risk is very low. In order to eliminate the potential market risk, Cathay United Bank (formerly) will buy opposite options at the same time the clients buy their options.

c. As of March 31, 2003, the nominal principal and fair value of derivative contracts which had not matured were as follows:

	March 31, 2003			
	Nominal principal		Fair value	
	NT\$	US\$	NT\$	US\$
For trading purposes				
Foreign exchange forward				
and swap contracts	\$4,536,246	\$130,539	\$4,570	\$132

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(3) Non-derivative financial instruments related information

A. The Company

The book value of non-derivative Financial Instruments held by the Company as of March 31, 2004, is the same as the estimated fair market value.

B. Cathay Life

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of March 31, 2004 and 2003 is the same as the estimated fair market value:

Item	March 31, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$402,450,910	\$12,195,482	\$413,597,902	\$12,533,270
Long-term Investment –				
Cost method	\$44,042,948	\$1,334,635	\$51,882,187	\$1,572,187

Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$304,476,810	\$8,761,923	\$304,476,810	\$8,761,923
Long-term Investment –				
Cost method	\$56,362,328	\$1,621,937	\$58,255,622	\$1,676,421

C. Cathay Century

Except for the item listed in the following table, the book value of non-derivative financial instruments as of March 31, 2004 and 2003 is the same as the estimated fair market value:

Item	March 31, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$2,106,033	\$63,819	\$2,228,385	\$67,527

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Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$1,955,691	\$59,279	\$1,971,233	\$57,726

D. Cathay United Bank (merged)

a. Fair value of non-derivative financial instruments

As of March 31, 2004 and 2003, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximate their carrying values:

Financial Assets	Mach. 31,							
	2004				2003			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	\$196,870,084	\$5,965,760	\$197,976,514	5,999,288	\$136,999,285	\$3,942,425	\$137,791,644	\$3,965,227
Long-term Investments	28,166,452	853,530	28,223,940	855,271	12,617,344	363,090	12,756,622	367,097

Fair value amounts of securities purchased and long-term investments were based on quoted market price, if available. If quoted market prices did not exist, fair values were estimated according to book value or other financial resources.

b. Others

(a) Information on concentrations of credit risk

The concentrations of credit risk exist when the counter-party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. Cathay United Bank (merged) has not transacted with one single customer or entered into one single transaction, which would expose Cathay United Bank (merged) into concentration risk.

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However, Cathay United Bank (merged) is likely exposed to industry concentration risk. Cathay United Bank's (merged) information on concentration of credit risk is as follows:

Items	March 31,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic region				
Domestic	\$532,724,220	\$16,143,158	\$381,659,476	\$10,983,007
South East Asia	10,541,787	319,448	9,546,840	274,729
North East Asia	255,957	7,757	513,516	14,777
North America	6,511,565	197,320	6,536,199	188,092
Others	4,980,687	150,930	6,253,882	179,968
Total	<u>\$555,014,216</u>	<u>\$16,818,613</u>	<u>\$404,509,913</u>	<u>\$11,640,573</u>
Industry type				
manufacturing	\$67,950,717	\$2,059,113	\$49,996,189	\$1,438,739
Financial institutions and insurance	34,594,127	1,048,307	25,936,378	746,371
Leasing and real estate	70,716,975	2,142,939	65,378,482	1,881,395
Individuals	268,874,077	8,147,699	163,498,547	4,704,994
Others	112,878,320	3,420,555	99,700,317	2,869,074
Total	<u>\$555,014,216</u>	<u>\$16,818,613</u>	<u>\$404,509,913</u>	<u>\$11,640,573</u>
Credit card				
Global card	\$3,809	\$115	\$0	\$0
Platinum card	2,475,449	75,014	41	1
Gold card	3,971,751	120,356	8,882,998	255,626
Regular card	2,072,415	62,800	2,566,384	73,853
Others	55,926	1,695	0	0
Advance	6,830	207	2,884	83
Total	<u>\$8,586,180</u>	<u>\$260,187</u>	<u>\$11,452,307</u>	<u>\$329,563</u>

- (b) The amount of possible losses for the above credit-related loan approximated to notional amounts if borrowers failed to perform according to the terms of the contract, causing the existing collateral become worthless.

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E. Cathay United Bank (formerly)

a. Estimated fair values of the Cathay United Bank's (formerly) financial instruments

The book values and the estimated fair values of Cathay United Bank's (formerly) financial instruments are as follows:

	<u>March 31, 2003</u>	
	<u>Book value</u> NT\$	<u>Fair value</u> NT\$
Financial assets:		
Cash and due from banks	\$ 10,266,615	10,266,615
Due from Central Bank	9,365,262	9,387,182
Bills and securities purchased, net	5,241,870	5,241,870
Receivables	21,296,179	21,296,179
Loans and exchange bills negotiated and discounted	114,008,828	114,008,828
Long-term investment	5,849,432	5,927,377
Other assets	9,211,922	9,253,292
Financial liabilities:		
Due to banks	2,511,501	2,511,501
Accrued expenses	3,512,087	3,512,087
Deposits and remittances payable	160,785,869	160,785,869
Other liabilities	164,111	164,111
Off-balance-sheet financial instruments:		
Guarantees on loans and letters of credit	0	5,764,018

	<u>March 31, 2003</u>	
	<u>Book value</u> US\$	<u>Fair value</u> US\$
Financial assets:		
Cash and due from banks	\$ 295,442	295,442
Due from Central Bank	269,504	270,135
Bills and securities purchased, net	150,845	150,845
Receivables	612,840	612,840
Loans and exchange bills negotiated and discounted	3,280,830	3,280,830
Long-term investment	168,329	170,572
Other assets	265,091	266,282
Financial liabilities:		
Due to banks	72,273	72,273
Accrued expenses	101,067	101,067
Deposits and remittances payable	4,626,932	4,626,932

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	<u>March 31, 2003</u>	
	<u>Book value</u>	<u>Fair value</u>
	US\$	US\$
Other liabilities	4,723	4,723
Off-balance-sheet financial instruments:		
Guarantees on loans and letters of credit	0	165,871

The following methods and assumptions were used to estimate the fair values of financial instruments.

- (i) The book value reported in the balance sheet for short-term financial instruments approximates the fair value due to their short maturity period or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash amounts due from banks, call loans to banks, deposit reserves due from the Central Bank, receivables, other assets (excluding delinquent loans) and accrued expenses, and other liabilities.
- (ii) The fair values of bills and securities purchased and of deposit reserves for trust funds in the form of securities and of other assets are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on financial or other information.
- (iii) Loans and exchange bills negotiated and discounted, due to banks, deposits and financial debentures are the interest-bearing financial assets and liabilities, and the evaluation of collectable amount. Their book value approximates fair value.
- (iv) The fair values of financial guarantees are based on the contract value.

b. Financial instruments with off-balance sheet credit risk

By engaging in the business of loans and issuing credit cards, Cathay United Bank (formerly) holds large credit commitments. During March 31, 2003, according to the different types of the loans, the interest rates on loans ranged from 2.01% to 13.32%. The maximum credit card interest rate at the reporting date was 19.89%. Cathay United Bank (formerly) also provided guarantees and letters of credit to guarantee customers' performance of obligations to third parties. These agreements generally extend for up to one year. Expirations are not concentrated in any period.

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Most of the contracts are expected to expire without any payment by Cathay United Bank (formerly), and accordingly, the total contractual amounts do not necessarily represent future cash payments. The future cash flow requirement will be less than the contract amount. The maximum loss on each guarantee is equal to the contractual amount, which does not consider the value of any collateral.

Cathay United Bank's (formerly) policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. As of March 31, 2003, the ratio of secured loans to total loans (excluding credit card operations) was 78.28% and the extent of collateral held for guarantees and letters of credit was 33.42%. Collateral for loans, guarantees, and letters of credit is usually in the form of time deposits, marketable securities, real estate, or other property. When customers are in default, Cathay United Bank (formerly) can forcibly execute its related collateral or security rights.

Credit card commitments are unsecured. Periodic review of cardholders' credit status is performed to adjust card limits if necessary.

Cathay United Bank (formerly) required strict credit assessment in the investment in CLN, CCN and SLN. The criteria on the investment objectives were referred to the stipulation of Ministry of Finance. The assessment was based on notes issued by financial institutions with sound finance and good reputation, or the linked investing objectives ranked "long-term bond rating BBB-" or "short-term bond rating A-3" or above assessed by Standard & Poor's Corporation or with "long-term bond rating Baa3" or "short-term bond rating P-3" or above assessed by Moody's Investor Service. The credit ratings of the above-mentioned investing objectives were all above these grades, and no material credit risk existed during the three-month period ended March 31, 2003. Cathay United Bank (formerly) has been periodically assessing the credit and financial position of the issuers and the linked investing objectives. When credit risks arise, Cathay United Bank (formerly) may take necessary action, or dispose its investments.

C.Information on concentrations of credit risk

The concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for individuals or groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Cathay United Bank (formerly) does not have material concentrations of credit risk with respect to any individual customer or counterparty but is exposed to counterparty default with respect to its portfolio concentrations in certain industries. The information on concentrations of credit risk of more than

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10% of Cathay United Bank's (formerly) loan balance by industry is as follows:

	March 31, 2003	
	NT\$	US\$
Manufacturing	\$16,271,176	\$468,236
Real estate and lease	14,093,706	405,574
Others (less than 10% of loans)	84,273,936	2,425,149
	\$114,638,818	\$3,298,959

The credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

(4) Discretionary account management

A. Cathay Life

As of March 31, 2004 and 2003, Cathay Life fully authorized security investment trust at own expense to handle discretionary account management operation, items invested are:

Item	March 31, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,834,293	\$55,585	\$2,034,719	\$61,658
Repurchase bonds	4,767,243	144,462	4,767,959	144,484
Short-term securities	50,000	1,515	50,003	1,516
Convertible bonds	677,643	20,534	756,462	22,923
Bonds	3,524,593	106,806	3,530,839	106,995
Cash in bank	793,781	24,054	793,915	24,058
Net other assets less liabilities	(88,858)	(2,693)	(88,858)	(2,693)
Total	\$11,558,695	\$350,263	\$11,845,039	\$358,941

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Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,303,028	\$37,497	\$1,186,216	\$34,136
Repurchase bonds	4,158,404	119,667	4,158,404	119,666
Short-term securities	722,074	20,779	722,074	20,779
Bonds	2,913,709	83,848	2,936,956	84,517
Cash in bank	500,359	14,399	500,359	14,399
Net other assets less liabilities	28,462	819	28,462	819
Total	<u>\$9,626,036</u>	<u>\$277,009</u>	<u>\$9,532,471</u>	<u>\$274,316</u>

As of March 31, 2004 and 2003, the securities investment and trust company had recorded that Cathay Life had discretionary account management contracts in the amount of NT\$10,300,000 (US\$312,121) and NT\$9,500,000 (US\$273,381), respectively.

B. Cathay Century

Item	March 31, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$3,229	\$98	\$3,240	\$98
Cash in bank	54,725	1,658	54,725	1,658
Net other assets less liabilities	(48)	(1)	(48)	(1)
Total	<u>\$57,906</u>	<u>\$1,755</u>	<u>\$57,917</u>	<u>\$1,755</u>

Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$27,125	\$781	\$25,086	\$722
Cash in bank	20,680	595	20,680	595
Net other assets less liabilities	(37)	(1)	(37)	(1)
Total	<u>\$47,768</u>	<u>\$1,375</u>	<u>\$45,729</u>	<u>\$1,316</u>

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As of March 31, 2004 and 2003, the securities investment had recorded that Cathay Century had discretionary account management contracts in the amount of NT\$50,000(US\$1,515).

(5) Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd., a financial holding company organized under the Financial Holding Company Act and the Company Law. Cathay Financial Holdings' registration number issued by the Ministry of Economic Affairs of the ROC is 118958.

Offering: The Purchaser is offering outside United States the International Notes in reliance on Regulation S under the U.S. Securities Act ("Regulation S") and is offering Rule 144A Notes concurrently in the United States through its selling agent, only to institutions that are qualified institutional buyers (or QIBs) (as defined in Rule 144A).

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The Notes will not bear interest except in the limited circumstances.

Conversion rights:

Subject to certain conditions, each holder of the Notes (the "Holder") will have the right during the conversion period to convert its Notes (or any portion thereof, being US\$1,000 dollars in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period. Cathay Financial Holdings shall as soon as practicable but in no event more than

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five trading days from the conversion date deliver common shares to the converting holders or the depositary, as the case may be.

Repurchase at the option of the holder:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Repurchase in the event of desisting:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Common Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Repurchase in the event of change of control:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium, upon the occurrence of a change of control.

Redemption at the option of Cathay Financial Holdings:

The Notes may be redeemed at the option of Cathay Financial Holdings, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that (a) the closing price (translated into U.S. dollars at the prevailing rate) of the common shares for a period of 30 consecutive trading days (including trading days that fall within a closed period), the last of which occurs not more than five days prior to the date on which notice of such

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redemption is given, is at least 130% of the conversion price (translated into U.S. dollars at the exchange rate, as defined in the indenture) and (b) the applicable redemption date does not fall within a closed period. Notwithstanding the foregoing, Cathay Financial Holdings may redeem, in whole but not in part, the Notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the Notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on the redemption date; provided that the applicable redemption date does not fall within a closed period.

Tax redemption:

If, as a result of certain changes relating to the ROC tax laws or such other jurisdiction in which Cathay Financial Holdings is then organized, Cathay Financial Holdings becomes obligated to pay certain additional amounts, the Notes may be redeemed at the option of Cathay Financial Holdings, in whole but not in part, at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on such redemption date.

Redemption amount at maturity:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, Cathay Financial Holdings will redeem the Notes on the maturity date (as defined herein) at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Negative pledge:

Subject to certain exceptions, Cathay Financial Holdings will not, and will procure that none of its principal subsidiaries will, create or permit to subsist any lien to secure for the benefit of the holders of any international investment securities any sum owing in respect thereof or any guarantee or indemnity thereof without making effective provision to secure the Notes (a) equally and ratably with such international investment securities with a similar lien or (b) with such other security as shall be approved by Holders of not less than a majority in aggregate

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principal amount of the outstanding Notes.

Further issues:

Cathay Financial Holdings may from time to time without the consent of the Holders of the Notes create and issue further securities having the same terms and conditions as the Notes in all respects so that such further issue shall be consolidated and form a single series with the respective Notes.

Governing law:

The indenture, the Notes and the deposit agreements are governed by, and construed in accordance with, the laws of the State of New York.

Listing:

The international Notes have been listed on the Luxembourg Stock Exchange and the Rule 144A Notes have been designated for trading on the PORTALSM in the United States. Application has been made to have the International GDSs issuable upon conversion of the Notes listed on the Luxembourg Stock Exchange.

Trading market for the common shares:

The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since March 31, 2004.

(6) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in financial statements for the three-month period ended of 2003 have been reclassified in order to be comparable with those in the financial statements for the three-month period ended of 2004.

(8) Other:

On December 25, 2002 and July 24, 2003, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 and US\$27,150, that total is US\$50,000 as the capital of investment in order to found a new company

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called Guangzhou Cathay life insurance Co., Ltd. However, we are only in the preparatory stage and have not yet invested substantially.

26. Information for investment in Mainland China: None

27. Segment information: None

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28. The Subsidiaries' concise balance sheets and statements of income

(a) Concise balance sheets:

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY CENTURY INSURANCE CO., LTD				CATHAY UNITED BANK CO., LTD(merged)				CATHAY UNITED BANK CO., LTD(formerly)	
	March 31, 2004		March 31, 2003		March 31, 2004		March 31, 2003		March 31, 2004		March 31, 2003		March 31, 2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$576,784,512	\$17,478,319	\$491,636,647	\$14,147,817	\$7,546,559	\$228,684	\$7,542,385	\$217,047	\$353,144,911	\$10,701,361	\$229,136,972	\$6,593,870	\$46,235,567	\$1,330,520
Exchange bills negotiated, discounted, and loans	471,258,726	14,280,567	500,214,519	14,394,662	776,145	23,519	934,135	26,882	530,642,552	16,080,077	386,177,770	11,113,029	114,008,828	3,280,829
Funds and long-term investments	408,372,275	12,374,917	293,706,842	8,451,996	2,187,201	66,279	786,221	22,625	28,166,452	853,529	12,617,344	363,089	5,849,432	168,329
Property and equipment	15,535,698	470,779	16,133,473	464,273	52,476	1,590	64,751	1,863	25,468,325	771,767	23,150,647	666,206	1,657,218	47,690
Other assets(including intangible assets)	33,291,820	1,008,843	15,218,351	437,938	471,680	14,293	457,897	13,177	7,215,019	218,637	8,905,507	256,273	11,648,452	335,207
Current liabilities	4,583,798	138,903	8,833,778	254,209	839,469	25,438	864,945	24,890	844,501,605	25,590,958	586,750,178	16,884,897	166,912,846	4,803,247
Long-term liabilities	911,721	27,628	125,681	3,617	8,966	272	8,067	232	0	0	0	0	0	0
Other liabilities	1,403,750,644	42,537,898	1,233,399,876	35,493,522	6,810,508	206,379	6,084,954	175,107	26,934,406	816,194	17,343,700	499,099	267,638	7,702
Capital stocks	50,686,158	1,535,944	50,686,158	1,458,594	2,317,006	70,212	2,317,006	66,676	43,182,407	1,308,557	39,715,627	1,142,896	12,346,083	355,283
Capital surplus	5,200	158	3,048	88	430	13	0	0	13,461,632	407,928	5,095,598	146,636	0	0
Retained earnings	45,322,228	1,373,401	31,193,786	897,663	1,056,395	32,012	508,245	14,626	16,535,631	501,080	10,992,241	316,323	(127,070)	(3,657)
Equity adjustments	(16,718)	(507)	1,368	39	1,287	39	2,172	63	21,578	654	90,896	2,616	0	0
Treasury stocks	0	0	(7,333,863)	(211,046)	0	0	0	0	0	0	0	0	0	0
Total assets	\$1,505,243,031	\$45,613,425	\$1,316,909,832	\$37,896,686	\$11,034,061	\$334,365	\$9,785,389	\$281,594	\$944,637,259	\$28,625,371	\$659,988,240	\$18,992,467	\$179,399,497	\$5,162,575
Total liabilities	\$1,409,246,163	\$42,704,429	\$1,242,359,335	\$35,751,348	\$7,658,943	\$232,089	\$6,957,966	\$200,229	\$871,436,011	\$26,407,152	\$604,093,878	\$17,383,996	\$167,180,484	\$4,810,949
Total stockholders' equity	\$95,996,868	\$2,908,996	\$74,550,497	\$2,145,338	\$3,375,118	\$102,276	\$2,827,423	\$81,365	\$73,201,248	\$2,218,219	\$55,894,362	\$1,608,471	\$12,219,013	\$351,626

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(b) Concise statements of income:

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY CENTURY INSURANCE CO., LTD				CATHAY UNITED BANK CO., LTD(merged)				CATHAY UNITED BANK CO., LTD(formerly)	
	The three months ended March.		The three months ended March.		The three months ended		The three months ended		The three months ended		The three months ended		The three months ended	
	31, 2004	31, 2003	31, 2003	31, 2003	March. 31, 2004	31, 2003	31, 2003	31, 2003	31, 2004	March. 31, 2003	March. 31, 2003	March. 31, 2003	March. 31, 2003	March. 31, 2003
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$114,163,271	\$3,459,493	\$97,950,890	\$2,818,731	\$6,234,932	\$188,937	\$5,778,816	\$166,297	\$11,698,038	\$354,486	\$7,979,883	\$229,637	\$2,873,322	\$82,686
Operating costs & expenses	(107,706,030)	(3,263,819)	(92,072,014)	(\$2,649,554)	(5,875,864)	(\$178,056)	(5,601,267)	(\$161,188)	(7,350,237)	(222,734)	(5,535,149)	(159,285)	(2,343,100)	(67,427)
Operating income	6,457,241	195,674	5,878,876	169,176	359,068	10,881	177,549	5,109	4,347,801	131,752	2,444,734	70,352	530,222	15,258
Non-operating revenues	433,644	13,141	372,621	10,723	12,571	381	342	10	1,202,459	36,438	8,537	246	23,309	671
Non-operating expenses	(168,409)	(5,103)	(6,118)	(176)	(6,122)	(186)	(693)	(20)	(72,887)	(2,209)	(33,546)	(965)	(3,274)	(94)
Operating income before taxes	6,722,476	203,712	6,245,379	179,723	365,517	11,076	177,198	5,099	5,477,373	165,981	2,419,725	69,633	550,257	15,835
Net income	6,741,520	204,287	4,965,478	142,891	302,260	9,159	135,718	3,906	4,649,373	140,890	1,869,724	53,805	460,545	13,253
Earning per share before taxes (in dollars)	\$1.34	\$0.04	\$1.27	\$0.04	\$1.58	\$0.05	\$0.76	\$0.02	\$1.27	\$0.04	\$0.61	\$0.02	\$0.45	\$0.01
Earning per share (in dollars)	\$1.34	\$0.04	\$0.01	\$0.00	\$1.30	\$0.04	\$0.59	\$0.02	\$1.08	\$0.03	\$0.47	\$0.01	\$0.37	\$0.01

Annotation 1: On April 11, 2002, Cathay United Bank(formerly) had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609(US\$54,147). According to Article 15 of the ROC Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. The amortized loss amounted to NT\$94,725 (US\$2,726) for the three-month period ended March 31, 2003. As of March 31, 2003, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,515,412(US\$43,609) and according to general accepted accounting principles, should be recognized as current expenses, other assets decreased by NT\$1,136,559 (US\$32,707), retained earnings decrease by NT\$1,136,559 (US\$32,707), provision for credit losses decreased by NT\$94,725 (US\$2,726), the net income before tax increased by NT\$94,725 (US\$2,726), the income tax expenses increased by NT\$23,681 (US\$681) and the net income after tax increased by NT\$71,044 (US\$2,045) for the year ended March 31, 2003.

Annotation 2: UWCCB and Cathay United Bank were merged on October 27, 2003. After merged, UWCCB becomes the Surviving Company but re-named under Cathay United Bank Co., Ltd.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

29. Elimination of reciprocal accounts

According to the SFC regulations, the consolidated statements should disclose as follows:

Transactions	Account Item	As of and for the three-month periods ended March 31,			
		2004 (NT\$)	2004 (US\$)	2003 (NT\$)	2003 (US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Common stock	\$96,185,570	\$2,914,714	\$105,064,872	\$3,023,450
	Capital surplus	13,467,264	408,099	5,098,647	146,724
	Legal reserve	23,836,057	722,305	30,840,658	887,501
	Special reserve	6,249,135	189,368	257,487	7,410
	Unappropriated retained earnings	21,135,909	640,482	5,245,195	150,941
	Cumulative conversion adjustments	119,401	3,618	183,374	5,277
	Unrealized valuation losses on long-term equity investments	113,254	3,432	88,939,321	2,559,405
	Allowance for valuation loss on long-term investments in stock	113,254	3,432	9,457,502	272,158
	Treasury stock	0	0	7,333,863	211,046
	Short-term investments	728,987	22,091	1,591,754	45,806
	Allowance for valuation loss on short-term investments	18,112	549	751,941	21,639
	Long-term investments in stock	171,975,613	5,211,382	144,660,731	4,162,899
	Deferred tax assets	0	0	378,922	10,904
	Other assets	0	0	1,515,688	43,617
	Gain on long-term investments	11,588,611	351,170	7,382,587	212,449
	Provisions expenses	0	0	94,730	2,726
	Gain on disposal of investments	104,541	3,168	48,882	1,407
	Income taxes expenses	0	0	23,683	682

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Transactions	Account Item	As of and for the three-month periods ended March 31,			
		2004 (NT\$)	2004 (US\$)	2003 (NT\$)	2003 (US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Deposits and remittances payables	\$11,733,404	\$355,558	\$35,379,636	\$1,018,119
	Cash and cash equivalents	11,733,404	355,558	35,379,636	1,018,119
	Prepayments	2,501	76	2,445	70
	Accounts collected in advance	2,501	76	2,445	70
	Payables	20,652	626	919,364	26,457
	Receivables	20,652	626	919,364	26,457
	Interest income	51,275	1,554	246,026	7,080
	Interest expenses	51,275	1,554	246,026	7,080
	Premiums income	166,251	5,038	162,533	4,677
	Insurance expenses	166,251	5,038	162,533	4,677
	Rental income	72,392	2,194	61,815	1,779
	Rental expenses	72,392	2,194	61,815	1,779
	Guarantee deposits received	134,588	4,078	73,045	2,102
	Guarantee deposits paid	134,588	4,078	73,045	2,102
	Other revenues	113,393	3,436	1,426	42
	Other expenses	113,393	3,436	0	0
	Indemnity income	656	20	0	0
	Insurance Claims Payment	656	20	512	15
	Handing fee earned	0	0	29,862	859
	Handing fee paid	0	0	30,776	886