

**Cathay Financial Holding Co., Ltd. And Subsidiaries**  
**Consolidated financial statements**  
**Together with**  
**Independent auditors' report**  
**As of June 30, 2004 and 2003**

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## **Independent auditors' report**

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2004 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Cathay Pacific Venture Capital Co., Ltd. a wholly-owned subsidiary of the Company. The total investment for the subsidiary is NT\$589,901 thousand ( US\$17,525 thousand ) constituting 0.02% of the total consolidated assets of the Company and its subsidiaries as of June 30, 2004, and investment loss is NT\$2,978 thousand ( US\$88 thousand ) constituting 0.01% of income before taxes of the Company and its subsidiaries for the six-month periods ended June 30, 2004. We did not audit the financial statements of Cathay Financial Holding Co., Ltd. It was audited by other auditors for the six-month period ended June 30, 2003 with modified unqualified opinion.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. and its subsidiaries as of June 30, 2004 and the results of its operations and its cash flows for the six month periods ended June 30, 2004 in conformity with generally accepted accounting principles in the Republic of China.

DIWAN, ERNST & YOUNG  
Taipei, Taiwan  
The Republic of China  
July 29, 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 jurisdictions. The standards, procedures and practices to audit 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 June 30, 2004 and 2003**

	2004			2003		
	NT \$	US \$	%	NT \$	US \$	%
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents (Notes 2,4)	\$148,241,607	\$4,404,088	5.96	\$93,728,958	\$2,708,147	4.23
Due from Central Bank	55,111,864	1,637,310	2.21	82,961,183	2,397,029	3.75
Short-term investments (Notes 2,5)	544,391,396	16,173,244	21.88	454,023,444	13,118,273	20.51
Receivables (Note 2)	91,401,135	2,715,423	3.67	75,629,821	2,185,201	3.42
Deferred income tax assets-current (Note 2)	59,225	1,760	0.00	50,785	1,467	0.00
Prepayments	1,521,905	45,214	0.06	1,143,353	33,035	0.05
Subtotal	840,727,132	24,977,039	33.78	707,537,544	20,443,152	31.96
<b>Exchange bills negotiated discounted and loans (Notes 2,6)</b>	1,001,285,487	29,747,044	40.24	1,000,535,764	28,908,863	45.19
<b>Long-term investments in stock, bonds and real estate</b>						
Long-term investments in stocks (Notes 2,7)						
Long-term investments under equity method	8,579,562	254,889	0.34	9,090,784	262,664	0.41
Long-term investments under cost method	49,670,977	1,475,668	2.00	50,927,221	1,471,460	2.30
Allowance for valuation loss on long-term investments in stocks	(114,845)	(3,412)	0.00	(313,760)	(9,066)	(0.01)
Long-term investments in bonds (Notes 2,8)	375,933,391	11,168,550	15.10	244,566,878	7,066,365	11.05
Investments in real estate (Notes 2,9)	100,960,476	2,999,420	4.06	93,958,349	2,714,775	4.24
Other long-term investments	2,029,701	60,300	0.08	400,000	11,557	0.02
Subtotal	537,059,262	15,955,415	21.58	398,629,472	11,517,755	18.01
<b>Property and equipment (Note 2)</b>						
Land	20,072,464	596,330	0.81	20,194,167	583,478	0.91
Buildings and structures	20,426,247	606,840	0.82	20,239,822	584,797	0.92
Furniture and fixtures	3,715,600	110,386	0.15	2,729,512	78,865	0.12
Transportation and communication equipment	228,830	6,798	0.01	234,081	6,764	0.01
Other equipment	8,396,348	249,446	0.34	7,823,855	226,058	0.35
Subtotal	52,839,489	1,569,800	2.13	51,221,437	1,479,962	2.31
Less: Accumulated depreciation	(12,691,028)	(377,036)	(0.51)	(11,794,935)	(340,796)	(0.53)
Construction in progress	905,120	26,890	0.04	1,629,282	47,075	0.07
Subtotal	41,053,581	1,219,654	1.66	41,055,784	1,186,241	1.85
<b>Intangible assets (Note 2)</b>	8,512	253	0.00	7,107	205	0.00
<b>Other assets</b>						
Net non-operating assets	2,554,380	75,888	0.10	3,757,422	108,565	0.17
Miscellaneous assets	36,661,594	1,089,174	1.47	48,328,124	1,396,363	2.18
Deferred income tax assets -noncurrent (Note 2)	2,071,823	61,551	0.08	3,871,026	111,847	0.17
Deferred charges	664,569	19,744	0.03	2,370,376	68,488	0.11
Investment-linked products assets	26,425,804	785,080	1.06	7,952,269	229,769	0.36
Subtotal	68,378,170	2,031,437	2.74	66,279,217	1,915,032	2.99
<b>Total assets</b>	<b>2,488,512,144</b>	<b>\$73,930,842</b>	<b>100.00</b>	<b>\$2,214,044,888</b>	<b>\$63,971,248</b>	<b>100.00</b>
<b>Liabilities &amp; stockholders' equity</b>						
<b>Current liabilities</b>						
Due to Central Bank	79,077,377	2,349,298	3.18	\$56,245,166	\$1,625,113	2.54
Payables	40,077,562	1,190,658	1.61	32,092,955	927,274	1.45
Deferred income tax liabilities-current(Notes 2)	749,168	22,257	0.03	1,277,192	36,901	0.06
Accounts collected in advance	377,387	11,212	0.02	611,602	17,671	0.03
Subtotal	120,281,494	3,573,425	4.84	90,226,915	2,606,959	4.08
<b>Deposits and remittances (Note 10)</b>	705,694,297	20,965,368	28.36	684,350,539	19,773,203	30.91
<b>Bankers acceptances and funds borrowe</b>	2,361,784	70,166	0.09	1,810,412	52,309	0.08
<b>Long-term liabilities</b>						
Bonds payable (Notes 2,11)	25,313,234	752,027	1.02	25,436,263	734,940	1.15
Reserve for land revaluation increment tax	37,845	1,124	0.00	37,845	1,093	0.00
Accrued pension liabilities	1,097,438	32,604	0.04	336,191	9,714	0.01
Subtotal	26,448,517	785,755	1.06	25,810,299	745,747	1.16
<b>Other liabilities</b>						
Reserve for operations and liabilities (Notes 2,12)	1,416,460,368	42,081,413	56.92	1,269,535,558	36,681,178	57.34
Miscellaneous liabilities	44,092,615	1,309,941	1.77	20,986,218	606,363	0.95
Investment-linked products liabilities	26,425,804	785,081	1.06	7,952,269	229,768	0.36
Subtotal	1,486,978,787	44,176,435	59.75	1,298,474,045	37,517,309	58.65
<b>Total liabilities</b>	<b>2,341,764,879</b>	<b>69,571,149</b>	<b>94.10</b>	<b>2,100,672,210</b>	<b>60,695,527</b>	<b>94.88</b>
<b>Stockholders' Equity</b>						
Capital stock						
Common stock (Note 13)	83,074,891	2,468,060	3.34	83,074,891	2,400,315	3.75
Capital surplus (Note 14)	53,675,526	1,594,638	2.16	54,072,271	1,562,331	2.44
Retained earnings (Note 15)						
Legal reserve	3,026,715	89,920	0.12	1,335,046	38,574	0.06
Special reserve	122,653	3,644	0.00	1,833,255	52,969	0.08
Unappropriated retained earnings	18,785,160	558,086	0.75	10,084,130	291,365	0.46
Equity adjustments						
Unrealized valuation losses on long term equity investments	(114,845)	(3,412)	0.00	(704,667)	(20,360)	(0.03)
Cumulative conversion adjustments	160,287	4,762	0.01	173,919	5,025	0.01
Net loss not yet recognized as net pension cost	(1,971)	(59)	0.00	0	0	0.00
Treasury stock (Notes 2,16)	(11,981,151)	(355,946)	(0.48)	(36,496,167)	(1,054,498)	(1.65)
<b>Total stockholders' equity</b>	<b>146,747,265</b>	<b>4,359,693</b>	<b>5.90</b>	<b>113,372,678</b>	<b>3,275,721</b>	<b>5.12</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,488,512,144</b>	<b>\$73,930,842</b>	<b>100.00</b>	<b>\$2,214,044,888</b>	<b>\$63,971,248</b>	<b>100.00</b>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 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 six-month periods ended June 30, 2004 and 2003**

	2004			2003		
	NT \$	US \$	%	NT \$	US \$	%
<b>Operating revenues (Note2)</b>						
Interest income	\$42,796,592	\$1,271,438	15.52	\$39,205,621	\$1,132,783	15.76
Premiums income	131,327,416	3,901,587	47.62	123,274,399	3,561,814	49.56
Reinsurance commission earned	288,143	8,560	0.10	228,012	6,588	0.09
Claims recovered from reinsures	605,224	17,980	0.21	527,150	15,231	0.21
Recovered premiums reserve	63,685,850	1,892,034	23.09	62,310,841	1,800,371	25.05
Recovered special reserve	36,796	1,093	0.01	201,249	5,815	0.08
Recovered claims reserve	20,744	616	0.01	18,391	531	0.01
Commission and handing fee earned	3,534,873	105,017	1.28	2,331,142	67,355	0.94
Investment-linked products revenues	15,486,587	460,089	5.62	8,088,133	233,693	3.25
Commission income of stock brokerage	110,487	3,282	0.04	50,556	1,461	0.02
Gain on disposal of investments	11,986,320	356,100	4.35	3,489,817	100,833	1.40
Gain on long-term equity investment:	270,381	8,033	0.10	519,212	15,002	0.21
Gain on investments-real estate	2,041,511	60,651	0.74	2,190,426	63,289	0.88
Other operating income	3,603,173	107,046	1.31	6,325,909	182,777	2.54
Subtotal	275,794,097	8,193,526	100.00	248,760,858	7,187,543	100.00
<b>Operating costs (Note 2)</b>						
Interest expenses	(4,267,436)	(126,781)	(1.55)	(5,290,546)	(152,862)	(2.13)
Insurance expenses	(1,360,710)	(40,425)	(0.49)	(1,248,051)	(36,059)	(0.50)
Brokerage expenses	(11,117,227)	(330,280)	(4.03)	(10,777,550)	(311,400)	(4.33)
Commissions expenses	(314,870)	(9,354)	(0.11)	(219,555)	(6,344)	(0.09)
Insurance claims payment	(75,022,449)	(2,228,831)	(27.20)	(66,768,820)	(1,929,177)	(26.84)
Provision for premiums reserve	(126,970,537)	(3,772,149)	(46.04)	(120,400,217)	(3,478,770)	(48.40)
Provision for special reserve	(3,339,197)	(99,204)	(1.21)	(1,259,667)	(36,396)	(0.51)
Contribution to the stabilization funds	(135,118)	(4,014)	(0.05)	(126,651)	(3,659)	(0.05)
Provision for claims reserve	(34,514)	(1,025)	(0.01)	(64,397)	(1,861)	(0.03)
Handling fee paid	(895,920)	(26,617)	(0.32)	(1,404,443)	(40,579)	(0.57)
Investment-linked products expenses	(15,486,587)	(460,089)	(5.62)	(8,088,133)	(233,694)	(3.26)
Commission charges of stock brokerage	0	0	0.00	(3,177)	(92)	(0.01)
Provision for possible losses	(3,916,752)	(116,362)	(1.42)	(5,552,018)	(160,417)	(2.23)
Other operating cost	(2,028,458)	(60,263)	(0.74)	(1,112,858)	(32,154)	(0.45)
Subtotal	(244,889,775)	(7,275,394)	(88.79)	(222,316,083)	(6,423,464)	(89.40)
<b>Operating gross profit</b>	30,904,322	918,132	11.21	26,444,775	764,079	10.60
<b>Operating expenses</b>	(11,770,623)	(349,692)	(4.27)	(11,307,912)	(326,724)	(4.55)
<b>Operating income</b>	19,133,699	568,440	6.94	15,136,863	437,355	6.05
<b>Non-operating revenues</b>	2,107,217	62,603	0.76	1,243,861	35,940	0.50
<b>Non-operating expenses</b>	(1,192,148)	(35,417)	(0.42)	(81,187)	(2,346)	(0.02)
<b>Income from continuing operations before income taxes</b>	20,048,768	595,626	7.28	16,299,537	470,949	6.53
Income taxes (Notes 2, 18)	(2,077,449)	(61,719)	(0.74)	(2,527,425)	(73,026)	(1.02)
<b>Consolidated net income</b>	\$17,971,319	\$533,907	6.54	\$13,772,112	\$397,923	5.51
<b>Earnings per share(expressed in dollars) (Note19)</b>						
Primary earnings per share:						
Income from continuing operations before income taxes	\$2.50	\$0.07		\$2.19	\$0.06	
Net income	\$2.24	\$0.07		\$1.85	\$0.05	
Fully-diluted earnings per share						
Income from continuing operations before income taxes	\$2.42	\$0.07		\$2.13	\$0.06	
Net income	\$2.16	\$0.06		\$1.79	\$0.05	

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 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 six-month periods ended June 30, 2004 and 2003**

Summary	Common stock		Capital surplus		Retained earnings						Equity adjustments				Treasury stock		Total			
	NT \$	US \$	NT \$	US \$	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 \$
<b>Balance on January 1, 2003</b>	\$84,531,631	\$2,442,405	\$56,807,974	\$1,641,375	\$13,713	\$396	\$0	\$0	\$13,085,153	\$378,075	\$(1,032,426)	\$(29,830)	\$199,570	\$5,766	\$0	\$0	\$(42,706,265)	\$(1,233,929)	\$110,899,350	\$3,204,258
Disposal of property and equipment retransfer unappropriated retained earnings			(128,170)	(3,703)					128,170	3,703									0	0
Appropriations and distributions for 2002																				
Legal reserve					1,321,332	38,178			(1,321,332)	(38,178)									0	0
Special reserve							1,833,255	52,969	(1,833,255)	(52,969)									0	0
Cash dividends			(1,649,408)	(47,657)					(10,053,091)	(290,468)									(11,702,499)	(338,125)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(134)									(5,400)	(156)
Bonus paid to employees			(165)	(5)					(1,006)	(29)									(1,171)	(34)
Retired treasury stock	(1,456,740)	(42,090)	(978,976)	(28,286)					(3,687,982)	(106,558)							6,123,698	176,934	0	0
Capital surplus			3,013	87															3,013	87
Cumulative conversion adjustments													(25,651)	(741)					(25,651)	(741)
Unrealized valuation losses on long-term equity investments											327,759	9,470							327,759	9,470
Treasury stock			18,764	542													86,400	2,497	105,164	3,039
Consolidated net income after the six-month period ended June 30, 2003									13,772,112	397,923									13,772,112	397,923
Rounding					1	0													1	0
<b>Balance on June 30, 2003</b>	\$83,074,891	\$2,400,315	\$54,072,271	\$1,562,331	\$1,335,046	\$38,574	\$1,833,255	\$52,969	\$10,084,130	\$291,365	\$(704,667)	\$(20,360)	\$173,919	\$5,025	\$0	\$0	\$(36,496,167)	\$(1,054,498)	\$113,372,678	\$3,275,721
<b>Balance on January 1, 2004</b>	\$83,074,891	\$2,468,060	\$53,651,046	\$1,593,911	\$1,335,046	\$39,663	\$1,833,255	\$54,464	\$16,916,694	\$502,576	\$(136,202)	\$(4,046)	\$176,537	\$5,245	\$(1,971)	\$(59)	\$(15,039,516)	\$(446,807)	\$141,809,780	\$4,213,007
Appropriations and distributions for 2002																				
Legal reserve					\$1,691,669	\$0,257			(1,691,669)	(50,257)									0	0
Special reserve							(\$1,710,602)	(50,820)	1,710,602	50,820									0	0
Cash dividends									(16,105,155)	(478,466)									(16,105,155)	(478,466)
Remuneration paid to directors and supervisors									(5,700)	(169)									(5,700)	(169)
Bonus paid to employees									(1,612)	(48)									(1,612)	(48)
Capital Surplus			10,124	301															10,124	301
Cumulative conversion adjustments													(16,250)	(483)					(16,250)	(483)
Unrealized valuation losses on long-term equity investments											21,357	634							21,357	634
Treasury stock			14,356	426					(9,319)	(277)							3,058,365	90,861	3,063,402	91,010
Consolidated net income for the six-month period ended June 30, 2004									17,971,319	533,907									17,971,319	533,907
<b>Balance on June 30, 2004</b>	\$83,074,891	\$2,468,060	\$53,675,526	\$1,594,638	\$3,026,715	\$89,920	\$122,653	\$3,644	\$18,785,160	\$558,086	\$(114,845)	\$(3,412)	\$160,287	\$4,762	\$(1,971)	\$(59)	\$(11,981,151)	\$(355,946)	\$146,747,265	\$4,359,693

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NTS33.66 and NTS34.61 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 six-month periods ended June 30, 2004 and 2003**

	2004		2003	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated net income	\$17,971,319	\$533,907	\$13,772,112	\$397,923
Adjustments:				
Loss (gain) on bad debt	(66,484)	(1,975)	2,018,561	58,323
Amortizations and depreciation expenses	1,574,595	46,779	1,623,062	46,896
Miscellaneous expenses	1,159	35	0	0
Provision for reserve for operations	134,260,999	3,988,740	125,249,082	3,618,870
Recovered reserve for operations	(62,538,539)	(1,857,948)	(61,139,955)	(1,766,540)
Applicant terminates the insurance contract income	(1,204,852)	(35,795)	(1,390,525)	(40,177)
Loss (gain) on mortgaged property and collated assumed	0	0	47,970	1,386
Loss (gain) on disposal of property and equipment	(1,136,435)	(33,762)	79,623	2,300
Increase (decrease) in bonds payable redemption premium	409,144	12,155	419,784	12,129
Loss (gain) on disposal of investments	906	27	(2,341,479)	(67,653)
Valuation loss on other real estate owned	0	0	100,000	2,889
Amortization long-term investments in bonds	29,076	864	20,580	595
Investment gains recognized by equity method smaller (excess) of cash dividends received	(44,256)	(1,315)	(493,089)	(14,247)
Effects of exchange rate changes	47,347	1,407	(2,430)	(70)
Decrease (increase) in short-term investments	(53,751,438)	(1,596,894)	(55,250,273)	(1,596,367)
Decrease (increase) in receivables	(6,261,219)	(186,014)	4,886,736	141,194
Decrease (increase) in prepayments	146,673	4,358	615,911	17,796
Decrease (increase) in overdue receivables	176,117	5,232	(103,151)	(2,980)
Decrease (increase) in deferred income tax assets	(38,237)	(1,136)	(159,930)	(4,621)
Increase (decrease) in other current assets	6,827,123	202,826	305,571	8,829
Increase (decrease) in payables	(4,074,443)	(121,047)	(10,665,362)	(308,158)
Increase (decrease) in accounts collected in advance	(910,446)	(27,048)	4,690	135
Increase (decrease) in claims reserve	(31,235)	(928)	48,327	1,396
Increase (decrease) in deferred income tax liabilities	(376,076)	(11,173)	61,185	1,768
Increase (decrease) in other current liabilities	14,354,675	426,461	2,756,673	79,649
<b>Net cash provided by (used in) operating activities</b>	<b>45,365,473</b>	<b>1,347,756</b>	<b>20,463,673</b>	<b>591,265</b>
<b>Cash flows from investing activities</b>				
Decrease (increase) in forward exchange receivable	0	0	(793,471)	(22,926)
Increase (decrease) in forward exchange payable	3,173,998	94,296	0	0
Decrease (increase) in exchange bills negotiated, discounted and loans	(15,835,290)	(470,448)	(4,505,725)	(130,186)
Acquisition of long-term investments in stocks	(14,815,637)	(440,156)	(103,664,247)	(2,995,211)
Disposal of long-term investments in stocks	5,930,472	176,187	15,305,623	442,231
Decrease (increase) in long-term investments in bonds	(17,711,839)	(526,198)	(1,090,615)	(31,512)
Deposal of investment in real estate	1,493,592	44,373	122,599	3,542
Acquisition of investment in real estate	(8,576,883)	(254,809)	(609,496)	(17,610)
Disposal of property and equipment	1,769,224	52,562	36,535	1,056

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows**  
**(Expressed in thousands of dollars)**  
**For the six-month periods ended June 30, 2004 and 2003**

	2004		2003	
	NT \$	US \$	NT \$	US \$
Acquisition of property and equipment	(796,949)	(23,676)	(1,291,601)	(37,319)
Acquisition of intangible assets	(3,485)	(105)	(2,954)	(85)
Decrease (increase) in deferred charges	(61,512)	(1,827)	(30,126)	(869)
Decrease (increase) in non-operation assets	1,148,472	34,120	306,395	8,853
Decrease (increase) in guarantee deposits paid	(3,341,568)	(99,274)	(820,113)	(23,696)
Decrease (increase) in due from Central Bank and call loans to banks	(807,490)	(23,990)	(12,264,800)	(354,372)
Decrease (increase) in securities serving as deposited paid	2,451	73	2,437	70
<b>Net cash provided by (used in) investing activities</b>	(48,432,444)	(1,438,872)	(109,299,559)	(3,158,034)
<b>Cash flows from financing activities</b>				
Increase (decrease) in bonds payable	(231,000)	(6,863)	0	0
Increase (decrease) in funds held for reinsures	(98)	(3)	(528)	(15)
Increase (decrease) in guarantee deposits received	125,046	3,715	21,940	634
Increase (decrease) in due to Central Bank and commercial banks	(1,915,316)	(56,902)	7,837,602	226,455
Increase (decrease) in deposits and remittances payable	20,687,378	614,599	47,786,766	1,380,721
Increase (decrease) in banker's acceptances and funds borrowed	608,260	18,071	(548,933)	(15,861)
Acquisition of Treasury stock	3,023,647	89,829	0	0
Remuneration paid to directors and supervisors	0	0	(13,500)	(390)
Bonus paid to employees	(1,441)	(43)	(3,755)	(108)
<b>Net cash provided by (used in) financing activities</b>	22,296,476	662,403	55,079,592	1,591,436
<b>Effects of exchange rate changes</b>	(60,310)	(1,792)	(21,636)	(625)
<b>Increase (decrease) in cash and cash equivalents</b>	19,169,195	569,495	(33,777,930)	(975,958)
<b>Cash and cash equivalents at the beginning of period</b>	129,072,412	3,834,593	127,506,888	3,684,105
<b>Cash and cash equivalents at the end of period</b>	\$148,241,607	\$4,404,088	\$93,728,958	\$2,708,147
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$4,194,660	\$124,619	\$5,396,904	\$155,935
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$4,194,660	\$124,619	\$5,396,904	\$155,935
Income tax paid	\$437,807	\$13,007	\$2,758,412	\$79,700

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 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 June 30, 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”) and its shares were listed on Taiwan Stock Exchange Corporation (TSE) in the same day. 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 (LSE) in the form of Global Depositary Shares (GDSs). 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 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;
- d. Off-shore banking business;
- e. Other financial operations related to the promotion of investments of Overseas Chinese.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

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.

- C. 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 authorized by the ROC Banking Law (“Banking Law”);
  - b. International banking business and related operations;
  - c. Trust and stockbrokerage business;
  - d. Off-shore banking business;
  - e. Other financial operations related to the promotion of investments of Overseas Chinese.

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.

- D. 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.

- E. Cathay Securities Corp. was incorporated in Taipei on May 12, 2004, under the provisions of the Company Law. Cathay Securities Corp. mainly engages in securities underwriter, securities dealer and securities broker. Cathay Securities Corp. is under its development stage. The Company’s ownership interest is 100% of the common stock.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

F. Cathay Pacific Venture Capital Co., Ltd. was incorporated in Taiwan on April 16, 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.

G. Cathay Venture Capital Co., Ltd. was incorporated in Taiwan on Sep. 13, 2000, under the provisions of the Company Law. Cathay Venture Capital Co., Ltd. mainly engages in the business of investment. The Company's ownership interest is 61.66% of the common stock.

H. Cathay II Venture Capital Co., Ltd. was incorporated in Taipei on April 12, 2004, under the provisions of the Company Law. Cathay II Venture Capital Co., Ltd. mainly engaged 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." Significant accounting policies are summarized as follows:

### *(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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

The consolidated financial statements of the Company as of and for the six-month period June 30, 2004 include the Company and its subsidiaries, which include Cathay Life, Cathay United Bank (merged), Cathay Century, and Cathay Securities. As of six-month period June 30, 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 June 30, 2004 exclude Cathay Pacific Venture Capital Co., Ltd., Cathay Venture Capital Co., Ltd., Cathay II Venture Capital 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.

*(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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

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)Securities Purchased*

Securities purchased are stated at the lower of cost and market value. Except for the parent company's equity shares held by Cathay United Bank (merged), the lower of cost and market value is determined based on a portfolio basis with similar securities. A provision is made when the market value is lower than the cost. When the market value rises, the gain is set off against the provision to the extent of the amount made previously.

When stocks and mutual funds are sold, the cost is calculated based on the weighted-average method. For other securities, the cost is calculated based on the cost of each related individual security.

Securities purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and securities sold under repurchase agreements are presented as part of "Securities sold under agreements to repurchase." The difference between the selling or purchase price and the contracted repurchase or resale price is accounted for as interest expense or interest income, respectively.

*(7) 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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

*(8) Long - term investments*

A. Long-term investments in stocks

Long-term investments in listed companies in which the Company's ownership interest is less than 20% of the voting stock, and over which the Company lacks significant operational influence, 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 investment income but are recorded 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 have significant operational influence.

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to "capital surplus" as well as the "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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

**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 assets, economic service lives. Gains or losses from other types of inter-company transactions are recognized when realized.

**C. Long-term investments in bonds**

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, quarterly and lump sum.

*(9) Other real estate owned and allowances*

Other real estate owned consists of loan-related properties acquired through foreclosure and deed in lieu of foreclosure. Other real estate owned is booked at the acquisition cost from the court. On the balance sheet date, it is stated at the lower of cost or net realizable value. However if there is evidence indicating a decline in the value of the aforementioned asset, the resulting loss is recognized in the period incurred and recorded as a provision for credit losses.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

*(10) Property and equipment*

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

Depreciation on depreciable assets is computed using the straight-line method over estimated service lives, prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the ROC Executive Yuan. Properties still used in operations beyond their original estimated service lives are further depreciated over their newly estimated service lives.

*(11) 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.

*(12) Operation Bond*

The operation bond set aside in accordance with Article 55 of the Securities and Exchange Law.

*(13) 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 June 30, 2004 and 2003**

*(14) Reserves for operations*

A. Cathay Life

Reserve for the operations is organized according to the Insurance Law. These reserves include the Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. The figures for these reserves are provided by actuaries.

The MOF passed a new regulation on December 24, 2002. Under this regulation, stating that 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.

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 act. This amount may not be allocated or used for other purposes unless approved by the MOF.

The Company has a surplus of NT \$8,016,080(US\$238,149) from the “Special Reserve for the Loss Movement” on June 30, 2004.

B. Cathay Century

Reserves for operations is 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.

*(15) 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\$5.94 million). The reserve cannot be used for other purposes except to offset trading losses.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

*(16) 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.

*(17) Reserve 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\$5.94 million).

*(18) 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.

*(19) 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:

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
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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 years 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 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.

*(20) Insurance premiums*

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 are made based on past experience.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

*(21) Recognition of interest income, commissions 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.

*(22) Contribution to the stabilization funds*

Cathay Century makes a monthly contribution from gross premiums to the stabilization fund and deposits it in "Property Insurance Stabilization Fund Committees". It is reported as "Contribution to the Stabilization" in income statements.

*(23) 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.

In compliance with SFC regulations, the Company followed the ROC SFAS No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligations and the fair value of plan assets.

In accordance with the ROC SFAS No. 23 "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in segment information and the ROC SFAS No. 18 "Accounting for Pensions".

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

*(24) 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 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.

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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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*(25) 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 in deferred income tax liabilities, deferred income tax assets, prior year's loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. 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.

A deferred income tax asset or liability is, according to the classification of its related asset or liability, classified as current or non-current. However, if a deferred asset or liability does not relate to an asset or liability in the financial states, then it is classified as either current or non-current based on the expected length of time before it is realized.

In accordance with Article 49 of the Financial Holding Company Act, in the case of a company holds more than 90% of the outstanding issued shares of its domestic subsidiaries, such a company may, for any tax year in which its shareholding in the subsidiary has existed for the entire twelve months of the tax year, elect to be the taxpayer itself, and jointly declare and report income tax and the 10% surcharge on undistributed retained earnings to the Tax Authority under the ROC Income Tax Law ("Income Tax Law").

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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
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The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date of the stockholders' meeting.

*(26) 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.

*(27) 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. 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 swap ("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 swap transactions undertaken for hedging purposes, income and expenses arising upon settlement are netted off and recognized in the statement of income and expenditure.

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- D. The purpose of the cross currency swap (“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. Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading Forward rate agreements (“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.
- F. Margin deposits paid by Cathay United Bank (merged) for interest rate futures contracts entered into for trading or hedging purpose are recognized as assets. Gains or losses resulting from marking to market and from the settlement of the interest rate futures contracts are classified as hedging or non-hedging depending on the original purpose of entering interest rate contracts, and are classified as realized or unrealized gains or losses depending on whether the gains or losses had been realized.

*(28) Investment-linked products*

The company sells investment-linked products, of which the insured should pay the insurance fees according to the agreement amount less the expenses incurred by the insurers. In addition, the investment distribution is appointed or approved by the insured and then transferred to specific accounts as requested by the insurers. The value of these specific accounts is determined based on the market value of that day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

The Company establishes special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of “Personal Insurance Accounting Standards in Sale-Investment-Linked Insurance Products”. The above accounts can be recorded under items “investment-linked products assets”, “investment-linked products liabilities”, “investment-linked products revenues”, and “investment-linked products expenses”, respectively.



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*(29) Commitments and contingent liabilities*

Contingent liabilities and commitments should be recorded at estimated amounts if it is probable that they have been incurred and the amounts can be reasonably estimated. If it is not probable, or if the amounts cannot be reasonably estimated, the disclosure should be made in the footnote of the financial statements.

*(30) Convenience conversion into U.S. dollars*

The financial statements are stated in NT dollars. Conversion of the June 30, 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\$33.66 and 34.61 to US\$1.00 effective on June 30, 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.

**3. Changes in accounting and its effects:**

Starting from 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 by using the financing method. From January 1 to June 30, 2004, the Company has resulted in an increase of NT\$99 (US\$3) thousand in net income.

Since the repurchase/resell transactions of Cathay United Bank (merged) are daily financing activities of great volume, and the accounting systems had been revised for several times. Therefore, the Company’s historical trading data are hard to trace and, calculate the cumulative effects of change in accounting principles. Thus, Cathay United Bank (merged) is fail to calculate the cumulative effects of change in accounting principles, and the pro forma information cannot be disclosed neither.

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**4. Cash and cash equivalents**

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Petty cash and cash on hand	\$8,099,515	\$240,627	\$7,513,169	\$217,081
Cash in banks	3,189,653	94,761	6,128,750	177,080
Time deposits	79,380,861	2,358,315	51,272,860	1,481,447
Cash equivalents	52,450,837	1,558,254	24,201,187	699,254
Checks for clearing	5,120,741	152,131	4,612,992	133,285
Total	<u>\$148,241,607</u>	<u>\$4,404,088</u>	<u>\$93,728,958</u>	<u>\$2,708,147</u>

**5. Short-term investments**

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Certificates of Deposit	\$118,643,112	\$3,524,751	\$50,109,954	\$1,447,846
Short-term notes	64,472,598	1,915,407	34,633,464	1,000,678
Securities purchased under agreements to resell	6,261,652	186,026	2,749,344	79,438
Time deposits linked to bond yield	-	-	1,199,691	34,663
Common stock	61,077,256	1,814,535	47,673,747	1,377,456
Beneficiary certificates	74,047,570	2,199,868	68,906,602	1,990,945
Government bonds and corporate bonds	55,403,154	1,645,964	84,818,108	2,450,682
Oversea investments	155,085,683	4,607,418	121,183,985	3,501,415
Appoint purpose trust fund	42,339,994	1,257,873	45,299,038	1,308,842
Financial debentures	18,202,885	540,787	15,299,766	442,062
Subtotal	<u>595,533,904</u>	<u>17,692,629</u>	<u>471,873,699</u>	<u>13,634,027</u>
Less: Cash equivalents	(50,711,624)	(1,506,584)	(17,075,494)	(493,369)
Less: Allowance for valuation loss	(430,884)	(12,801)	(774,761)	(22,385)
Total	<u>\$544,391,396</u>	<u>\$16,173,244</u>	<u>\$454,023,444</u>	<u>\$13,118,273</u>

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Cathay United Bank's (merged) Marketable securities in the amount of NT\$17,015,329 (US\$505,506) and NT\$14,305,423 (US\$413,332) at June 30, 2004 and 2003, respectively, were pledged to other parties as collateral for business reserves and guarantees.

Securities sold under agreements to repurchase were NT\$39,556,427 (US\$1,175,176) and NT\$16,098,500 (US\$465,140) at June 30, 2004 and 2003, respectively.

**6. Exchange bills negotiated discounted and loans, net**

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Exchange bills negotiated				
discounted	\$1,090,653	\$32,402	\$855,507	\$24,718
Short-term loans and				
overdrafts	223,702,668	6,645,950	223,209,810	6,449,287
Short-term secured loans and				
overdrafts	106,949,845	3,177,357	112,939,085	3,263,192
Medium-term loans	53,196,536	1,580,408	53,927,179	1,558,139
Medium-term secured loans	129,103,517	3,835,518	147,237,161	4,254,180
Long-term loans	19,714,565	585,697	23,953,144	692,087
Long-term secured loans	474,730,890	14,103,710	445,717,531	12,878,287
Subtotal	1,008,488,674	29,961,042	1,007,839,417	29,119,890
Less: Allowance for bad debts	(7,203,187)	(213,998)	(7,303,653)	(211,027)
Total	<u>\$1,001,285,487</u>	<u>\$29,747,044</u>	<u>\$1,000,535,764</u>	<u>\$28,908,863</u>

For Cathay Life and Cathay Century's secured loans are secured by government bonds, stock, corporate bonds and real estate. 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\$6,001,784 (US\$178,306) and NT\$11,063,590 (US\$319,665) at June 30, 2004 and 2003, respectively. The unrecognized interests on the non-accrual accounts amounted to NT\$115,142 (US\$3,421) and NT\$336,215 (US\$9,714) for the six-month periods ended June 30, 2004 and 2003, respectively.

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For Cathay United Bank (formerly), as of June 30, 2003, the past-due loans and other credit loans without accrued interest amounted to NT\$5,564,522 (US\$160,778) and there are categorized under loans and delinquent loans, respectively. The non-accrued interest income amounted to NT\$199,981 (US\$5,778) for the six-month period ended June 30, 2003.

**7. Long-term investments in stocks**

<u>Investee</u>	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
A. Under the equity method:				
Cathay Pacific Venture Capital Corp.	\$589,901	\$17,525	\$597,032	\$17,250
Cathay Venture Capital Crop.	548,945	16,308	317,334	9,169
Cathay II Venture Capital Corp.	597,699	17,757	-	-
WK Technology Fund VI Co., Ltd	375,627	11,159	375,440	10,848
Vista Technology Venture Capital Corp.	74,038	2,200	98,850	2,856
Omnitek Venture Capital Corp.	152,081	4,518	150,572	4,351
Wa Tech Venture Capital Co., Ltd.	178,895	5,315	179,871	5,197
Lin Yuan Property Management Co., Ltd.	19,430	577	31,778	918
Cathay Securities Investment Co., Ltd.	20,490	609	11,107	321
Huong Yee Co., Ltd.	-	-	466,737	13,486
Seaward Card Co., Ltd.	51,435	1,528	38,251	1,105
Seaward Leasing Ltd.	2,220,268	65,962	2,150,970	62,149
Cathay futures Corp. (formerly Seaward Futures Corp.)	726,444	21,582	1,662,573	48,037
Indovina Bank	427,449	12,699	418,269	12,085
Seaward Insurance Agent Corp.	-	-	27,719	801

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Taiwan Real-estate				
Management Corp.	51,947	1,543	54,162	1,565
Taiwan Finance Corp.	1,269,428	37,713	1,185,654	34,258
Seaward Property Insurance	-	-	2,000	58
Cathay Property Insurance				
Agent Co., Ltd.	8,169	243	6,489	187
Cathay Life Insurance Agent				
Co., Ltd.	79,744	2,369	12,267	354
IBT Venture Capital Corp.	575,239	17,090	565,288	16,333
Cathay Insurance (Bermuda)				
Co., Ltd.	59,883	1,779	54,764	1,582
Symphox Information Co.,				
Ltd.	261,257	7,762	256,843	7,421
Cathay Securities Investment				
Trust Co., Ltd.	208,198	6,185	200,879	5,804
Subtotal	<u>8,496,567</u>	<u>252,423</u>	<u>8,864,849</u>	<u>256,135</u>
Less: Unrealized gain from				
intercompany transactions	<u>(31,850)</u>	<u>(946)</u>	<u>(87,825)</u>	<u>(2,537)</u>
Long-term investment under the				
equity method	8,464,717	251,477	8,777,024	253,598
B. Long-term investment under the				
cost method	<u>49,670,977</u>	<u>1,475,668</u>	<u>50,927,221</u>	<u>1,471,460</u>
Net	<u><u>\$58,135,694</u></u>	<u><u>\$1,727,145</u></u>	<u><u>\$59,704,245</u></u>	<u><u>\$1,725,058</u></u>

## 8. Long-term investments in bonds

Long-term investments in bonds consist mainly of the government bonds. As of June 30, 2004 and 2003, long-term investments in bonds amounted to NT\$375,933,391 (US\$11,168,550) and NT\$244,566,878 (US\$7,066,365), respectively.

## 9. Investment in real estate

Item	June 30 2004,							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real								
estate	\$104,476,112	\$3,103,866	\$4,681	\$139	\$(12,323,151)	\$(366,107)	\$92,157,642	\$2,737,898
Construction	8,802,834	261,522	-	-	-	-	8,802,834	261,522
Total	<u>\$113,278,946</u>	<u>\$3,365,388</u>	<u>\$4,681</u>	<u>\$139</u>	<u>\$(12,323,151)</u>	<u>\$(366,107)</u>	<u>\$100,960,476</u>	<u>\$2,999,420</u>

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Item	June 30 2003,								
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Investments in real									
estate	\$94,124,549	\$2,719,577	\$5,010	\$145	\$(11,138,618)	\$(321,832)	\$82,990,941	\$2,397,890	
Construction	10,966,994	316,873	-	-	-	-	10,966,994	316,873	
Prepayments for									
buildings and land	414	12	-	-	-	-	414	12	
Total	\$105,091,957	\$3,036,462	\$5,010	\$145	\$(11,138,618)	\$(321,832)	\$93,958,349	\$2,714,775	

(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.

**10. Deposits and remittances payable**

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Check deposit	\$9,614,204	\$285,627	\$12,046,276	\$348,058
Demand deposits	113,971,261	3,385,955	96,121,143	2,777,265
Demand savings deposits	425,311,094	12,635,505	339,928,786	9,821,693
Time deposits	129,449,923	3,845,809	215,387,115	6,223,262
Discretionary pension trust				
funds	-	-	3,364,123	97,201
Remittances	297,815	8,848	153,096	4,424
Bank's debenture	27,050,000	803,624	17,350,000	501,300
Total	\$705,694,297	\$20,965,368	\$684,350,539	\$19,773,203

  

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Banker's debenture	\$14,700,000	\$436,720	\$5,000,000	\$144,467
Subordinate Banker's				
debenture	12,350,000	366,905	12,350,000	356,833
Total	\$27,050,000	\$803,625	\$17,350,000	\$501,300

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On May 23, 2002, Cathay United Bank (merged) issued five-year subordinate banker's debenture amounting to NT\$5,000,000 (US\$148,544) 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\$148,544) with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinate banker's debenture is repayable at maturity, and the interests are payable annually and semiannually, respectively.

On April 28, 2003, Cathay United Bank (formerly) issued five-year subordinate banker's debenture amounting to NT\$2,350,000 (US\$69,816) with a stated interest rate of 2%. The subordinate banker's debenture is 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.

On June 20, 2003, Cathay United Bank (merged) issued five-year and six month banker's debenture amounting to NT\$5,000,000 (US\$148,544) 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\$95,068), NT\$2,700,000 (US\$80,214), and NT\$1,800,000 (US\$53,476), respectively, with floating interest rate; thereafter a six-year banker's debenture amounting to NT\$2,000,000 (US\$59,418) was issued with floating interest rate on March 29, 2004. The banker's debentures is repayable at maturity, and the interests are payable quarterly or semiannually. The priority claim of Banker's debentures, including principles and interests, mentioned above are equal to other debts of Cathay United Bank (merged), while that is senior to common stock.

**11. Bonds payable**

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Zero Coupon Convertible				
Notes	\$23,562,000	\$700,000	\$24,500,000	\$707,888
Redemption premium payable	1,751,234	52,027	936,263	27,052
Total	<u>\$25,313,234</u>	<u>\$752,027</u>	<u>\$25,436,263</u>	<u>\$734,940</u>

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

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**12. Reserve for Operations and Liabilities**

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Unearned premium reserve	\$12,838,206	\$381,408	\$12,617,859	\$364,573
Reserve for life insurance	1,383,576,713	41,104,478	1,241,573,069	35,873,247
Special reserve	18,945,158	562,839	14,251,424	411,772
Claims reserve	897,694	26,669	903,228	26,097
Reserves for losses on guarantees	28,795	856	28,895	835
Reserves for losses on stock brokerage transactions	42,820	1,272	37,181	1,074
Reserves for losses on trading securities	130,982	3,891	123,902	3,580
Total	<u>\$1,416,460,368</u>	<u>\$42,081,413</u>	<u>\$1,269,535,558</u>	<u>\$36,681,178</u>

**13. Common stock**

As of June 30, 2004 and 2003, the numbers of issued shares, par value of NT10 dollars (US\$0.3 dollars), were 8,307,489 thousand shares.

On December 31, 2001, the Company listed its shares of stock on Taiwan Stock Exchange (TSE) in accordance with relevant regulations. On July 29, 2003, the Company listed its partial shares of stock on the Luxembourg Stock Exchange (LSE) in the form of Global Depository Shares (GDSs).

**14. Capital surplus**

(1)Capital Surplus was NT\$53,675,526 (US\$1,594,638) and NT\$54,072,271 (US\$1,562,331) in June 30, 2004 and 2003. Before conversion into financial holding company, NT\$267,215 (US\$7,939) constituted retained earnings of certain Subsidiaries of the Company.



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- (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% of 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 deficits but not for cash dividends 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.

(2)Unappropriated retained earnings

A. According to the Company Law of the Company's articles of Incorporations, 10% of the Company's annual earnings, after paying tax and offsetting deficits, if any, should first be added to the as legal reserve. After distributing 0.01%~0.05% of total distribution for employees' bonus, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

After conversion into a financial holding company the Subsidiary's treasury stock is treated as the Company's treasury stock without any stockholder rights.

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- B. The appropriations of the 2003 earnings were approved in the shareholders' meeting on June 3, 2004. The appropriations resulted from retained earnings of NT\$20,588,763 (US\$ 611,669) in 2003, special reserve converted into unappropriated retained earnings with amount to NT\$887,442 (US\$ 26,365) and the disposition of fixed assets from subsidiaries amounted to NT\$57,683 (US\$ 1,714), respectively. The Company declared cash dividends NT\$2 dollars each share and the issuance date of cash dividends were on July 9, 2004.
- 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 June 30, 2004, Cathay life had been transferred to employees.
- D. According to the revised 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. In accordance with SFC regulations, in addition to the legal reserve retained, the Company should provide a special reserve of equal amount for any current year shareholders' equity contra account from current year's earnings after tax or prior years' unappropriated 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

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.

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**16. Treasury Stock**

(1) The following is a summary of the movement of treasury stock for the six-month period ended June 30, 2004.

Reason for Transfer	Jan. 1, 2004	Increase	Decrease	Jun. 30, 2004	Book Value (NT\$)	Book Value (US\$)	(Unit: in thousands of shares)			
							Per Share Book Value (in NT dollars)	Per Share Book Value (in US dollars)	Per Share Market Value (in NT dollars)	Per Share Market Value (in US dollars)
Subsidiaries translated it to employees	51,551	-	51,551	-	\$-	\$-	\$-	\$-	\$-	\$-
Parent's stock that the subsidiaries held were treated as treasury stock	11,705	-	608	11,097	530,389	15,757	47.80	1.42	59.10	1.76
Holding subsidiaries' stocks by conversion were treated as treasury stock	254,911	-	-	254,911	11,450,762	340,189	-	-	-	-
<b>Total</b>	<b>318,167</b>	<b>-</b>	<b>52,159</b>	<b>266,008</b>	<b>\$11,981,151</b>	<b>\$355,946</b>				

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

Name	Holding share	Amount (NT\$)	Amount (US\$)	Cause	About retained earnings limit	Legal time limit	Pro forma way determined by the board of directors determine
Cathay United Bank (merged)	7,700	\$455,070	\$13,520	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay Century	3,397	200,759	5,964	"	None	Within three years	None
<b>Total</b>	<b>11,097</b>	<b>\$655,829</b>	<b>\$19,484</b>				

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(3) Cathay Life

A. Cathay Life's treasury stock variation for the six-month period ended June 30, 2004 are as follows:

(Unit: in thousands of shares)

Reason for transfer	Jan. 1, 2004	Increase	Decrease	June 30, 2004
Transferred to employees	51,551	-	51,551	-

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 thousand shares of treasury stock for NT\$7,333,863(US\$217,881).

C. Treasury stock of Cathay Life was converted into common stock of Cathay Financial Holding Co., Ltd. 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 six-month period ended June 30,2004 (NT\$)			For the six-month period ended June 30,2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$37,958	\$37,958	\$-	\$25,055	\$25,055
Labor & health Insurance expenses	-	1,500	1,500	-	664	664
Pension expenses	-	1,844	1,844	-	-	-
Other expenses	-	19,401	19,401	-	7,824	7,824
Depreciation	-	497	497	-	395	395
Depletion	-	-	-	-	-	-
Amortizations	-	72,683	72,683	-	72,683	72,683

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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Item	For the six-month period ended June 30,2004 (US\$)			For the six-month period ended June 30,2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$1,128	\$1,128	\$-	\$724	\$724
Labor & health Insurance expenses	-	45	45	-	19	19
Pension expenses	-	55	55	-	-	-
Other expenses	-	576	576	-	226	226
Depreciation	-	15	15	-	11	11
Depletion	-	-	-	-	-	-
Amortizations	-	2,159	2,159	-	2,100	2,100

The total numbers of employees were 54 and 40, respectively, on June 30, 2004 and 2003.

(2) Cathay Life

Item	For the six-month period ended June 30, 2004(NT\$)			For the six-month period ended June 30, 2003(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$9,567,045	\$1,740,581	\$11,307,626	\$9,274,643	\$1,734,839	\$11,009,482
Labor & health Insurance expenses	583,559	102,836	686,395	610,690	111,671	722,361
Pension expenses	421,463	74,271	495,734	466,116	85,234	551,350
Other expenses	501,783	105,688	607,471	525,932	111,243	637,175
Depreciation	-	933,425	933,425	-	1,101,925	1,101,925
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

Item	For the six-month period ended June 30,2004 (US\$)			For the six-month period ended June 30,2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$284,226	\$51,711	\$335,937	\$267,976	\$50,125	\$318,101
Labor & health Insurance expenses	17,337	3,055	20,392	17,645	3,226	20,871
Pension expenses	12,521	2,207	14,728	13,467	2,463	15,930
Other expenses	14,907	3,140	18,047	15,196	3,214	18,410
Depreciation	-	27,731	27,731	-	31,838	31,838
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

The total numbers of employees were 27,780 and 30,519, respectively, on June 30, 2004 and 2003.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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(3) Cathay United Bank (merged)

Item	For the six-month period ended June 30, 2004(NT\$)			For the six-month period ended June 30, 2003(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$1,806,214	\$1,806,214	\$-	\$1,252,030	\$1,252,030
Labor & health Insurance expenses	-	170,943	170,943	-	128,534	128,534
Pension expenses	-	178,968	178,968	-	165,313	165,313
Other expenses	-	540,110	540,110	-	288,784	288,784
Depreciation	-	450,087	450,087	-	311,159	311,159
Depletion	-	-	-	-	-	-
Amortizations	-	105,899	105,899	-	30,741	30,741

Item	For the six-month period ended June 30,2004 (US\$)			For the six-month period ended June 30,2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$53,661	\$53,661	\$-	\$36,175	\$36,175
Labor & health Insurance expenses	-	5,078	5,078	-	3,714	3,714
Pension expenses	-	5,317	5,317	-	4,777	4,777
Other expenses	-	16,046	16,046	-	8,344	8,344
Depreciation	-	13,372	13,372	-	8,990	8,990
Depletion	-	-	-	-	-	-
Amortizations	-	3,146	3,146	-	888	888

The total numbers of employees were 3,673 and 2,517, respectively, on June 30, 2004 and 2003.

(4) Cathay Century

Item	For the six-month period ended June 30,2004 (NT\$)			For the six-month period ended June 30,2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$233,046	\$233,046	\$-	\$278,279	\$278,279
Labor & health Insurance expenses	-	15,083	15,083	-	16,979	16,979
Pension expenses	-	17,444	17,444	-	15,152	15,152
Other expenses	-	105,146	105,146	-	98,670	98,670
Depreciation	-	9,770	9,770	-	12,066	12,066
Depletion	-	-	-	-	-	-
Amortizations	-	2,233	2,233	-	1,990	1,990

Item	For the six-month period ended June 30,2004 (US\$)	For the six-month period ended June 30,2003 (US\$)
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**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$6,924	\$6,924	\$-	\$8,040	\$8,040
Labor & health Insurance expenses	-	448	448	-	491	491
Pension expenses	-	518	518	-	438	438
Other expenses	-	3,124	3,124	-	2,851	2,851
Depreciation	-	290	290	-	349	349
Depletion	-	-	-	-	-	-
Amortizations	-	66	66	-	57	57

The total numbers of employees were 838 and 788 respectively, on June 30, 2004 and 2003.

(5) Cathay Securities Corporation

None.

**18. Estimated income taxes**

(1) Income tax expenses include the following:

	For the six-month period ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Expected income tax expense	\$581,820	\$17,285	\$1,898,768	\$54,862
Plus: Interest income of tax on a separate basis	118,818	3,530	178,246	5,150
Deferred income tax expenses (benefits)	1,857,680	55,190	482,677	13,946
Extra 10% income tax on undistributed retained earnings	336,791	10,006	13,769	398
Less: Income tax credit	(469,949)	(13,962)	(40,837)	(1,180)
Tax effects under integrated income tax systems	(347,711)	(10,330)	(5,198)	(150)
Total income tax expenses (benefit)	<u>\$2,077,449</u>	<u>\$61,719</u>	<u>\$2,527,425</u>	<u>\$73,026</u>

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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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.

**B. Income tax return:**

- (1) The tax authorities have examined and cleared income tax returns of the Company through 2001.
- (2) Cathay Life's income tax returns, up to 2000 except for 1999, have been examined and cleared by the Tax Authority.
- (3) A valuation allowance has been established for Cathay United Bank's (merged) income tax returns assessment for the years from 1994 to 1998 and 2000. However, Cathay United Bank (merged) is contesting the assessment and appeals tax claims to the Tax Authorities. After taking further reviews of the claim, the tax authority has reversed its pervious decision and re-determined the income tax obligation of Cathay United Bank (formerly) since 1997.
- (4) The formerly Cathay United Bank's withholding taxes on the bond interest income pertaining to the periods, when those bonds were held by other investors (the "bond withholding taxes") in 1994, 1995, 2001 and 2002 respectively, were disallowed by the tax authorities as deduction against the Bank's income tax obligations. The Bank 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. The tax authority has reversed its original decision and has allowed the partial reduction amount on the income tax obligation of the Bank for the years from 1994, 1995, 2001 and 2002 in 2004
- (5) Cathay Century's income tax returns, up to 2001 except for 1999, have been examined and cleared by the Tax Authority.



**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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C. Information related tax imputation:

a. The Company

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$1,439,178	\$42,756	\$4,980,972	\$143,917
		For the six month ended June 30, 2004	For the six month ended June 30, 2003	
Imputation credit account ratio – Actual		19.17%	35.19%	

b. Cathay Life

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$50,961	\$1,514	\$25,735	\$744
		For the six month ended June 30, 2004	For the six month ended June 30, 2003	
Imputation credit account – Actual		8.34%	30.17%	

c. Cathay United Bank (merged)

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$50,113	\$1,489	\$119,607	\$3,456

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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The following is the rate of tax credit available for dividends to the Bank's shareholders for the year 2003 and 2002:

	For the six month ended June 30, 2004	For the six month ended June 30, 2003
Cash dividend-Actual	10.94%	16.57%
Stock dividend-Actual	-	23.80%

d. Cathay Century

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$3,496	\$104	\$248,744	\$7,187

	For the six month ended June 30, 2004	For the six month ended June 30, 2003
Imputation credit account ratio-Actual	29.73%	33.33%

e. Cathay Securities Corporation

	June 30,	
	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$596	\$18

	For the six month ended June 30, 2004
Imputation credit account ratio-Actual	-

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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D. Information relating of undistributed earnings:

Year	For the six month ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Prior to 1997	\$267,215	\$7,939	\$267,215	\$7,721
After 1998	823,160	24,455	-	-
Total	<u>\$1,090,375</u>	<u>\$32,394</u>	<u>\$267,215</u>	<u>\$7,721</u>

Net income for the six-month periods end June 30, 2004 and 2003 were not included 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.

**19. Earnings per share**

	For the six-month period ended June 30, 2004								
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net Income	<u>\$20,048,768</u>	<u>\$595,626</u>	<u>\$17,971,319</u>	<u>\$533,907</u>					
<b>Primary earnings per share</b>									
Net income for common stock holder	\$20,048,768	\$595,626	\$17,971,319	\$533,907	8,019,866	\$2.50	\$0.07	\$2.24	\$0.07
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	\$409,144	\$12,155	\$306,858	\$9,116	431,865				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	\$20,457,912	\$607,781	\$18,278,177	\$543,023	\$8,451,731	\$2.42	\$0.07	\$2.16	\$0.06

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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	For the six-month period ended June 30, 2003										
	Amount (Numerator)				EPS						
	Before income taxes		After income taxes		Shares (in thousands of shares) (denominator)	Before income tax		After income tax			
	NT\$	US\$	NT\$	US\$		EPS (in dollars)		EPS (in dollars)			
NT\$		US\$		NT\$		US\$		NT\$		US\$	
Net Income	\$13,665,155	\$394,833	\$13,772,112	\$397,923							
<b>Primary earnings per share</b>											
Net income for common stock holder	\$16,299,537	\$470,949	\$13,772,112	\$397,923	7,433,234	\$2.19	\$0.06	\$1.85	\$0.05		
<b>Effect of potentially dilutive common stock</b>											
Convertible bonds payable	\$419,784	\$12,129	\$314,838	\$9,097	417,228						
<b>Fully-diluted earnings per share</b>											
Net income for common stock holder & effect of potentially common stock	\$16,719,321	\$483,078	\$14,086,950	\$407,020	7,850,462	\$2.13	\$0.06	\$1.79	\$0.05		

## 20. Related party transactions

### (1) Related parties

Name	Relationship
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Company
Cathay Venture Capital Corp.	The investee is accounted for using the equity method
Cathay II Venture Capital Inc.	Subsidiary of company
Lin Yuan Property Management 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 Securities Investment Co., Ltd.	The investee is accounted for using the equity method
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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Cathay Futures Corp. (formely Seaward Futures Corp)	The investee is accounted for using the equity method
Cathay General Hospital	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
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Seaward Leasing Ltd.	The investee is accounted for using the equity method
Cathay Bank Life Insurance Agency of Association (merged with Seaward Insurance Agent Corp. on February 5, 2004, Cathay Bank Life Insurance Agency of Association was the surviving company)	The investee is accounted for using the equity method
Huong Yee Co., Ltd.	The investee is accounted for using the equity method (has been liquidated in July, 2003)
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 Corp.	The investee is accounted for using the equity method
Cathay Bank Property Agency of Association	The investee is accounted for using the equity method

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China England Company Ltd. and etc.	Investee company of a Cathay United Bank (merged)
Gemfor Tech Co.	Their Chairman of the Board is the president of the Cathay United Bank (merged)
Taipei Smart Card Corp.	Investee Company of Cathay United Bank (merged)
Culture and Charity Foundation of the UWCCB	Cathay United Bank (merged) is the major sponsor of the Foundation
Cathay Life Charity Foundation	Their chairman is an immediate family member of the company's chairman
KG Telecommunication Ltd.	Cathay Life is to occupy the supervisor for KG Telecommunication Ltd.
Wu Ming-Yang	Senior manager of Cathay Century

(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.

Name	Item	For the six-months period ended June 30, 2004	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$5,775	\$172
	Hsinyi District Base-D	20,338	604
	Cathay Information Building	10,569	314
	Ban Ciao Building	113,237	3,364
	Sheraton Taipei Hotel	20,332	604
	Cathay General Hospital	7,120	211
	Siangyang Building	18,362	546
	Huanyu Building	5,984	178
	Xi-Men Bldg.	15,882	472
	Tucheng Dffice Building	50,749	1,508
	Jhunan Building	10,740	319
	Cathay Golden & Sliver Bldg.	3,878	115
	Tian-Mu Shopping Center (B)	4,757	141
	Taipei Financial Center Building	3,883	115

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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	Li-Yuan Bldg.	3,934	117
	Ji-Long Bldg (II)	2,080	62
	Cathay life insurance		
	Building	1,757	52
Cathay Real Estate	Hsinyi District Base-D	332	10
Development Co., Ltd.	Tucheng office Building	116	3
	Ban Ciao Building	1,310	39
	Total	<u>\$301,135</u>	<u>\$8,946</u>

Name	Item	For the six-months ended June 30, 2003	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$6,930	\$200
	Hsinyi District Base-D	440,633	12,732
	Cathay Information		
	Building	21,610	624
	Taitung Building	2,776	80
Cathay Real Estate Development Co., Ltd.	Yungdang Building	125	4
	Hsinyi District Base-D	2,678	77
	Tucheng office Building	582	17
	Ban ciao Building	524	15
	Total	<u>\$475,858</u>	<u>\$13,749</u>

- (a) The total amount of undertaking contracted projects for real estate on June 30, 2004 and 2003 between Cathay Life and San Ching Engineering Co., Ltd. are NT\$9,142,446 (US\$271,612) and NT\$12,267,825 (US\$354,459), respectively.
- (b) Cathay United Bank (merged) has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$168 (US\$5) and NT\$ 398 (US\$11) during the six-month periods of 2004 and 2003, respectively.
- (c) 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 six-month periods of 2004 and 2003, respectively.
- (d) Cathay United Bank (merged) has purchased equipment amounting to NT\$2,482 (US\$74) and NT\$158 (US\$5) from Gemfor Tech Co. during the six-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\$ 87,519 (US\$2,600) and NT\$ 3,020 (US\$87) during the six-month period of 2004 and 2003, respectively.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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b. Cathay Life acquisition of property and equipment information:

Name	Item	For the six-month periods ended June 30,			
		2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Symphox Information Co., Ltd.	Transportation equipment	\$-	\$-	\$1,560	\$45

c. Cathay Life disposal of property and equipment information:

Name	Item	For the six-month period ended June 30, 2004			
		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	\$45,157	\$(8,390)	\$(249)

Cathay Life didn't sell any real estate to its related parties for the six-month period ended June 30, 2003.

d. Real estate rental income from Cathay Life and Cathay United Bank (merged):

Name	Rental income			
	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Real Estate Development Co., Ltd.	\$11,365	\$337	\$14,932	\$431
San Ching Engineering Co., Ltd.	7,196	214	9,920	287
Cathay Securities Investment Trust Co., Ltd.	4,311	128	4,543	131
Cathay General Hospital	70,758	2,102	81,529	2,356
Symphox Information Co., Ltd.	12,421	369	15,023	434
Cathay Securities Investment Co., Ltd.	2,110	63	2,070	60
Lin Yuan Property Management Co., Ltd.	224	7	209	6
Lin Ynan Investment Co., Ltd.	38	1	89	3
Seaward Leasing Ltd.	941	28	998	29
Taipei Smart Card Corp.	2,854	85	4,020	116
Culture and Charity Foundation of the UWCCB	500	15	250	7
Total	<u>\$112,718</u>	<u>\$3,349</u>	<u>\$133,583</u>	<u>\$3,860</u>



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Name	Guarantee deposits received			
	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Real Estate Development Co., Ltd.	\$5,796	\$172	\$12,386	\$358
San Ching Engineering Co., Ltd.	7,079	210	6,779	196
Cathay General Hospital	2,354	70	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	64	2,144	62
Symphox Information Co., Ltd.	1,394	41	1,421	41
Other	65	2	65	2
Total	<u>\$18,832</u>	<u>\$559</u>	<u>\$24,778</u>	<u>\$716</u>

According to previously signed contracts, lease terms with third parties are usually 2 to 5 years, and rental collections are received monthly.

e. Real estate rental expense from The Company, Cathay Life and Cathay United Bank (merged)

Name	Rental Expense			
	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Real Estate Development Co., Ltd.	\$21,760	\$647	\$15,182	\$439
Lin Yuan Investment Co., Ltd.	3,340	99	1,673	48
Symphox Information Co., Ltd.	23	1	-	-
Total	<u>\$25,123</u>	<u>\$747</u>	<u>\$16,855</u>	<u>\$487</u>

Name	Guarantee Deposits paid			
	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Real Estate Development Co., Ltd.	\$9,157	\$272	\$9,352	\$270
Lin Yuan Investment Co., Ltd.	1,650	49	1,650	48
Seaward Leasing Ltd.	42,000	1,248	42,090	1,216
Total	<u>\$52,807</u>	<u>\$1,569</u>	<u>\$53,092</u>	<u>\$1,534</u>

According to contracts, terms of lease from the third party generally expire in 3 years, and rentals are paid monthly.

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f. Property Exchange

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Lin Yuan Property Management Co., Ltd.	\$152	\$5	\$-	\$-

B. Short-term investment

Beneficiary certificates

Name	Item	June 30,			
		2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Securities Investment Trust Co., Ltd.	Cost	\$4,765,705	141,584	\$4,086,355	118,069
	Market Value	4,794,254	142,432	3,898,164	112,631

C. Deposits

As of June 30, 2003 Cathay United Bank's (formerly) deposits from related parties amounted to NT\$2,305,330 (US\$66,609). The related interest expenses paid to related parties for the six-month period ended June 30, 2003, amounted to NT\$22,868 (US\$661).

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 six-month period ended June 30, 2003. The details of deposit balances (over NT\$0.1 billion) were as follows:

Name	June 30, 2003			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay Real Estate Development Co., Ltd.	\$925,682	\$51,175	0%~0.50%	\$16

Name	June 30, 2003			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay Real Estate Development Co., Ltd.	\$26,746	\$1,479	0%~0.50%	\$0.5

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D. Loans

As of June 30, 2003 Cathay United Bank (formerly) loans to related parties amounted to NT\$14,573 (US\$421).

The interest revenue received from related parties for the six-month period ended June 30, 2003, amounted to NT\$170 (US\$5), with interest rates ranging from 2.31% to 13.75%.

E. Regular Secured Loans

June 30, 2004				
Name	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General				
Hospital	\$2,192,866	\$2,192,802	2.60%~3.50%	\$20,973
Wu Ming-Yang	2,374	1,708	2.48%	27
Total		<u>\$2,194,510</u>		<u>\$21,000</u>

June 30, 2004				
Name	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General				
Hospital	\$65,148	\$65,146	2.60%~3.50%	\$623
Wu Ming-Yang	71	51	2.48%	1
Total		<u>\$65,197</u>		<u>\$624</u>

June 30, 2003				
Name	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General				
Hospital	\$1,173,912	\$1,173,552	3.67%~4.25%	\$23,626
Wu Ming-Yang	3,189	2,443	3.67%	49
Total		<u>\$1,175,995</u>		<u>\$23,675</u>

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Name	June 30, 2003			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	\$33,918	\$33,908	3.67%~4.25%	\$683
Wu Ming-Yang	92	71	3.67%	1
Total		<u>\$33,979</u>		<u>\$684</u>

**F. Receivables**

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
<b>Notes Receivable</b>				
Cathay General Hospital	\$-	\$-	\$36,999	\$1,069
Symphox Information Co., Ltd.	-	-	583	17
Cathay Securities Investment Trust Co., Ltd.	-	-	139	4
Subtotal	-	-	<u>37,721</u>	<u>1,090</u>
<b>Account Receivable</b>				
Cathay General Hospital	120,000	3,566	-	-
Symphox Information Co., Ltd.	761	22	-	-
Cathay Securities Investment Co., Ltd.	67	2	-	-
Cathay Futures Corp.	382	11	-	-
Cahtay Insurance (Bermuda) Co., Ltd.	10,973	326	9,806	283
Total	<u>\$132,183</u>	<u>\$3,927</u>	<u>\$47,527</u>	<u>\$1,373</u>

**G. Temporary payments and suspense accounts**

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Securities Investment Co., Ltd.	\$-	\$-	\$6,854	\$198

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H. Payable

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Symphox Information Co., Ltd.	\$27,472	\$816	\$27,931	\$807
Lin Yuan Property Management Co., Ltd.	14,247	423	14,127	408
Seaward Card Co., Ltd.	40,346	1,199	27,547	796
Others	7,698	229	2,236	65
Total	<u>\$89,763</u>	<u>\$2,667</u>	<u>\$71,841</u>	<u>\$2,076</u>

I. Advance receipts

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay General Hospital	\$71	\$2	\$118,833	\$3,434
Others	222	7	212	6
Total	<u>\$293</u>	<u>\$9</u>	<u>\$119,045</u>	<u>\$3,440</u>

J. Prepayments

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Symphox Information Co., Ltd.	\$5,367	\$159	\$21,392	\$618

K. Premium Revenues

Name	As of and for the six-month period ended June 30, 2004			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Seaward Leasing Ltd.	\$744	\$22	\$754	\$22
Cathay General Hospital	1,933	58	156	5
Others	1,291	38	405	12
Total	<u>\$3,968</u>	<u>\$118</u>	<u>\$1,315</u>	<u>\$39</u>

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Name	As of and for the six-month period ended June 30, 2003			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Seaward Leasing Ltd.	\$426	\$12	\$15	\$-
Cathay General Hospital	2,318	67	505	15
Others	1,510	44	681	20
Total	<u>\$4,254</u>	<u>\$123</u>	<u>\$1,201</u>	<u>\$35</u>

**L. Reinsurance Income**

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$51,955</u>	<u>\$1,544</u>	<u>\$9,537</u>	<u>\$275</u>

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

**M. Handling fees**

Related parties	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Futures Corp.	<u>\$1,839</u>	<u>\$55</u>	<u>\$1,432</u>	<u>\$41</u>

**N. Reinsurance Claims Payment**

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$7,565</u>	<u>\$225</u>	<u>\$23,975</u>	<u>\$693</u>

Reinsurance is at Cathay Life's expense to pay Cathay Insurance (Bermuda) Co., Ltd.

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O. Reinsurance commissions expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$9,500	\$282	\$10,302	\$297

P. Commissions expense

Name	For the six-month periods ended June 30			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Life Insurance Agent Co., Ltd.	\$132,353	\$3,932	\$43,280	\$1,251

Q. Reinsurance handing fee expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$3,795	\$113	\$4,088	\$118

R. Miscellaneous Income

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$3,487	\$104	\$-	\$-
Cathay Futures Co., Ltd.	39	1	-	-
Total	\$3,526	\$105	\$-	\$-

Loan commission with free of charge fire and earthquake insurances and income from market integration.

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S. Credit card processing charges

Related parties	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Seaward Card Co., Ltd.	\$297,995	\$8,853	\$159,134	\$4,598

T. Repair Expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Lin Yuan Property Management Co., Ltd.	\$117	\$3	\$-	\$-

U. Benefits Expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Symphox Information Co., Ltd.	\$143	\$4	\$-	\$-

V. Other expense

	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Lin Yuan Property Management Co., Ltd.	\$361,750	\$10,747	\$375,734	\$10,857
Cathay Real Estate Development Co., Ltd.	4,500	134	10,426	301
Cathay Securities Investment Co., Ltd.	26,250	779	13,125	379
San Ching Engineering Co., Ltd.	4,500	134	-	-
Symphox Information Co., Ltd.	137,859	4,096	291,565	8,424
Total	\$534,859	\$15,890	\$690,850	\$19,961



**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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**21. Pledged assets**

A. Cathay Life:

Item	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Long-term Investment in				
Bonds	\$7,914,509	\$235,131	\$7,719,351	\$223,038
Time Deposits	290,550	8,632	1,002,550	28,967
Total	<u>\$8,205,059</u>	<u>\$243,763</u>	<u>\$8,721,901</u>	<u>\$252,005</u>

As of June 30 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 agreed to purchase the time certificates by the security deposit received as a guarantee. In addition, they also served the deposits as a guarantee for the law court. According to Article 141 of the Insurance Law, Cathay Life should deposit long-term investment bonds in an amount equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

The pledged assets are disclosed at their net carrying values.

B. Cathay United Bank (merged)

Securities purchased of NT\$17,015,329 (US\$505,506) and NT\$14,305,423 (US\$413,332) at June 30, 2004 and 2003, respectively, were pledged to other parties as collateral for business reserves and guarantees.

C. Cathay Century:

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

The pledged assets are disclosed at their net carrying values.

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D. Cathay Securities Corp.

Item	June 30, 2004	
	NT\$	US\$
Operation bond	\$100,097	\$2,974

The operation bond set aside in accordance with Article 55 of the Securities and Exchange Law.

**22. Other important matters and contingent liabilities**

(1) Cathay United Bank

As of June 30, 2004, Cathay United Bank had the following commitments and contingent liabilities, which are not reflected in the abovementioned financial statements:

	NT\$	US\$
A. Entrusted Items and Guarantees:		
Trust and security held for safe keeping	\$598,448,206	\$17,779,210
Travelers checks for sale	693,702	20,609
Bills for collection	72,862,598	2,164,664
Guarantees on duties and contracts	16,656,369	494,842
Unused commercial letters of credit	3,803,911	113,010
Stamp tax, securities and memorial currency consignments in	2,076	62
Loan commitments	19,119,713	568,025
Credit card lines	228,848,020	6,798,812

B. As of June 30, 2004, Cathay United Bank had various lawsuits, claims and proceedings considered normal to its operations are pending against Cathay United Bank, the most significant ones are described below:

- (1) In 1997, the certificate of certified deposit in the amount of NT\$600 (US\$17) million with Chung Shing Bank requested by Polaris International Securities Investment Trust Co., Ltd. was found to be a forgery made by Mr. Chung-For Su. Cathay United Bank has filed a suit in the higher court claiming the NT\$600 (US\$17) million.

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- (2) In 1996, the clients claimed that Cathay United Bank was responsible for making restitution for the amount of approximately NT\$24,000 (US\$713) thousand because safe deposits were stolen at Chung-Li Branch. The higher court held Cathay United Bank responsible for making restitution. However, Cathay United Bank has filed an appeal and the higher Court is being processed the claim. Cathay United Bank also has filed insurance claims against Taiwan Secom Co., Ltd. related to the loss mentioned above.
- (3) In 2001 unauthorized transactions were made by Cathay United Bank's employees for the amount of approximately NT\$60,204 (US\$1,789) thousand and NT\$17,900 (US\$532) thousand, respectively. Cathay United Bank has held the employee's personal properties or related deposits by court order or as collateral which maybe sold to cover the loss.
- (4) Pacific SOGO Department store ("SOGO") has issuing its own SOGO membership card which against the contract signed with Cathay United Bank to jointly issue a co brand credit card. Cathay United Bank deposited New Taiwan dollars one billion in collateral with the Court on February, 2004 in connection with preservation procedure and also claimed for a legal procedure to stop SOGO issuing its own membership card.

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.

- C. As of June 30, 2004, Cathay United Bank has entered into certain contracts to purchase premises and equipments totaling NT\$1,199,071(US\$35,623) thousand with prepayments of NT\$721,054 (US\$21,422) thousand.

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(2) Cathay Century

A. Cathay Century's income tax returns, except 1999, had been filed and assessed by the Tax Authorities in the year of 2001. In year 2001, Cathay Century was imposed income tax in the amount of NT\$2,474 (US\$73) by the Tax Authorities. Cathay Century disputed the above tax assessments and had filed for reinvestigation.

B. By the date June 30, 2004, Cathay Century had signed some significant rental contracts, and based on which, we estimate that the rents for the following 5 years are as below:

Year	Amount (NT\$)	Amount (US\$)
July 01, 2004 ~ June 30, 2005	\$57,009	\$1,694
July 01, 2005 ~ June 30, 2006	58,558	1,740
July 01, 2006 ~ June 30, 2007	60,270	1,790
July 01, 2007 ~ June 30, 2008	62,033	1,843
July 01, 2008 ~ June 30, 2009	63,849	1,897
Total	<u>\$301,719</u>	<u>\$8,964</u>

**23. Serious damages:** None.

**24. Subsequent events**

On July 8, and July 15, 2004, Cathay United Bank issued five-year to seven-year banker's debenture amounting to NT\$1,000,000 (US\$29,709), NT\$3,500,000 (US\$103,981), NT\$2,000,000 (US\$59,418), and NT\$1,000,000 (US\$29,709), respectively, with floating interest rate. The Cathay United Bank's is repayable at maturity, and the interests are payable quarterly or semiannually. The priority claim of Cathay United Bank's debenture, including principal and interests, mentioned above are equal to other debts of Cathay United Bank, while that is senior to common stock.

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**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 to manage exposures related to interest rate swaps (IRS) and foreign currency options with high credit rating financial institutions. Management believes its exposures related to the potential default by those counter-parties are low. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from the hedged payables. Thus, market risks are believed to be minimal.

b. Liquidity and cash requirement

The primary objective of IRS and foreign currency options is to limit interest rate and exchange 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 and expenses arises upon settlement are netted off and recognized in the statement of income.

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

As of June 30, 2004:

<u>Counterpart</u>	<u>Effective</u>	<u>Contract Amount</u>	<u>Contract Value</u>
Goldman Sachs International	2002.5.20	USD 700,000	USD 700,000

As of June 30, 2003:

<u>Counterpart</u>	<u>Effective</u>	<u>Contract Amount</u>	<u>Contract Value</u>
Goldman Sachs International	2002.5.20	USD 700,000	USD 700,000

d. Foreign currency options

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

As of June 30, 2004: None

As of June 30, 2003:

<u>Counterpart</u>	<u>Effective Date</u>	<u>Put Date</u>	<u>Contract Amount</u>	<u>Contract Value</u>
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	USD 700,000	USD700,000

B.Cathay Life

a. Purpose

Effective June 30, 2004, Cathay Life Insurance 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 classified categorize as non-trade.

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b. Liquidity and cash requirement

The counterpart of future contract buys & sells, forward exchange trade, interest swap was an international financial organization with superior creditability; in addition, the Company worked with several other financial institutions to diversify risks; possibility of breaching contract, as a result, was quite low. And if they did, the Company would not encounter major loss due to the nature of risk avoidance the trading had. Further, the Company 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. Futures

June 30, 2004					
		Contract amount		Net gain of Fair Value estimated	
Item	Lot	NT\$	US\$	NT\$	US\$
Bonds Selling out	1,950	\$7,111,443	\$211,273	\$46,852	\$1,392

All futures transaction had offset on June 30, 2003.

e. Forward and CCS 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.

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(b). As of June 30, 2004 and 2003, Cathay Life had forward exchange contracts of approximately US\$12,914,800 and US\$7,722,800, respectively, in national value.

The 1<sup>st</sup> half 2004 forward contracts are due from the period of July 1, 2004 to April 8, 2005. In addition, the 2003 forward contracts are due from period July 3, 2003 to June 28, 2004.

June 30, 2004

Item	Contract Amount	Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$14,418,800	\$487,068,057	\$14,470,233	\$483,843,886	\$14,374,447

June 30, 2003

Item	Contract Amount	Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$10,342,800	\$358,050,573	\$10,345,292	\$358,142,736	\$10,347,955

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

Net capital	June 30,	
	2004	2003
Short-term investment	USD14,418,800	USD10,342,800

The forward contracts agreement listed loss amount were NT\$349,142 (US\$10,373) and NT\$115,363 (US\$3,333), respectively, for the period of year 2004 and 1st half year of 2003.



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f. Interest Rate Swap Agreement (IRS)

The Company entered into IRS agreement to hedge the fluctuation risk in interest rate through several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of June 30, 2004, the agreements of IRS are summarized as following:

Category	Currency	Period	Contract Amount
IRS	NTD	2002.09.13~2014.05.12	\$56,484,212

C. Cathay United Bank (merged)

In the normal course of business, Cathay United Bank (merged) entered into various derivative contracts, including foreign exchange forward contracts, interest rate swap, cross-currency interest rate swap, option, and futures etc. These financial instruments involve varying degrees of risks. The related informations are as follows:

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

Derivative Financial Instruments	June 30, 2004		
	Contract (Nominal) Amount	Credit Risk	Fair Value
For the purposes of accommodating customers' needs or managing Cathay United Bank's (merged) exposures			
Forward exchange contracts	\$2,362,667	\$219,742	\$6,706
For Trading Purpose			
Interest rate swap contracts	172,963	1,376	74
Option contracts	10,873	11	10
For Non-trading Purpose			
Interest rate swap contracts	963,200	7,828	16,816
Cross-currency interest rate swap contracts	577,707	8,419	(1,908)

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Derivative Financial Instruments	June 30, 2003		
	Contract (Nominal) Amount	Credit Risk	Fair Value
For the purposes of accommodating customers' needs or managing Cathay United Bank's (merged) exposures			
Forward exchange contracts	\$835,684	\$6,782	\$(68)
For Non-trading Purpose			
Option contracts	4,820	5	77
Interest rate swap contracts	203,574	8,981	32,062
Cross-currency interest rate swap contracts	89,058	435	1,250

Credit risk is the possibility of loss if a counter-party fails to perform its contractual obligations under the terms of a derivative financial instrument, and credit risks 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 (merged) credit exposure in foreign exchange contracts.

Interest rate swaps entered into by Cathay United Bank (merged) with remaining maturities ranging from seven months to eight years and one month on June 30, 2004, represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, based on a notional principal amount.

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Cross-currency interest rate swaps entered into by Cathay United Bank (merged), which have remaining maturities from one year and seven months to seven years on June 30, 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	June 30,	
	2004	2003
Interest rate risk	\$412,418	\$56,268
Foreign exchange risk	144,686	467,787

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.

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

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. Liquidity risk of interest rate swap contracts and cross-currency interest rate swap contracts 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.

Cathay United Bank (merged) acts in accordance with the square-off principle for deals of fund borrowing. The use of derivative financial instruments was mainly driven by customer's demand and as well as Cathay United Bank (merged) needs for fund management or hedge purposes. They did not involve any contracts of high leverage.

As to the asset-backed swap contracts, the cash flow are determined by the amount against the difference between fixed and floating interest rate. As a result, the effect on cash flow is relatively minor.

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- 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 foreign exchange forward 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.

Interest rate swaps, which do not involve exchanges of the notional principal, are not recognized as either assets and/or liabilities on the contract dates. For interest rate swaps transactions undertaken for trading purposes, the interest received or paid at each settlement date is recognized as gain or loss, which these transactions are marked to market as of the balance sheet date. For swaps entered into for hedging purposes, the net interest on each settlement is recorded as income or expenses, which these transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment based on a notional principal amount.

For cross-currency swap contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. The net interest on each settlement is recorded as income or expenses, which these transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment based on a notional principal amount.

For option contracts only memorandum entries of notional principal are made on the contract date. Premiums paid or received for option purchased or sold are recorded as assets or liabilities. As of the balance sheet date, option is marked to market and the resulting gains and losses are recognizing 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.

Margin deposits paid by Cathay United Bank (merged) for interest rate futures contracts entered into for trading or hedging purpose are recognized as assets. Gains or losses resulting from marking to market and from the settlement of the interest rate futures contracts are classified as hedging or non-hedging depending on its purposes, and are classified as realized or unrealized gains or losses depending on whether the gains or losses had been realized.

The gains and losses on derivative financial instruments were as follow: (In thousands of US Dollars)

	Account	For the Six-Month Periods Ended June 30,	
		2004	2003
For the purposes of accommodating customers' needs or trading			
Forward exchange contracts			
-Realized	Gain (loss) of derivative financial instruments	\$487	\$-
-Unrealized	"	(60)	-
Option contracts			
-Realized	"	341	-
-Unrealized	"	10	-
Forward Rate Agreements			
-Realized	"	-	(16)
Futures contracts			
-Realized	"	(27)	-
For Non-trading Purpose			
Interest rate swap contracts			
-Realized	Interest revenue	13,528	9,300
-Realized	Interest expense	4,145	2,314
-Unrealized	Gain (loss) of derivative financial instruments	141	-
Cross-currency interest rate swap contracts			
-Realized	Interest revenue	4,578	1,642
-Realized	Interest expense	1,954	282

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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 rate for credit card loans is 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:

	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Securities purchase under agreements to resell	\$-(Note)	\$-(Note)	\$11,733,827	\$339,030
Securities sold under agreements to repurchase	-(Note)	-(Note)	19,756,812	570,841
Loan commitments	19,119,713	568,025	20,067,775	579,826
Credit card lines	228,848,020	6,798,812	40,865,144	1,180,732
Guaranty and Commercial letters of credit	20,460,280	607,851	14,581,150	421,299

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

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.

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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.

D. Cathay United Bank (formerly)

a. Foreign exchange forward and swap contracts

Cathay United Bank 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 June 30, 2003, receivables and payables resulting from foreign exchange forward contracts and swap contracts, which are recorded at net receivable account, amounted to NT\$6,336 (US\$183). As of June 30, 2003, the unsettled balance of foreign exchange forward contracts and swap contracts amounted to US\$39,439, AUD 2,000 and EUR 2,300, with maturity dates ranging from July 1, to December 29, 2003.

Credit risk arises when the transaction counterparties breached the contracts. When derivative financial instruments are profitable, credit risk increases. To lower credit risk effectively, Cathay United Bank 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, management believes its exposures related to the potential default by those counter-parties are 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 has maintained its net foreign currency positions within certain limits to reduce market risk.

Liquidity risk arises when the contract is not able to be cleared in the anticipated time period. Cathay United Bank 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 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 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. The deposit clients are those who deposit their principal in Cathay United Bank 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 will buy opposite options at the same time the clients buy their options.

c. As of June 30, 2003, the nominal principal and fair value of derivative contracts which had not matured were as follows:

	June 30, 2003			
	Nominal principal		Fair value	
	NT\$	US\$	NT\$	US\$
For trading purposes				
Foreign exchange forward and swap contracts	\$ 3,458,537	\$99,929	\$6,196	\$179
Options	-	-	-	-

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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E. Cathay Century

a. Credit and market risk

Cathay Century enters into forward contracts with financial institutions with high 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 June 30, 2004 and 2003, Cathay Century has forward exchange contracts of approximately US\$71,000 and US\$28,000, respectively in notional value.

3. Non-derivative financial instruments related information

A. The Company

The book value of non-derivative Financial Instruments held by the Company as of June 30, 2004, is the same as the estimated fair market value.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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**B. Cathay Life**

Item	June 30, 2004			
	NT\$		US\$	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term				
Investment	\$371,443,785	\$372,382,931	\$11,035,169	\$11,063,070
Long-term				
Investment-cost method	43,743,787	50,621,259	1,299,578	1,503,900

  

Item	June 30, 2003			
	NT\$		US\$	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term				
Investment	\$ 326,980,899	\$335,428,145	\$9,447,584	\$9,691,654
Long-term				
Investment-cost method	57,343,556	59,703,941	1,656,849	1,725,049

**C. Cathay United Bank (merged)**

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

As of June 30, 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	June 30,							
	2004				2003			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	NT	US	NT	US	NT	US	NT	US
Securities purchased	\$187,377,554	\$5,566,772	\$187,361,142	\$5,566,285	131,631,437	\$3,803,278	\$133,597,101	\$3,860,072
Long-term Investments	38,967,689	1,157,685	39,005,244	1,158,801	12,467,344	360,224	12,613,341	364,442

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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2004 and 2003**

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. 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:

	June 30,			
	2004		2003	
Bills and loans, customers' liabilities under acceptances and guarantees account	NT\$	US\$	NT\$	US\$
Geographic Region				
Domestic	\$532,899,324	\$15,831,827	\$399,071,823	\$11,530,535
South East Asia	12,043,100	357,787	7,990,519	230,873
North East Asia	254,974	7,575	515,086	14,883
North America	7,770,855	230,863	6,500,999	187,836
Others	7,664,372	227,700	4,007,970	115,804
Total	<u>\$560,632,625</u>	<u>\$16,655,752</u>	<u>\$418,086,397</u>	<u>\$12,079,931</u>
Industry type				
Manufacturing	\$71,324,283	\$2,118,963	\$52,282,187	\$1,510,609
Financial institutions and insurance	33,006,325	980,580	24,325,067	702,834
Leasing and real estate	65,389,817	1,942,656	65,832,545	1,902,125
Individuals	278,743,955	8,281,163	173,997,156	5,027,367
Others	112,168,245	3,332,390	101,649,442	2,936,996
Total	<u>\$560,632,625</u>	<u>\$16,655,752</u>	<u>\$418,086,397</u>	<u>\$12,079,931</u>

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
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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.

D. 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:

	June 30, 2003	
	Book value	Fair value
	NT\$	NT\$
Financial assets:		
Cash and due from banks	\$11,789,532	\$11,789,532
Due from Central Bank	10,791,703	10,823,942
Bills and securities purchased, net	8,163,082	8,163,082
Receivables	24,086,153	24,086,153
Loans and exchange bills		
negotiated and discounted	117,217,219	117,217,219
Long-term investment	5,954,327	6,021,410
Other assets	9,101,387	9,137,565
Financial liabilities:		
Due to banks	4,197,921	4,197,921
Accrued expenses	3,606,274	3,606,274
Deposits and remittances payable	167,859,958	167,859,958
Financial debentures	2,350,000	2,350,000
Other liabilities	164,788	164,788
Off-balance sheet financial instruments:		
Guarantees on loans and letters of credit	-	5,343,843

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
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	June 30, 2003	
	Book value	Fair value
	US\$	US\$
Financial assets:		
Cash and due from banks	\$340,639	\$340,639
Due from Central Bank	311,809	312,740
Bills and securities purchased, net	235,859	235,859
Receivables	695,930	695,930
Loans and exchange bills		
negotiated and discounted	3,386,802	3,386,802
Long-term investment	172,041	173,979
Other assets	262,970	264,015
Financial liabilities:		
Due to banks	121,292	121,292
Accrued expenses	104,197	104,197
Deposits and remittances payable	4,850,042	4,850,42
Financial debentures	67,899	67,899
Other liabilities	4,761	4,761
Off-balance sheet financial instruments:		
Guarantees on loans and letters of credit	-	154,402

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 amount 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.

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(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 the six-months periods ended June 30, 2003, according to the different types of loans, the interest rates on loans ranged from 2.01% to 13.32%, respectively. 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 particular period.

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 take into account 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 June, 30 2003, the ratio of secured loans to total loans (excluding credit card operations) was 77.34%, respectively, and the extent of collateral held for guarantees and letters of credit was 36.77%, respectively. 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.

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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 the MOF. The assessment was based on having financial institutions with sound finances and good reputations, or the linked investing objectives ranked "long-term bond rating BBB-" or "short-term bond rating A-3 grade" and above assessed by Standard & Poor's Corporation or with "long-term bond rating Baa3" or "short-term bond rating P-3 grade" and 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 six-month period ended June 30, 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 of 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 10% of Cathay United Bank's (formerly) loan balance by industry is as follows:



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	June 30, 2003	
	NT\$	US\$
Manufacturing	\$15,040,946	\$434,584
Real estate and lease	14,034,813	405,513
Others (less than 10% of loans)	88,992,804	2,571,303
	\$118,068,563	\$3,411,400

The credit risk represent 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. The collateral requirements for loans are described in paragraph (b).

E. Cathay Century

Except for the item listed in the following table, the book value of non derivative financial instruments as of June 30, 2004 and 2003, is the same as the estimated fair market value:

Item	June 30,2004			
	NT\$		US\$	
	Carrying value	Fair value	Carrying value	Fair value
Shot-term investment	\$ 2,080,998	\$2,105,029	\$61,824	\$62,538
	\$ 2,080,998	\$2,105,029	\$61,824	\$62,538

  

Item	June 30,2003			
	NT\$		US\$	
	Carrying value	Fair value	Carrying value	Fair value
Shot-term investment	\$ 2,208,030	\$2,268,358	\$63,797	\$65,541
	\$ 2,208,030	\$2,268,358	\$63,797	\$65,541

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements-Continued**  
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(4) Discretionary account management

A. Cathay Life

Item	June 30, 2004			
	Carrying Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$2,173,490	\$64,572	\$2,036,759	\$60,510
Repurchase bonds	5,171,268	153,632	5,171,826	153,649
Convertible bonds	1,465,847	43,549	1,406,805	41,794
Short-term Securities	99,677	2,961	99,787	2,964
Governmental Bonds	4,238,832	125,931	4,225,596	125,538
Cash in bank	890,499	26,456	890,528	26,457
Net other assets less liabilities	(23,117)	(687)	(23,117)	(687)
Total	<u>\$14,016,496</u>	<u>\$416,414</u>	<u>\$13,808,184</u>	<u>\$410,225</u>

  

Item	June 30, 2003			
	Carrying Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$1,033,068	\$29,849	\$1,052,998	\$30,425
Repurchase bonds	5,863,913	169,428	5,864,624	169,449
Convertible bonds	323,050	9,334	324,202	9,367
Governmental Bonds	1,734,833	50,125	1,820,273	52,593
Cash in bank	217,727	6,291	217,727	6,291
Net other assets less liabilities	(139,218)	(4,022)	(139,218)	(4,022)
Total	<u>\$9,033,373</u>	<u>\$261,005</u>	<u>\$9,140,606</u>	<u>\$264,103</u>

As of June 30, 2004 and 2003, the securities investment and trust company had recorded that Cathay Life had discretionary account management contracts in the amount of NT\$10,800,000(US\$320,856) and NT\$8,500,000(US\$245,594), respectively.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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B. Cathay Century

Item	June 30,2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$75,998	\$2,258	\$72,260	\$2,147
Short-term notes	20,019	595	20,019	595
Cash in bank	57,724	1,715	57,724	1,715
Net other assets less liabilities	(6,033)	(180)	(6,033)	(180)
Total	<u>\$147,708</u>	<u>\$4,388</u>	<u>\$143,970</u>	<u>\$4,277</u>

  

Item	June 30,2003			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$21,502	\$621	\$21,740	\$628
Cash in bank	28,821	833	28,821	833
Net other assets less liabilities	(4,427)	(128)	(4,427)	(128)
Total	<u>\$45,896</u>	<u>\$1,326</u>	<u>\$46,134</u>	<u>\$1,333</u>

As of June 30, 2004 and 2003, the securities investment had recorded that Cathay Century had discretionary account management contracts in the amount of NT\$150,000(US\$4,456) and NT\$50,000(US\$1,445), respectively.

(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 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).

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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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 five trading days from the conversion date deliver common shares to the converting holders or the depository, 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 US\$1,000 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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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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 US\$1,000 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 US\$1,000 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 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.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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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 principal amount of the outstanding Notes.

Further issues:

Cathay Financial Holdings may create and issue further securities with the same terms and conditions from time to time without the consent of the Holders of the Notes. Such further issuance shall be consolidated and form a single series with the respective Notes.

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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Governing law:

The indenture, notes and 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 PORTAL<sup>SM</sup> 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 June 30 2004.

(6) Capital adequacy ratio:

As of June 30, 2004 the consolidated capital adequacy ratio was 104.11%.

(7) Material contract: None.

(8) Presentation of financial statements:

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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**26. Information for investment in Mainland China**

Cathay Life on December 25, 2002 and July 24, 2003, the Investment Commission, Ministry of Economic Affairs (MOEAIC) has approved Cathay Life to remit US \$22,850 and US \$27,150, respectively as the capital of investment US\$50,000 in total to found a China company called Guangzhou Cathay Life insurance Co., Ltd. doing life insurance business. Furthermore, on September 25, 2003, MOEAIC approved the Company to change of the above mentioned China invested place from Guangzhou to Shanghai. The Cathay Life insurance Co., Ltd. in Shanghai is currently under its preparatory stage. Up to June 30, 2004, our remittance has accumulated to nearly US\$48,330.

**27. Segment information: None**



Cathay Financial Holding Co., Ltd. and Subsidiaries  
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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 UNITED BANK CO., LTD(merged)				CATHAY CENTURY INSURANCE CO., LTD				CATHAY SECURITIES CORP.		CATHAY UNITED BANK CO., LTD(formerly)	
	June 30, 2004		June 30, 2003		June 30, 2004		June 30, 2003		June 30, 2004		June 30, 2003		June 30, 2004		June 30, 2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$529,470,061	\$15,729,948	\$436,539,786	\$12,613,111	\$324,161,944	\$9,630,480	\$229,265,846	\$6,624,266	\$7,498,792	\$222,781	\$7,410,543	\$214,116	\$3,409,569	\$101,294	\$54,894,338	\$1,586,082
Exchange bills negotiated, discounted, and loans	465,898,374	13,841,306	492,673,210	14,234,996	537,446,957	15,966,933	399,791,378	11,551,326	840,835	24,980	916,720	26,487	-	-	117,217,219	3,386,802
Funds and long-term investments	494,009,867	14,676,467	391,205,991	11,303,265	38,967,689	1,157,685	12,467,344	360,224	2,719,894	80,805	1,289,947	37,271	-	-	5,954,327	172,041
Fixed assets	15,351,347	456,071	15,986,522	461,905	25,544,496	758,898	23,253,342	671,868	52,892	1,571	61,397	1,774	-	-	1,750,098	50,566
Other assets(including intangible assets)	42,891,622	1,274,261	22,449,370	648,638	5,651,720	167,906	7,424,426	214,516	492,432	14,630	458,184	13,238	100,097	2,974	11,365,883	328,398
Current liabilities	23,737,191	705,204	12,018,974	347,269	815,873,218	24,238,658	596,166,585	17,225,270	1,534,254	45,581	1,162,179	33,579	6,160	183	178,014,153	5,143,430
Long-term liabilities	1,086,877	32,290	331,414	9,575	-	-	-	-	8,966	266	8,067	233	-	-	-	-
Other liabilities	1,437,994,779	42,721,176	1,272,910,077	36,778,679	41,136,476	1,222,118	18,537,350	535,607	7,041,401	209,192	6,252,168	180,646	-	-	412,640	11,923
Capital stocks	50,686,158	1,505,828	50,686,158	1,464,495	43,182,407	1,282,900	39,715,627	1,147,519	2,317,006	68,836	2,317,006	66,946	3,500,000	103,981	12,346,083	356,720
Capital surplus	12,591	374	5,200	150	13,463,074	399,972	5,095,598	147,229	1,909	57	430	12	-	-	430	12
Retained earnings	34,119,240	1,013,643	30,245,376	873,890	18,058,290	536,492	12,708,463	367,191	700,049	20,799	394,698	11,404	3,506	104	408,488	11,802
Equity adjustments	(15,565)	(462)	(8,457)	(244)	59,341	1,763	(21,287)	(615)	1,260	37	2,243	65	-	-	71	2
Treasury stocks	-	-	(7,333,863)	(211,900)	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$1,547,621,271	\$45,978,053	\$1,358,854,879	\$39,261,915	\$931,772,806	\$27,681,902	\$672,202,336	\$19,422,200	\$11,604,845	\$344,767	\$10,136,791	\$292,886	\$3,509,666	\$104,268	\$191,181,865	\$5,523,889
Total liabilities	\$1,462,818,847	\$43,458,670	\$1,285,260,465	\$37,135,523	\$857,009,694	\$25,460,776	\$614,703,935	\$17,760,877	\$8,584,621	\$255,039	\$7,422,414	\$214,458	\$6,160	\$183	\$178,426,793	\$5,155,353
Total stockholders' equity	\$84,802,424	\$2,519,383	\$73,594,414	\$2,126,392	\$74,763,112	\$2,221,127	\$57,498,401	\$1,661,324	\$3,020,224	\$89,728	\$2,714,377	\$78,428	\$3,503,506	\$104,085	\$12,755,073	\$368,536

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(b) Concise statements of income:

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY UNITED BANK CO., LTD(merged)				CATHAY CENTURY INSURANCE CO., LTD				CATHAY SECURITIES CORP		CATHAY UNITED BANK CO., LTD(formerly)	
	The six months ended June. 30,2004		The six months ended June. 30,2003		The six months ended June. 30,2004		The six months ended June. 30,2003		The six months ended June. 30,2004		The six months ended June. 30,2003		12.5.2004-30.6.2004		The six months ended June. 30,2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$244,785,620	\$7,272,301	\$219,851,277	\$6,352,248	\$23,040,449	\$684,505	\$15,531,028	\$448,744	\$8,534,351	\$253,546	\$7,839,524	\$226,510	\$4,463	\$133	\$6,001,111	\$173,392
Operating costs & expenses	(234,524,034)	(6,967,440)	(210,018,332)	(6,068,140)	(14,200,378)	(421,877)	(11,047,195)	(319,191)	(7,936,084)	(235,772)	(7,536,688)	(217,760)	-	-	(4,887,141)	(141,205)
Operating income	10,261,586	304,860	9,832,945	284,108	8,840,071	262,628	4,483,833	129,553	598,267	17,774	302,836	8,750	4,463	133	1,113,970	32,187
Non-operating revenues	1,104,152	32,803	1,193,438	34,482	1,256,414	37,327	16,186	468	27,598	820	1,852	54	-	-	31,282	904
Non-operating expenses	(1,516,733)	(45,060)	(7,957)	(230)	(92,834)	(2,758)	(51,073)	(1,476)	(11,070)	(329)	(1,325)	(38)	-	-	(22,157)	(640)
Operating income before taxes	9,849,005	292,603	11,018,426	318,360	10,003,651	297,197	4,448,946	128,545	614,795	18,266	303,363	8,766	4,463	133	1,123,095	32,451
Net income	9,781,530	290,598	9,444,176	272,874	8,106,651	240,839	3,585,946	103,610	479,308	14,240	233,223	6,739	3,506	104	996,103	28,781
Earning per share before taxes (in dollars)	\$1.95	\$0.06	\$2.24	\$0.06	\$2.32	\$0.69	\$1.12	\$0.03	\$2.65	\$0.08	\$1.31	\$0.04	\$0.01	\$0.00	\$0.91	\$-
Earning per share (in dollars)	\$1.94	\$0.06	\$1.92	\$0.06	\$1.88	\$0.56	\$0.90	\$0.26	\$2.07	\$0.06	\$1.01	\$0.03	\$0.01	\$0.00	\$0.81	\$0.02

Annotation1: On April 11, 2002, Cathay United Bank Co., Ltd. had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609 (US\$54,132). 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\$189,438 (US\$5,474) for the six-month period ended 2003. As of June 30, 2003 the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,420,699 (US\$41,049). According to general accepted accounting principles, the losses should be recognized as current expenses on the transaction date, thus on June 30, 2003, other assets of its subsidiary decreased by NT\$1,065,524 (US\$30,787), retained earnings of its subsidiary decreased by NT\$1,065,524 (US\$30,787). In the six-month period June 30, 2003, provision for credit losses of its subsidiary decreased by NT\$189,438 (US\$5,474), the net income before tax of its subsidiary increased by NT\$189,438 (US\$5,474) and the net income after tax of its subsidiary increased by NT\$142,079 (US\$4,105).

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

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**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 six-month periods ended June 30			
		2004		2003	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The investments	Common stock	\$99,685,570	\$2,961,544	\$105,064,872	\$3,035,680
between the parent and	Capital surplus	13,477,575	400,403	5,101,660	147,404
subsidiaries and between	Legal reserve	26,503,328	787,383	24,022,054	694,078
the subsidiaries	Special reserve	8,016,080	238,149	6,683,126	193,098
themselves should be	Unappropriated retained				
eliminated with an	earnings	9,319	277	-	-
investee's equity, as well	Cumulative conversion				
as inter-company	adjustments	159,882	4,750	173,919	5,025
balances (including	Unrealized valuation				
inter-company open	losses on long-term				
account balances,	equity investments	114,845	3,412	201,350	5,818
receivables, payables	Allowance for				
collected and payments	valuation loss on				
in advance accounts).	long-term investments				
	in stock	114,845	3,412	19,419	561
	Treasury stock	-	-	7,333,863	211,900
	Short-term investments	692,362	20,569	1,618,775	46,772
	Allowance for				
	valuation loss on				
	short-term investments	36,533	1,085	646,993	18,694
	Long-term investments				
	in stock	165,548,282	4,918,250	145,609,901	4,207,163
	Deferred tax assets	-	-	355,175	10,262
	Other assets	-	-	1,420,699	41,049
	Gain on long-term				
	investments	18,041,101	535,980	14,033,570	405,477
	Provisions expenses	-	-	189,649	5,480
	Operating expenses	232,543	6,909	51,042	1,475
	Miscellaneous revenues	8,100	241	8,100	234
	Gain on disposal of				
	investments	89,251	2,652	166,946	4,824
	Income taxes benefit	-	-	47,359	1,368

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
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Transactions	Account Item	As of and for the six-month period ended June 30,			
		2004		2003	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The investments	Deposits and				
between the parent and	remittances payables	11,464,663	340,602	16,593,540	479,444
subsidiaries and between	Cash and cash				
the subsidiaries	equivalents	11,464,663	340,602	16,593,540	479,444
themselves should be	Prepayments	2,586	77	2,357	68
eliminated with an	Accounts collected in				
investee's equity, as well	advance	2,586	77	2,357	68
as inter-company	Payables	803,950	23,884	63,981	1,849
balances (including	Receivables	798,010	23,708	63,981	1,849
inter-company open	Temporary payments				
account balances,	and suspense accounts	5,940	176	-	-
receivables, payables	Dividends payable	16,360,369	486,048	5,579,018	161,197
collected and payments	Other receivables	16,360,369	486,048	5,579,018	161,197
in advance accounts).	Other accounts				
	receivable	416,429	12,372	-	-
	Other accounts payable	416,429	12,372	-	-
	Interest income	7,311	217	78,230	2,260
	Interest expenses	7,311	217	78,230	2,260
	Premiums income	263,802	7,837	158,121	4,569
	Insurance expenses	263,802	7,837	158,121	4,569
	Rental income	152,559	4,532	124,027	3,584
	Rental expenses	152,559	4,532	124,027	3,584
	Guarantee deposits				
	received	84,540	2,512	73,204	2,115
	Guarantee deposits				
	paid	84,540	2,512	73,204	2,115
	Commission earned	2,242	67	1,414	41
	Handing fee earned	-	-	61,105	1,766
	Handing fee paid	2,242	67	62,519	1,807
	Other revenues	393,739	11,698	85,823	2,480
	Other expenses	393,739	11,698	85,823	2,480
	Indemnity income	8,978	267	7,942	229
	Insurance Claims				
	payment	8,978	267	7,942	229