

Cathay Financial Holding Co., Ltd.
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.

We have audited the accompanying balance sheet of Cathay Financial Holding Co., Ltd. (the "Company") as of June 30, 2004 and the related statements of income, changes in stockholders' equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cathay Pacific Venture Capital Co., Ltd. a wholly-owned subsidiary of the Company. Total investment for the subsidiary is NT\$589,901 thousand (US\$17,525 thousand) constituting 0.31% of the total assets of the Company as of June 30, 2004, and investment loss is NT\$2,978 thousand (US\$88 thousand) constituting 0.02% of income before taxes of the Company for the six-month period 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 financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. as of June 30, 2004 and the results of its operations and its cash flows for the six-month period ended June 30, 2004 in conformity with generally accepted accounting principles in the Republic of China.

Cathay Financial Holding Co., Ltd. has prepared the consolidated financial statements as of June 30, 2004 and 2003 accompany with modified unqualified opinion issued by our auditors furnished upon request.

The accompanying financial statements as of and for the six-month periods ended June 30, 2004 and 2003, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(14) to the financial statements.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
The Republic of China
July 29, 2004

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

Cathay Financial Holding Co.,Ltd.

Balance sheets

(Expressed in thousands of dollars)

As of June 30, 2004 and 2003

Assets	2004			2003		
	NT \$	US \$	%	NT \$	US \$	%
Current assets:						
Cash and cash equivalents (Notes 2,4)	\$2,699,986	\$80,214	1.43	\$10,780,805	\$311,494	7.10
Short-term investments (Notes 2,5)	669,619	19,894	0.35	258,807	7,478	0.17
Tax refund receivable	589,326	17,508	0.31	0	0	0.00
Interest receivable	19,350	575	0.01	45,195	1,306	0.03
Other receivable	18,076,268	537,025	9.55	6,808,631	196,724	4.49
Deferred income tax assets-current (Notes 2,13)	8,629	256	0.01	4,069	117	0.00
Prepayments	0	0	0.00	2	0	0.00
Subtotal	22,063,178	655,472	11.66	17,897,509	517,119	11.79
Long-term investments						
Long-term investments in stocks (Notes 2,6)						
Long-term investments under equity method	166,810,093	4,955,736	88.16	134,007,012	3,871,916	88.30
Long-term investments under cost method	100,000	2,971	0.05	0	0	0.00
Allowance for valuation loss on long-term investments in stocks	(114,845)	(3,412)	(0.06)	(704,667)	(20,360)	(0.46)
Subtotal	166,795,248	4,955,295	88.15	133,302,345	3,851,556	87.84
Property and equipment (Note 2)						
Communication and transportation equipment	3,199	95	0.00	2,499	72	0.00
Other equipment	3,248	96	0.00	2,668	77	0.00
Subtotal	6,447	191	0.00	5,167	149	0.00
Less: Accumulated depreciation	(1,699)	(50)	0.00	(743)	(21)	0.00
Subtotal	4,748	141	0.00	4,424	128	0.00
Other assets						
Temporary payments and suspense accounts	1,534	45	0.00	6,957	201	0.00
Deferred income tax assets -noncurrent (Notes 2,13)	210,802	6,263	0.11	244,238	7,057	0.16
Deferred charges (Note 2)	149,847	4,452	0.08	313,317	9,053	0.21
Subtotal	362,183	10,760	0.19	564,512	16,311	0.37
Total assets	\$189,225,357	\$5,621,668	100.00	\$151,768,790	\$4,385,114	100.00
Liabilities & stockholders' equity						
Current liabilities						
Collections for others	\$1,797	\$53	0.00	\$1,233	\$36	0.00
Accrued expenses	20,975	623	0.01	1,643	47	0.00
Income taxes payable	257,155	7,640	0.14	1,094,565	31,626	0.72
Dividends payable	16,106,531	478,507	8.51	11,704,584	338,185	7.71
Other payable	772,332	22,945	0.41	156,644	4,526	0.11
Subtotal	17,158,790	509,768	9.07	12,958,669	374,420	8.54
Long-term liabilities						
Bonds payable (Notes 2,7,20)	25,313,234	752,027	13.38	25,436,263	734,940	16.76
Accrued pension liabilities (Note 2)	5,321	158	0.00	435	12	0.00
Subtotal	25,318,555	752,185	13.38	25,436,698	734,952	16.76
Other liabilities						
Guarantee deposits received	25	1	0.00	0	0	0.00
Temporary receipts and suspense accounts	722	21	0.00	745	21	0.00
Subtotal	747	22	0.00	745	21	0.00
Total liabilities	42,478,092	1,261,975	22.45	38,396,112	1,109,393	25.30
Stockholders' equity						
Capital stock						
Common stock (Note 8)	83,074,891	2,468,060	43.90	83,074,891	2,400,315	54.74
Capital surplus (Note 9)	53,675,526	1,594,638	28.37	54,072,271	1,562,331	35.63
Retained earnings (Note 10)						
Legal reserve	3,026,715	89,920	1.60	1,335,046	38,574	0.88
Special reserve	122,653	3,644	0.06	1,833,255	52,969	1.21
Unappropriated retained earnings	18,785,160	558,086	9.93	10,084,130	291,365	6.64
Equity adjustments						
Unrealized valuation losses on long-term equity investments	(114,845)	(3,412)	(0.06)	(704,667)	(20,360)	(0.46)
Cumulative conversion adjustments	160,287	4,762	0.08	173,919	5,025	0.11
Net loss not yet recognized as net pension cost	(1,971)	(59)	0.00	0	0	0.00
Treasury stock (Notes 2,11)	(11,981,151)	(355,946)	(6.33)	(36,496,167)	(1,054,498)	(24.05)
Total stockholders' equity	146,747,265	4,359,693	77.55	113,372,678	3,275,721	74.70
Total liabilities and stockholders' equity	\$189,225,357	\$5,621,668	100.00	\$151,768,790	\$4,385,114	100.00

(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 financial statements.

Cathay Financial Holding Co.,Ltd.
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 \$	%
Operating revenues						
Interest income	\$158,877	\$4,720	0.87	\$237,622	\$6,865	1.67
Gain on long-term equity investments (Notes 2,6)	18,036,281	535,837	98.84	14,030,602	405,392	98.33
Other operating income	52,829	1,570	0.29	0	0	0.00
Subtotal	18,247,987	542,127	100.00	14,268,224	412,257	100.00
Operating costs						
Interest expenses	(409,144)	(12,155)	(2.24)	(419,784)	(12,129)	(2.94)
Provision for securities trading losses reserve	(27,869)	(828)	(0.15)	0	0	0.00
Subtotal	(437,013)	(12,983)	(2.39)	(419,784)	(12,129)	(2.94)
Operating gross profit	17,810,974	529,144	97.61	13,848,440	400,128	97.06
Operating expenses						
Administrative and general expenses	(190,732)	(5,667)	(1.05)	(182,343)	(5,268)	(1.28)
Operating income	17,620,242	523,477	96.56	13,666,097	394,860	95.78
Non-operating revenues						
Gain on foreign exchange	206,141	6,124	1.13	0	0	0.00
Miscellaneous income	121,467	3,609	0.67	8,100	234	0.06
Subtotal	327,608	9,733	1.80	8,100	234	0.06
Non-operating expenses						
Loss on foreign exchange	0	0	0.00	(9,042)	(261)	(0.06)
Subtotal	0	0	0.00	(9,042)	(261)	(0.06)
Income from continuing operations before income taxes	17,947,850	533,210	98.36	13,665,155	394,833	95.78
Income taxes (expense) benefit (Notes 2, 13)	23,469	697	0.12	106,957	3,090	0.75
Net income	17,971,319	\$533,907	98.48	\$13,772,112	\$397,923	96.53
Earnings per share(expressed in dollars) (Note 14)						
Primary earnings per share:						
Before income tax earnings per share	\$2.24	\$0.07		\$1.84	\$0.05	
After income tax earnings per share	\$2.24	\$0.07		\$1.85	\$0.05	
Fully-diluted earnings per share:						
Before income tax earnings per share	\$2.17	\$0.06		\$1.79	\$0.05	
After income tax earnings per share	\$2.16	\$0.06		\$1.79	\$0.05	
Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock:						
Income from continuing operations before income taxes	\$18,037,101	\$535,862		\$13,818,985	\$399,277	
Income from continuing operations after income taxes	\$18,060,570	\$536,559		\$13,925,942	\$402,368	
Earnings per share(expressed in dollars)						
Primary earnings per share:						
Before income tax earnings per share	\$2.25	\$0.07		\$1.77	\$0.05	
After income tax earnings per share	\$2.25	\$0.07		\$1.78	\$0.05	
Fully-diluted earnings per share:						
Before income tax earnings per share	\$2.18	\$0.06		\$1.73	\$0.05	
After income tax earnings per share	\$2.17	\$0.06		\$1.73	\$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 financial statements.

Cathay Financial Holding Co., Ltd.
Statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the six-month periods ended June 30, 2004 and 2003

Summary	Retained earnings										Equity adjustments								Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		Treasury stock			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
Balance on January 1, 2003	\$84,531,631	\$2,442,405	\$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 fixed assets 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
Net income for the six-month period ended June 30, 2003									13,772,112	397,923									13,772,112	397,923
Rounding					1	0													1	0
Balance on June 30, 2003	\$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
Balance on January 1, 2004	\$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 2003																				
Legal reserve					1,691,669	50,257			(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
Net income for the six-month period ended June 30, 2004									17,971,319	533,907									17,971,319	533,907
Balance on June 30, 2004	\$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 financial statements.

Cathay Financial Holding Co., Ltd.
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 \$
Cash flows from operating activities				
Net income	\$17,971,319	\$533,907	\$13,772,112	\$397,923
Adjustments:				
Amortizations	72,683	2,159	72,683	2,100
Depreciation	497	15	395	11
Gain on market price recovery of short-term investment	(52,829)	(1,570)	0	0
Investment gains recognized by equity method smaller (excess) of cash dividends received	(17,926,281)	(532,569)	(14,030,602)	(405,392)
Increase(decrease) in bonds payable redemption premium	409,144	12,155	419,784	12,129
Effects of exchange rate changes	24,860	739	0	0
Decrease (increase) in short-term investments	1,530,631	45,473	191,447	5,532
Decrease (increase) in tax refund receivable	(589,326)	(17,508)	0	0
Decrease (increase) in interest receivable	23,392	695	(989)	(29)
Decrease (increase) in other accounts receivable	(1,715,900)	(50,977)	(1,121,189)	(32,395)
Decrease (increase) in prepayments	0	0	4	0
Decrease (increase) in deferred income tax assets-current	13,207	392	0	0
Decrease (increase) in deferred income tax assets-noncurrent	(38,981)	(1,158)	(102,911)	(2,973)
Decrease (increase) in temporary payments and suspense accounts	(1,367)	(41)	(6,329)	(183)
Increase (decrease) in collections for others	901	27	728	21
Increase (decrease) in accrued expenses	(15,653)	(465)	(402,971)	(11,643)
Increase (decrease) in income tax payable	251,556	7,474	1,094,565	31,626
Increase (decrease) in dividends payable	(7,412)	(220)	(47)	(1)
Increase (decrease) in other accounts payable	772,332	22,945	156,644	4,526
Accrued pension liabilities	1,745	52	0	0
Increase (decrease) in temporary receipts and suspense accounts	28	1	37	1
Net cash provided by (used in) operating activities	724,546	21,526	43,361	1,253
Cash flows from investing activities				
Acquisition of long-term investments in stocks	(4,100,000)	(121,806)	(600,000)	(17,336)
Acquisition of property and equipment	(575)	(17)	(2,519)	(73)
Decrease (increase) in deferred charges	9,052	269	9,051	262
Net cash provided by (used in) investing activities	(4,091,523)	(121,554)	(593,468)	(17,147)
Cash flows from financing activities				
Increase (decrease) in bonds payable	(231,000)	(6,863)	0	0
Increase (decrease) guarantee deposits received	25	1	0	0
Remuneration paid to directors and supervisors	0	0	(5,400)	(156)
Net cash provided by (used in) financing activities	(230,975)	(6,862)	(5,400)	(156)
Effects of exchange rate changes	(24,860)	(739)	0	0
Increase (decrease) in cash and cash equivalents	(3,622,812)	(107,629)	(555,507)	(16,050)
Cash and cash equivalents at the beginning of period	6,322,798	187,843	11,336,312	327,544
Cash and cash equivalents at the end of period	\$2,699,986	\$80,214	\$10,780,805	\$311,494
Supplemental disclosure of cash flows information				
Income tax paid	\$4,174	\$124	\$13,650	\$394

(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 financial statements.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

1. Organization of business scope

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 in the form of Global Depository Shares. The Company mainly engages in financial holding business activities.

2. Summary of significant accounting policies

We prepared the financial statement 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) Distinguish assets and liabilities, current and non-current

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

(2) 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.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

(3) Short-term investments

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.

Bonds are valued at the lower of cost or market value. The cost of these bonds sold is determined based on the weighted-average method.

(4) 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

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

retained earnings account.

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

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the subsidiaries 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.

(5) 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 Executive Yuan of the ROC. “The Executive Yuan Depreciation Table”. Properties still used in operations beyond their original estimated service lives are further depreciated over their newly estimated service lives.

(6) Deferred charges

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

(7) Convertible bonds payable

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

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

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.

(8) 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 exchange rates prevailing on the transaction dates. 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-ended foreign currency assets and liabilities are converted at the prevailing exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

(9) Derivative financial instruments

A. Interest rate swaps (IRS)

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

B. Options

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged against current income. As of the balance sheet dates, options are marked to market and the resulting gains or losses are credited or charged to current income.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

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(10) Income taxes

The Company adopted Statement of Financial Accounting Standards (“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 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.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

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 Systems. 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.

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

(11) 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.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

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(12) Treasury stock

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

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

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

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

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

(13) 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".

(14) Convenience conversion 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 NT\$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: None

4. Cash and cash equivalents

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Petty cash	\$60	\$2	\$20	\$1
Cash in banks	126,762	3,766	988	29
Time deposits	833,951	24,776	3,654,104	105,579
Cash equivalents	1,739,213	51,670	7,125,693	205,885
Total	<u>\$2,699,986</u>	<u>\$80,214</u>	<u>\$10,780,805</u>	<u>\$311,494</u>

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

5. Short-term investments

	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Government bonds	\$-	\$-	\$258,807	\$7,478
Oversea investments	687,860	20,436	-	-
Subtotal	687,860	20,436	258,807	7,478
Less: Allowance for valuation loss	(18,241)	542	-	-
Total	\$669,619	\$19,894	\$258,807	\$7,478

As of June 30, 2004 and 2003, the Company didn't provide collateral or guarantee on short-term investments.

6. Long-term investments in stocks

Name of investee	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
	Book Value	Book Value	Book Value	Book Value
Under the equity method:				
Cathay Life	\$84,802,424	\$2,519,383	\$60,270,080	\$1,741,407
Cathay United Bank (merged)	74,308,043	2,207,607	57,162,333	1,651,613
Cathay United Bank (formerly)	-	-	12,703,488	367,047
Cathay Century	2,819,464	83,763	2,569,412	74,239
Cathay Securities Corp.	3,503,506	104,085	-	-
Cathay Pacific Venture Capital Co., Ltd.	589,901	17,525	597,032	17,250
Cathay Venture Capital Corp.	74,211	2,204	-	-
Cathay II Venture Capital Inc.	597,699	17,757	-	-
Subtotal	166,695,248	4,952,324	133,302,345	3,851,556
Under the cost method:				
Debt Instrument Depository and Clearing				
Co., Ltd. Taiwan	100,000	2,971	-	-
Total	\$166,795,248	\$4,955,295	\$133,302,345	\$3,851,556

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

(1) Changes in long-term investments under the equity method are summarized as follows:

	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Balance on January 1	\$157,950,702	\$4,692,534	\$123,840,475	\$3,578,170
Add: Investment gains under equity method recognized	18,036,281	535,837	14,030,602	405,392
Add: Increment of investment	4,100,000	121,806	600,000	17,336
Add: Capital surplus under equity method recognized	10,124	301	3,013	87
Less: Cumulative conversion adjustments under equity method recognized	(16,250)	(483)	(25,651)	(741)
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	3,063,402	91,010	110,239	3,185
Add: Unrealized valuation loss on long-term equity investments under equity method recognized	21,357	634	327,759	9,470
Less: The Company stocks that the subsidiaries held as investments were treated as treasury stocks	-	-	(5,075)	(146)
Less: Cash dividends received	(16,470,368)	(489,315)	(5,579,017)	(161,197)
Balance on June 30	<u>\$166,695,248</u>	<u>\$4,952,324</u>	<u>\$133,302,345</u>	<u>\$3,851,556</u>

(2) The investment gains (losses) recognized by the equity method for the six-month periods ended June 30, 2004 and 2003 are listed below:

Name of Investee	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Life	\$9,548,775	\$283,683	\$9,317,858	\$269,225
Cathay United Bank (merged)	8,042,184	238,924	3,517,397	101,630
Cathay United Bank (formerly)	-	-	989,132	28,579
Cathay Century	446,636	13,269	209,183	6,044
Cathay Securities Corp.	3,506	104	-	-
Cathay Pacific Venture Capital Co., Ltd.	(2,978)	(89)	(2,968)	(86)
Cathay Venture Capital Corp.	459	14	-	-
Cathay II Venture Capital Inc.	(2,301)	(68)	-	-
Total	<u>\$18,036,281</u>	<u>\$535,837</u>	<u>\$14,030,602</u>	<u>\$405,392</u>

Cathay Financial Holding Co., Ltd.

Notes to financial statements

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As of June 30, 2004 and 2003

- A. Except for the Cathay Venture Capital Corp., which is recognized by the Company under the equity method, the investment gains/losses of the rest of the subsidiaries were determined based on the audited financial statements of the investees for the same period as the Company.
- B. The investment gains of Cathay Venture Capital Corp. for the six months ended June 30, 2004 were recognized by the equity method based on un-audited financial statements in the same period.
- C. We did not audit the financial statements of Cathay Pacific Venture Capital Co., Ltd. for the six-month period June 30, 2004 and 2003. Cathay Pacific Venture Capital Co., Ltd. was audited by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements audited by other auditors.
- D. 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 Corp. As of and for the 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 Venture Pacific Co., Ltd and Cathay II Venture Capital Inc. because its total assets and operating revenues are not up to 10% of the Company.
- E. 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 (merged).

Cathay Financial Holding Co., Ltd.

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As of June 30, 2004 and 2003

F. We did not audit the financial statements of Cathay United Bank (formerly), a wholly-owned subsidiary of the Company. Cathay United Bank (formerly) was audited by other auditors with qualified opinions, which complied with the ROC Financial Institution Merger Law amortizing the losses of disposing of delinquent assets. On April 11, 2002, Cathay United Bank (formerly) had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$ 1,894,609 (US\$54,132). 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 losses amounted to NT\$189,438 (US\$5,474) for the six-month period ended June 30, 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) should be recognized as current expense on the transaction date. If the losses were recognized as expense in 2002, other assets would be decreased by NT\$1,065,524 (US\$30,787) and accumulated earnings would be decreased by NT\$1,065,524 (US\$30,787) as of June 30, 2003; provision for credit losses would be decreased by NT\$189,438 (US\$5,474); the net income before tax would be increased by NT\$189,438 (US\$5,474); and the net income after tax would be increased by NT\$142,079 (US\$4,105) for the six-month period ended June 30, 2003. Effective 2002, the Company recognized as subsidiary's current expenses, the investment gain had increased 142,079 (US\$4,105) for the 1st half of 2003 after the adjustment. The investment gains of the Company accounted for under equity method recognized increased by NT\$142,079 (US\$4,105) for the six-month periods ended June 30, 2003.

(3) As of June 30, 2004 and 2003, the Company didn't provide collateral or guarantee on long-term investments.

7. 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	\$25,313,234	\$752,027	\$25,436,263	\$734,940

Please see note 20(3), "Zero coupon convertible notes related information" for details.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

8. 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.

When established 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 Depositary Shares (GDSs).

9. Capital surplus

- (1) Capital Surplus was the 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.
- (2) The additional paid-in capital at par value through 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 ROC Company Law, capital surplus can only be used to offset 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.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

10. Retained earnings

(1) Legal reserve

Pursuant to the Company Law, 10% and the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset 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 and 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 legal reserve. After distributing 0.01%~0.05% of total distribution for employee's bonus, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

B. 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 amounted 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 Income Tax Law in 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

Cathay Financial Holding Co., Ltd.

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(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

- 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.

11. Treasury stock

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

Reason for Transfer	(Unit: in thousands of shares)									
	January 1, 2004	Increase	Decrease	June 30, 2004	Book Value (NT\$)	Book Value (US\$)	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	-	-	-	-
Total	318,167	-	52,159	266,008	\$11,981,151	\$355,946				

Cathay Financial Holding Co., Ltd.

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(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

B. The Companies' stocks held by subsidiaries are illustrated as follows:

(Unit: in thousands of shares)

Name	Holding share	Amount (NT \$)	Amount (US\$)	Cause	About retained earnings limit	Legal time limit	Pro forma way 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
Total	<u>11,097</u>	<u>\$655,829</u>	<u>\$19,484</u>				

12. Personnel, depreciation, depletion and amortizations

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

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 number of employees was 54 and 40, respectively, on June 30, 2004 and 2003.

Cathay Financial Holding Co., Ltd.

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As of June 30, 2004 and 2003

13. Estimated income taxes

(1) Income tax expenses for the six-month periods ended June 30, 2004 and 2003 are estimated as follows:

	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Income before taxes	\$17,947,850	\$533,210	\$13,665,155	\$394,833
Adjustments:				
Interest income of tax on a separate basis	(15,414)	(458)	(56,919)	(1,645)
Investment gains recognized by equity method	(18,036,281)	(535,837)	(14,030,602)	(405,392)
Unrealized bonds payable redemption premium	409,144	12,155	419,784	12,129
Unrealized exchange loss (gain)	(250,405)	(7,439)	-	-
Unrealized loss (gain) on market price loss (recovery) of short-term investments	(52,829)	(1,570)	-	-
Others	(6,309)	(187)	(8,068)	(233)
Taxable income	(4,244)	(126)	(10,650)	(308)
Times: Taxes rate	25% - 10	25% - 0	25%	25%
SubTotal	(1,071)	(32)	(2,663)	(77)
Add: Tax on a separate basis	3,083	92	12,145	351
Deferred income tax expense (benefit)	(25,773)	(766)	(102,911)	(2,973)
Dissimilitude on estimate tax aforesaid	292	9	(13,528)	(391)
Income taxes expense (benefit)	<u>\$(23,469)</u>	<u>\$(697)</u>	<u>\$(106,957)</u>	<u>\$(3,090)</u>

(2) Deferred income tax liabilities and assets are as follows:

	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
A. Total deferred income tax liabilities	<u>\$234,440</u>	<u>\$6,965</u>	<u>\$-</u>	<u>\$-</u>
B. Total deferred income tax assets	<u>\$453,871</u>	<u>\$13,484</u>	<u>\$248,307</u>	<u>\$7,174</u>

Cathay Financial Holding Co., Ltd.

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	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized bonds payable redemption premium	\$1,751,234	\$52,027	\$936,263	\$27,052
b. Deductible temporary difference from organization costs amortization into 5 years	40,689	1,209	56,964	1,646
c. Deductible temporary difference from unrealized loss on market price loss of short-term investment	18,241	542	-	-
d. Deductible temporary difference from pension expenses	5,320	158	-	-
e. Taxable temporary difference from unrealized exchange gain	(937,757)	(27,860)	-	-
Total	<u>\$877,727</u>	<u>\$26,076</u>	<u>\$993,227</u>	<u>\$28,698</u>
D. Deferred income tax assets-current	\$8,629	\$256	\$4,069	\$117
Deferred income tax liabilities-Current	-	-	-	-
Net offset balance of deferred income tax assets (liabilities)-current	<u>\$8,629</u>	<u>\$256</u>	<u>\$4,069</u>	<u>\$117</u>
E. Deferred income tax assets-noncurrent	\$445,242	\$13,228	\$244,238	\$7,057
Deferred income tax Liabilities- noncurrent	(234,440)	(6,965)	-	-
Net offset balance of deferred income tax assets (liabilities)-noncurrent	<u>\$210,802</u>	<u>\$6,263</u>	<u>\$244,238</u>	<u>\$7,057</u>

(3) The tax authorities have examined and cleared income tax returns of the Company through 2001.

(4) 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.

Cathay Financial Holding Co., Ltd.

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(5) Information related tax imputation:

	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,		For the six month ended June 30,	
	2004(Actual)		2003(Actual)	
Imputation credit account ratio	19.17%		35.19%	

(6) 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	\$1,090,375	\$32,394	\$267,215	\$7,721

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.

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14. 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	\$17,947,850	\$533,210	\$17,971,319	\$533,907				
Primary earnings per share									
Net income for common stock holder	\$17,947,850	\$533,210	\$17,971,319	\$533,907	8,019,866	\$2.24	\$0.07	\$2.24	\$0.07
Effect of potentially dilutive common stock									
Convertible bonds payable	\$409,144	\$12,155	\$306,858	\$9,116	431,865				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$18,356,994	\$545,365	\$18,278,177	\$543,023	\$8,451,731	\$2.17	\$0.06	\$2.16	\$0.06

	For the six-month period ended June 30, 2003								
	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	\$13,665,155	\$394,833	\$13,772,112	\$397,923				
Primary earnings per share									
Net income for common stock holder	\$13,665,155	\$394,833	\$13,772,112	\$397,923	7,433,234	\$1.84	\$0.05	\$1.85	\$0.05
Effect of potentially dilutive common stock									
Convertible bonds payable	\$419,784	\$12,129	\$314,838	\$9,097	417,228				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$14,084,939	\$406,962	\$14,086,950	\$407,020	7,850,462	\$1.79	\$0.05	\$1.79	\$0.05

Cathay Financial Holding Co., Ltd.

Notes to financial statements

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The changes of the above weighted-average outstanding number of shares are shown below:

(in thousands of shares)	For the six-month periods end June 30,	
	2004	2003
Shares at the beginning of year	8,307,489	8,453,163
Less: Treasury stock	(254,912)	(505,824)
The Company that the subsidiaries held were treated as treasury stock	(32,711)	(368,431)
Retired treasury stock	-	(145,674)
Total	<u>\$8,019,866</u>	<u>\$7,433,234</u>

The pro forma earnings per shares of the Company that the subsidiaries held as short-term investments were not treated as treasury stock:

	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Income before income taxes	<u>\$18,037,101</u>	<u>\$535,862</u>	<u>\$13,818,985</u>	<u>\$399,277</u>
Net income after income taxes	<u>\$18,060,570</u>	<u>\$536,559</u>	<u>\$13,925,942</u>	<u>\$402,368</u>
Before income taxes primary earnings per share (expressed in dollars)	<u>\$2.25</u>	<u>\$0.07</u>	<u>\$1.77</u>	<u>\$0.05</u>
After income taxes primary earnings per share (expressed in dollars)	<u>\$2.25</u>	<u>\$0.07</u>	<u>\$1.78</u>	<u>\$0.05</u>
Before income taxes fully – diluted earnings per share (expressed in dollars)	<u>\$2.18</u>	<u>\$0.06</u>	<u>\$1.73</u>	<u>\$0.05</u>
After income taxes fully – diluted earnings per shares (expressed in dollars)	<u>\$2.17</u>	<u>\$0.06</u>	<u>\$1.73</u>	<u>\$0.05</u>

Cathay Financial Holding Co., Ltd.

Notes to financial statements

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As of June 30, 2004 and 2003

15. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities Corp.	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Venture Capital Corp.	The investee is accounted for using the equity method
Cathay II Venture Capital Inc.	Subsidiary of the Company
Lin Yuan Property Management Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Symphox Information Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Securities Investment Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
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)	Subsidiaries' investee is accounted for using the equity method
Cathay Futures Corp. (formerly Seward Futures Corp.)	Subsidiaries' 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.	Subsidiaries' investee is accounted for using the equity method
Seaward Leasing Ltd.	Subsidiaries' investee is accounted for using the equity method
Seaward Property Insurance Agent Corp. (liquidated in October, 2003)	Subsidiaries' investee is accounted for using the equity method

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Name	Relationship
Huong Yee Co., Ltd.(liquidated in July, 2003)	Subsidiaries' investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	Subsidiaries' investee is accounted for using the equity method
Taiwan Finance Corp.	Subsidiaries' investee is accounted for using the equity method
Seaward Card Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Indovina Bank	Subsidiaries' investee is accounted for using the equity method
Vista Technology Venture Capital Crop.	Subsidiaries' investee is accounted for using the equity method
Cathay Bank Property Agency of Association	Subsidiaries' investee is accounted for using the equity method
China England Company Ltd. and etc.	Investee company of Cathay United Bank(merged)
Gemfor Tech Co.	Their Chairman of the Board is the director of the Cathay United Bank(merged)
Taipei Smart Card Corp.	Investee Company of Cathay United Bank(merged)
Culture and Charity Foundation of the CUB	Cathay United Bank(merged) is the major sponsor of the Foundation
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. Real estate rental expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Life	\$4,103	\$122	\$3,908	\$113
Symphox Information Co., Ltd.	23	1	-	-
Total	\$4,126	\$123	\$3,908	\$113

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

B. Cash in bank

		For the six-month period ended June 30, 2004			
Name	Item	Maximum	Ending Balance	Rate	Interest Income
		Amount (NT\$)	(NT\$)		(NT\$)
Cathay United	Time				
Bank	Deposits	\$1,278,979	\$-	1.00%	\$6,031
(merged)	Cash In Bank	3,412,484	126,734	0.10%	20
	Total		<u>\$126,734</u>		

		For the six-month period ended June 30, 2004			
Name	Item	Maximum	Ending Balance	Rate	Interest Income
		Amount (US\$)	(US\$)		(US\$)
Cathay United	Time				
Bank	Deposits	\$37,997	\$-	1.00%	\$179
(merged)	Cash In Bank	101,381	3,765	0.10%	-
	Total		<u>\$3,765</u>		

		For the six-month period ended June 30, 2003			
Name	Item	Maximum	Ending Balance	Rate	Interest Income
		Amount (NT\$)	(NT\$)		(NT\$)
Cathay United	Time			0.9% ~	
Bank	Deposits	\$1,817,571	\$1,400,000	1.05%	\$9,934
(formerly)	Cash In Bank	24,323	962	0.25% ~	-
	Total		<u>\$1,400,962</u>	0.5%	

		For the six-month period ended June 30, 2003			
Name	Item	Maximum	Ending Balance	Rate	Interest Income
		Amount (US\$)	(US\$)		(US\$)
Cathay United	Time			0.9% ~	
Bank	Deposits	\$52,516	\$40,451	1.05%	\$287
(formerly)	Cash In Bank	703	28	0.25% ~0.5%	-
	Total		<u>\$40,479</u>		

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

C. Interest receivable

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay United Bank				
(merged)	\$-	\$-	\$178	\$5

D. Temporary payments and suspense accounts

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Securities				
Investment Co., Ltd.	\$-	\$-	\$6,854	\$198
Cathay Securities				
Corp.	1,414	42	-	-
Total	\$1,414	\$42	\$6,854	\$198

E. Insurance Expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Life	\$250	\$8	\$-	\$-
Cathay Century	79	2	-	-
Total	\$329	\$10	\$-	\$-

F. Other Accounts Payable

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Life	\$17,721	\$527	\$-	\$-
Cathay United Bank				
(merged)	728,717	21,649	130,844	3,781
Total	\$746,438	\$22,176	\$130,844	\$3,781

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

G. Other Accounts Receivable

Name	June 30,			
	2004(NT\$)	2004(US\$)	2003(NT\$)	2003(US\$)
Cathay Life	\$14,200,025	\$421,866	\$1,162,811	\$33,597
Cathay United Bank (merged)	1,934,619	57,475	-	-
Cathay Century	642,153	19,078	62,598	1,809
Total	\$16,776,797	\$498,419	\$1,225,409	\$35,406

H. 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	\$-	\$-

I. Property Exchange

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

J. 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	\$-	\$-

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

16. Pledged assets: None.

17. Other important matters and contingent liabilities: None.

18. Serious damages: None

19. Subsequent events: None.

20. 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) Financial instruments related information

A. Derivative financial instruments:

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.

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

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.

(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	USD 700,000

B. Non-derivative financial instruments related information:

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.

Notes to financial statements

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(3) Zero coupon convertible notes related information:

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

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

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The Notes will not bear interest except in 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.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

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.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

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

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2004 and 2003

Governing law:

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

Listing:

The international Notes have been listed on the Luxembourg Stock Exchange and the Rule 144A Notes have been designated for trading on the PORTALSM Market 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.

The Convertible bondholders have no yet exercise their conversion rights as of June 30, 2004.

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

(5) Material contract: None.

(6) 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.

21. Information for investment in Mainland China: None

22. Segment information: None

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

23. 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	\$12,755,072	\$368,536

Cathay Financial Holding Co., Ltd.
Notes to financial statements-(Continued)
(Expressed in thousands of dollars unless otherwise stated)
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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	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	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)	(7,958)	(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

Annotation 1: 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 NTS\$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 NTS\$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 NTS\$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 NTS\$1,065,524 (US\$30,787), retained earnings of its subsidiary decreased by NTS\$1,065,524 (US\$30,787). In the six-month period June 30, 2003, provision for credit losses of its subsidiary decreased by NTS\$189,438 (US\$5,474), the net income before tax of its subsidiary increased by NTS\$189,438 (US\$5,474) and the net income after tax of its subsidiary increased by NTS\$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.