

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudited consolidated financial statements
Together with
Review report of independent accountants
As of September 30, 2003 and 2004

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English Translation of Review Report Originally Issued in Chinese

Review report of independent accountants

To: Board of Directors

Cathay Financial Holding Co., Ltd.

We have reviewed the accompanying consolidated balance sheet of Cathay Financial Holding Co., Ltd. (the “Company”) and its subsidiaries as of September 30, 2004 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the nine-month period then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our review. The financial statements of the Company as of and for the nine-month period ended September 30, 2003 were reviewed by other auditors whose report, dated October 17, 2003, expressed a modified unqualified review report due to the fact that certain investees were reviewed by other auditors.

We conducted our reviews in accordance with generally accepted auditing standards No.36 “Review of Financial Statements” in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Base on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month period ended September 30, 2004 in order for them to be in conformity with “Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and generally accepted accounting principles in the Republic of China.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
The Republic of China
October 28, 2004

Notice to readers

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

Cathay Financial Holding Co., Ltd. and Subsidiaries

Unaudit consolidated balance sheets

As of September 30, 2003 and 2004

(Expressed in thousands of dollars)

	Notes	2003		2004	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Assets					
Current assets					
Cash and cash equivalents	2, 4	\$147,287,966	\$4,360,212	\$171,187,811	\$5,036,417
Due from Central Bank and call loans to banks		61,648,648	1,825,004	52,736,394	1,551,527
Short-term investments	2, 5	491,674,322	14,555,190	554,145,590	16,303,195
Receivables	2	84,396,324	2,498,411	97,940,334	2,881,445
Deferred income tax assets-current	2	54,730	1,620	58,398	1,718
Prepayments		1,113,206	32,955	1,558,888	45,863
Subtotal		786,175,196	23,273,392	877,627,415	25,820,165
Exchange bills negotiated discounted and loans	2, 6	993,681,509	29,416,267	1,003,572,604	29,525,525
Long-term investments in stock, bonds and real estate					
Long-term investments in stocks	2, 7				
Long-term investments under equity method		8,882,161	262,942	8,796,930	258,809
Long-term investments under cost method		50,110,761	1,483,445	16,083,531	473,184
Allowance for valuation loss on long-term investments in stocks		(201,350)	(5,960)	(114,845)	(3,379)
Long-term investments in bonds	2, 8	258,445,152	7,650,833	395,823,106	11,645,281
Investments in real estate	2, 9	93,831,327	2,777,718	100,964,594	2,970,421
Other long-term investments		400,000	11,841	2,028,689	59,685
Subtotal		411,468,051	12,180,819	523,582,005	15,404,001
Property and equipment	2				
Land		20,194,140	597,813	20,050,504	589,894
Buildings and construction		20,782,430	615,229	20,382,269	599,655
Furniture and fixtures		2,739,815	81,108	3,807,772	112,027
Transportation and communication equipment		239,630	7,094	217,234	6,391
Other equipment		8,120,809	240,403	8,594,821	252,863
Subtotal		52,076,824	1,541,647	53,052,600	1,560,830
Less: Accumulated depreciation		(12,037,272)	(356,343)	(13,024,905)	(383,198)
Construction in progress		913,633	27,046	1,007,008	29,626
Subtotal		40,953,185	1,212,350	41,034,703	1,207,258
Intangible assets	2	7,472	221	10,111	298
Other assets					
Net non-operating assets		4,429,421	131,125	2,149,057	63,226
Miscellaneous assets		31,331,727	927,523	20,191,785	594,051
Deferred income tax assets -noncurrent	2	3,134,973	92,806	1,406,302	41,374
Deferred charges		1,111,046	32,891	611,624	17,994
Investment-linked products assets		12,699,045	375,934	32,180,780	946,772
Subtotal		52,706,212	1,560,279	56,539,548	1,663,417
Total assets		<u>\$2,284,991,625</u>	<u>\$67,643,328</u>	<u>\$2,502,366,386</u>	<u>\$73,620,664</u>
Liabilities & stockholders' equity					
Current liabilities					
Due to Central Bank and commercial banks		\$52,877,419	\$1,565,347	\$75,085,703	\$2,209,053
Payables		22,406,488	663,306	24,550,404	722,283
Deferred income tax liabilities-current	2	987,861	29,244	716,811	21,089
Accounts collected in advance		661,735	19,590	396,314	11,660
Subtotal		76,933,503	2,277,487	100,749,232	2,964,085
Deposits and remittances	10	704,525,774	20,856,299	699,582,668	20,582,014
Bankers acceptances and funds borrowed		2,110,588	62,480	1,997,029	58,753
Long-term liabilities					
Bonds payable	2, 11	24,775,924	733,450	25,777,354	758,381
Reserve for land revaluation increment tax		37,845	1,120	37,846	1,113
Accrued pension liabilities		534,408	15,820	1,271,526	37,409
Subtotal		25,348,177	750,390	27,086,726	796,903
Other liabilities					
Reserve for operations and liabilities	2, 12	1,302,669,288	38,563,330	1,447,520,807	42,586,667
Miscellaneous liabilities		23,493,479	695,485	39,015,295	1,147,846
Investment-linked products liabilities		12,699,045	375,934	32,180,780	946,772
Subtotal		1,338,861,812	39,634,749	1,518,716,882	44,681,285
Total liabilities		<u>2,147,779,854</u>	<u>63,581,405</u>	<u>2,348,132,537</u>	<u>69,083,404</u>
Stockholders' equity					
Capital stock					
Common stock	13	83,074,891	2,459,292	83,074,891	2,444,098
Capital surplus	14	53,101,646	1,571,985	53,697,720	1,579,809
Retained earnings	15				
Legal reserve		1,335,046	39,522	3,026,715	89,047
Special reserve		1,833,255	54,270	122,653	3,609
Unappropriated retained earnings		17,290,583	511,858	26,233,972	771,814
Equity adjustments					
Unrealized valuation losses on long-term equity investments		(201,350)	(5,961)	(114,845)	(3,379)
Cumulative conversion adjustments		118,113	3,497	175,865	5,174
Net loss not yet recognized as net pension cost		-	-	(1,971)	(58)
Treasury stock	2, 16	(19,340,413)	(572,540)	(11,981,151)	(352,490)
Total stockholders' equity		<u>137,211,771</u>	<u>4,061,923</u>	<u>154,233,849</u>	<u>4,537,624</u>
Total liabilities and stockholders' equity		<u>\$2,284,991,625</u>	<u>\$67,643,328</u>	<u>\$2,502,366,386</u>	<u>\$73,620,664</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudit consolidated statements of income
For the nine-month periods ended September 30, 2003 and 2004
(Expressed in thousands of dollars, except earning per share)

	Notes	2003		2004	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	2				
Interest income		\$59,587,422	\$1,763,985	\$63,061,903	\$1,855,308
Premiums income		188,629,585	5,584,061	205,820,698	6,055,331
Reinsurance commission earned		322,652	9,552	374,989	11,032
Claims recovered from reinsurers		780,935	23,118	1,018,891	29,976
Recovered premiums reserve		91,683,802	2,714,145	101,342,648	2,981,543
Recovered special reserve		220,285	6,521	216,777	6,378
Recovered claims reserve		27,022	800	33,818	995
Commission and handing fee earned		3,733,451	110,522	5,748,332	169,118
Investment-linked products revenues		14,831,904	439,074	22,236,878	654,218
Commission income of stock brokerage		-	-	17,939	528
Gain on disposal of investments		10,442,562	309,134	16,844,395	495,569
Gain on long-term equity investments		634,285	18,777	388,754	11,437
Gain on investments-real estate		3,163,672	93,655	3,128,113	92,030
Other operating income		5,547,925	164,237	780,301	22,957
Subtotal		<u>379,605,502</u>	<u>11,237,581</u>	<u>421,014,436</u>	<u>12,386,420</u>
Operating costs	2				
Interest expenses		(7,558,591)	(223,759)	(6,457,030)	(189,968)
Insurance expenses		(1,872,959)	(55,446)	(2,146,553)	(63,152)
Brokerage expenses		(17,841,776)	(528,176)	(18,663,309)	(549,082)
Commissions expenses		(330,188)	(9,775)	(522,379)	(15,369)
Insurance claims payment		(103,711,523)	(3,070,205)	(120,674,309)	(3,550,289)
Provision for premiums reserve		(182,255,512)	(5,395,367)	(195,543,345)	(5,752,967)
Provision for special reserve		(4,736,064)	(140,203)	(3,704,727)	(108,995)
Contribution to the stabilization funds		(193,192)	(5,719)	(211,297)	(6,216)
Provision for claims reserve		(76,356)	(2,261)	(38,783)	(1,141)
Handling fee paid		(1,886,245)	(55,839)	(1,328,555)	(39,087)
Investment-linked products expenses		(14,831,904)	(439,074)	(22,236,878)	(654,218)
Provision for possible losses		(3,941,147)	(116,671)	(922,419)	(27,138)
Other operating cost		(2,040,426)	(60,403)	(3,419,258)	(100,596)
Subtotal		<u>(341,275,883)</u>	<u>(10,102,898)</u>	<u>(375,868,842)</u>	<u>(11,058,218)</u>
Operating gross profit		<u>38,329,619</u>	<u>1,134,683</u>	<u>45,145,594</u>	<u>1,328,202</u>
Operating expenses		<u>(16,385,740)</u>	<u>(485,072)</u>	<u>(17,773,897)</u>	<u>(522,915)</u>
Operating income		<u>21,943,879</u>	<u>649,611</u>	<u>27,371,697</u>	<u>805,287</u>
Non-operating revenues		<u>1,877,232</u>	<u>55,572</u>	<u>2,743,534</u>	<u>80,716</u>
Non-operating expenses		<u>(100,845)</u>	<u>(2,985)</u>	<u>(1,798,933)</u>	<u>(52,926)</u>
Income from continuing operations before income taxes		<u>23,720,266</u>	<u>702,198</u>	<u>28,316,298</u>	<u>833,077</u>
Income taxes	2, 18	<u>(2,799,384)</u>	<u>(82,871)</u>	<u>(2,896,168)</u>	<u>(85,206)</u>
Consolidated net income		<u>\$20,920,882</u>	<u>\$619,327</u>	<u>\$25,420,130</u>	<u>\$747,871</u>
Earnings per share (expressed in dollars)	19				
Primary earnings per share:					
Income from continuing operations before income taxes		<u>\$3.15</u>	<u>\$0.09</u>	<u>\$3.53</u>	<u>\$0.10</u>
Net income		<u>\$2.78</u>	<u>\$0.08</u>	<u>\$3.17</u>	<u>\$0.09</u>
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		<u>\$3.06</u>	<u>\$0.09</u>	<u>\$3.42</u>	<u>\$0.10</u>
Net income		<u>\$2.69</u>	<u>\$0.08</u>	<u>\$3.06</u>	<u>\$0.09</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudit consolidated statements of changes in stockholders' equity
For the nine-month periods ended September 30, 2003 and 2004
(Expressed in thousands of dollars)

Summary	Retained earnings										Equity adjustments						Treasury stock		Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		(NTS)	(US\$)	(NTS)	(US\$)
	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)	(NTS)	(US\$)
Balance on January 1, 2003	\$84,531,631	\$2,502,417	\$56,807,974	\$1,681,705	\$13,713	\$406	\$-	\$-	\$13,085,153	\$387,364	\$(1,032,426)	\$(30,564)	\$199,570	\$5,908	\$-	\$-	\$(42,706,265)	\$(1,264,247)	\$110,899,350	\$3,282,989
Disposal of property and equipment retransfer unappropriated retained earnings			(185,853)	(5,502)					185,853	5,502										
Appropriations and distributions for 2002																				
Legal reserve					1,321,332	39,116			(1,321,332)	(39,116)										
Special reserve							1,833,255	54,270	(1,833,255)	(54,270)										
Cash dividends			(1,649,407)	(48,828)					(10,053,091)	(297,605)									(11,702,498)	(346,433)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(138)									(5,400)	(160)
Bonus paid to employees			(165)	(5)					(1,006)	(30)									(1,171)	(35)
Retired treasury stock	(1,456,740)	(43,125)	(978,976)	(28,981)					(3,687,982)	(109,176)							6,123,698	181,282		
Capital surplus			(773,011)	(22,884)															(773,011)	(22,884)
Cumulative conversion adjustments												(81,457)	(2,411)						(81,457)	(2,411)
Unrealized valuation losses on long-term equity investments											831,076	24,603							831,076	24,603
Disposal of treasury stock			(558,274)	(16,527)													4,221,829	124,980	3,663,555	108,453
Treasury stock			440,119	13,029													13,020,325	385,445	13,460,444	398,474
Consolidated net income for the nine-month period ended September 30, 2003									20,920,882	619,327									20,920,882	619,327
Rounding					1	-													1	-
Balance on September 30, 2003	<u>\$83,074,891</u>	<u>\$2,459,292</u>	<u>\$53,101,646</u>	<u>\$1,571,985</u>	<u>\$1,335,046</u>	<u>\$39,522</u>	<u>\$1,833,255</u>	<u>\$54,270</u>	<u>\$17,290,583</u>	<u>\$511,858</u>	<u>\$(201,350)</u>	<u>\$(5,961)</u>	<u>\$118,113</u>	<u>\$3,497</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(19,340,413)</u>	<u>\$(572,540)</u>	<u>\$137,211,771</u>	<u>\$4,061,923</u>
Balance on January 1, 2004	\$83,074,891	\$2,444,098	\$53,651,046	\$1,578,436	\$1,335,046	\$39,278	\$1,833,255	\$53,935	\$16,916,694	\$497,696	\$(136,202)	\$(4,007)	\$176,537	\$5,194	\$(1,971)	\$(58)	\$(15,039,516)	\$(442,469)	\$141,809,780	\$4,172,103
Appropriations and distributions for 2003																				
Legal reserve					1,691,669	49,769			(1,691,669)	(49,769)										
Special reserve							(1,710,602)	(50,326)	1,710,602	50,326										
Cash dividends									(16,105,155)	(473,820)									(16,105,155)	(473,820)
Remuneration paid to directors and supervisors									(5,700)	(168)									(5,700)	(168)
Bonus paid to employees									(1,611)	(48)									(1,611)	(48)
Cash dividends to subsidiaries		22,194	653																22,194	653
Capital Surplus			10,124	298															10,124	298
Cumulative conversion adjustments												(672)	(20)						(672)	(20)
Unrealized valuation losses on long-term equity investments											21,357	628							21,357	628
Treasury stock			14,356	422					(9,319)	(274)							3,058,365	89,979	3,063,402	90,127
Consolidated net income for the nine-month period ended September 30, 2004									25,420,130	747,871									25,420,130	747,871
Balance on September 30, 2004	<u>\$83,074,891</u>	<u>\$2,444,098</u>	<u>\$53,697,720</u>	<u>\$1,579,809</u>	<u>\$3,026,715</u>	<u>\$89,047</u>	<u>\$122,653</u>	<u>\$3,609</u>	<u>\$26,233,972</u>	<u>\$771,814</u>	<u>\$(114,845)</u>	<u>\$(3,379)</u>	<u>\$175,865</u>	<u>\$5,174</u>	<u>\$(1,971)</u>	<u>\$(58)</u>	<u>\$(11,981,151)</u>	<u>\$(352,490)</u>	<u>\$154,233,849</u>	<u>\$4,537,624</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NTS33.78 and NTS33.99 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudit consolidated statements of cash flows
For the nine-month periods ended September 30, 2003 and 2004
(Expressed in thousands of dollars)

	2003		2004	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cash flows from operating activities				
Consolidated net income	\$20,920,882	\$619,327	\$25,420,130	\$747,871
Adjustments:				
Amortizations and depreciation expenses	2,429,273	71,915	2,394,691	70,453
Provision for reserve for operations	187,923,584	5,563,161	200,207,559	5,890,190
Recovered reserve for operations	(89,671,445)	(2,654,572)	(100,228,538)	(2,948,765)
Income from applicant's termination of the insurance	(2,259,664)	(66,894)	(1,362,990)	(40,100)
Loss (gain) on disposal of investments	(4,218,261)	(124,875)	(194,817)	(5,732)
Loss (gain) on disposal of property and equipment	315,365	9,336	(1,137,564)	(33,468)
Amortization long-term investments in bonds	45,375	1,343	44,228	1,301
Cash dividends received from investee companies	(544,380)	(16,115)	(99,216)	(2,919)
Increase (decrease) in bonds payable redemption premium	606,445	17,953	642,264	18,896
Effects of exchange rate changes	5,483	162	42,236	1,243
Decrease (increase) in short-term investments	(65,235,330)	(1,931,182)	(18,800,247)	(553,111)
Decrease (increase) in receivables	870,897	25,782	(3,107,150)	(91,414)
Decrease (increase) in prepayments	208,250	6,165	175,165	5,154
Decrease (increase) in deferred income tax assets	56,264	1,666	(192,372)	(5,660)
Decrease (increase) in overdue receivables	(9,663)	(286)	265,836	7,821
Decrease (increase) in other assets	1,747,474	51,731	5,885,270	173,147
Increase (decrease) in payables	103,251	3,057	(7,694,338)	(226,371)
Increase (decrease) in other liabilities	(3,843,173)	(113,771)	9,523,876	280,196
Increase (decrease) in accounts collected in advance	9,793	290	(1,070,380)	(31,491)
Increase (decrease) in deferred income tax liabilities	(228,146)	(6,754)	(408,432)	(12,016)
Increase (decrease) in claims reserve	75,987	2,249	(21,514)	(633)
Net cash provided by (used in) operating activities	49,308,261	1,459,688	110,283,697	3,244,592
Cash flows from investing activities				
Decrease (increase) in exchange bills negotiated, discounted and loans	3,504,088	103,733	(18,764,552)	(552,061)
Acquisition of long-term investments in stocks	(108,962,998)	(3,225,666)	(43,160,701)	(1,269,806)
Disposal of long-term investments in stocks	31,536,281	933,578	23,486,262	690,976
Deposal of investment in real estate	124,812	3,695	1,493,593	43,942
Acquisition of investment in real estate	(756,954)	(22,408)	(7,893,775)	(232,238)
Decrease (increase) in long-term investments in bonds	(11,221,174)	(332,184)	(19,484,168)	(573,232)
Disposal of property and equipment	43,537	1,289	1,786,259	52,552
Acquisition of property and equipment	(1,728,821)	(51,179)	(1,384,718)	(40,739)
Decrease (increase) in deferred charges	(4,436)	(131)	(103,190)	(3,036)
Decrease (increase) in non-operation assets	(366,241)	(10,842)	1,588,989	46,749
Decrease (increase) in guarantee deposits paid	(714,118)	(21,141)	(3,152,556)	(92,750)
Decrease (increase) in due from Central Bank and call loans to banks	2,890,427	85,566	1,567,979	46,131
Net cash provided by (used in) investing activities	(85,655,597)	(2,535,690)	(64,020,578)	(1,883,512)
Cash flows from financing activities				
Paid other payable for acquisition of property and equipment in former period	(16,480)	(488)	-	-
Increase (decrease) in due to Central Bank and commercial banks	(19,946)	(590)	(5,906,990)	(173,786)
Increase (decrease) in deposits and remittances payable	65,445,564	1,937,406	14,575,748	428,824
Increase (decrease) in banker's acceptances and funds borrowed	(253,797)	(7,513)	243,505	7,164
Increase (decrease) in bonds payable	(847,000)	(25,074)	-	-
Increase (decrease) in guarantee deposits received	(20,231)	(599)	11,348	334
Remuneration paid to directors and supervisors	(5,400)	(160)	(5,700)	(168)
Bonus paid to employees	(4,926)	(146)	(3,052)	(90)
Cash dividends	(11,744,595)	(347,679)	(16,082,961)	(473,167)
Disposal of treasury stock	3,663,555	108,453	3,023,647	88,957
Net cash provided by (used in) financing activities	56,196,744	1,663,610	(4,144,455)	(121,932)
Effects of exchange rate changes	(68,330)	(2,023)	(3,265)	(95)
Increase (decrease) in cash and cash equivalents	19,781,078	585,585	42,115,399	1,239,053
Cash and cash equivalents at the beginning of period	127,506,888	3,774,627	129,072,412	3,797,364
Cash and cash equivalents at the end of period	\$147,287,966	\$4,360,212	\$171,187,811	\$5,036,417
Supplemental disclosure of cash flows information				
Interest paid during the period	\$7,494,824	\$221,872	\$5,734,047	\$168,698
Interest paid (excluding capitalized interest)	\$7,494,824	\$221,872	\$5,734,047	\$168,698
Income tax paid	\$4,202,991	\$124,422	\$891,063	\$26,215

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

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1. Organization and 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 the provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) were merged into the Company through 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 merged on October 27, 2003. UWCCB was the surviving company, and the merged bank was re-named Cathay United Bank Co., Ltd. (“Cathay United Bank (merged)”). On July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depository Shares (GDSs). The Company mainly engages in financial holding business activities.

As of September 30, 2003 and 2004, the total numbers of employees were 38 and 57, respectively.

(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. As of September 30, 2003 and 2004, the total numbers of employees were 29,014 and 26,855, respectively.

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

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On October 27, 2003, UWCCB merged with former Cathay United Bank which dissolved after the merger. As of September 30, 2003 and 2004, the total numbers of employees were 2,551 and 3,981, respectively.

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

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

Until its merger into UWCCB, the Company owned 100% of the common stock of the former Cathay United 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 August 2, 2002. The Company’s ownership interest is 100% of the common stock. As of September 30, 2003 and 2004, the total numbers of employees were 791 and 882, respectively.

E. Cathay Securities Corporation (“Cathay Securities”) was incorporated in Taipei on May 12, 2004, under the provisions of the Company Law. Cathay Securities mainly engages in the business of securities underwriting, dealing, brokerage, pecuniary and securities financing and refinancing, dealing brokerage services related to futures, and other operations approved by the authorities. The Company’s ownership interest is 100% of the common stock. As of September 30, 2004, the total number of employees was 90.

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. As of September 30, 2003 and 2004, the total number of employees was 2.

G. Cathay Venture Capital Co., Ltd. was incorporated in Taiwan on September 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. As of September 30, 2003 and 2004, there was only one employee.

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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 engages in the business of investment. The Company's ownership interest is 100% of the common stock. As of September 30, 2004, there was only one employee.

I. Cathay Capital Management Inc. was incorporated in Taiwan on June 12, 2000, under the provisions of the Company Law. Cathay Capital Management Inc. mainly engages in the business of investment consultancy. The Company's ownership interest is 100% of the common stock. As of September 30, 2003 and 2004, the total numbers of employees were 1 and 10, respectively.

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." The summary of significant accounting policies is as follows:

(1) Principles of consolidation

According to the ROC's Financial Holding Company Act, a financial holding company should prepare annual and interim consolidated financial statements. 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 required by the ROC Securities and Futures Commission (the "SFC"), a financial holding company whose stock is publicly traded should prepare the annual and semi-annual consolidated financial statements. The consolidated financial statements should include the financial results of all companies that the company can exercise controlling power. The controlling power, according to Article 4 of the Financial Holding Company Act, means a) a financial holding company holds more than 25% of the voting stock or capital of a bank, an insurance or a securities company, or b) more than half of the directors of a bank, an insurance or a securities company is appointed or elected from the financial holding company.

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The consolidated financial statements of the Company as of and for the nine-month period ended September 30, 2004 included the Company and its subsidiaries, which include Cathay Life, Cathay United Bank (merged), Cathay Century, and Cathay Securities. As of and for the nine-month period ended September 30, 2003, the consolidated financial statements included the Company, Cathay Life, Cathay Century, the former Cathay United Bank and UWCCB. The consolidated financial statements of the Company as of and for the nine-month period ended September 30, 2004 excluded Cathay Pacific Venture Capital Co., Ltd., Cathay Venture Capital Co., Ltd., Cathay II Venture Capital Co., Ltd., and Cathay Capital Management Inc. because their total assets and operating revenues were less than 10% of the total assets 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 of within one year. Assets that do not belong to current assets are called non-current assets. Current liabilities are debts which must be paid-off within one year. Debts that do not belong to current liabilities are called non-current liabilities.

(3) Basis for preparation of financial statements

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

(4) Cash and cash equivalents

Cash and cash equivalents 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 not recognized as income but treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.

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Beneficiary certificates are stated at cost. The cost and gain/loss of beneficiary certificates sold are determined based on the weighted-average cost method.

Bonds and convertible bonds repaid (converted) when due or sold before maturity are recorded at cost. The cost and gain/loss of these bonds sold is determined based on the weighted-average cost method. At the end of the reporting period, bonds are stated at the lower of cost or market value, or at cost if there is no market value available.

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 Company's equity shares held by Cathay United Bank (merged), the lower of cost or 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 offset against the provision to the extent of the provision 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 using specific identification method.

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.

(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 assessment of the collectibility of accounts receivables and the guidelines issued under relevant regulations. When receivables are considered uncollectible, a write-off should be made after approved by the Board of Directors of Cathay United Bank (merged).

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

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

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.

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 Company and its subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

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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. Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

Upon disposal, the related cost and accumulated depreciation are eliminated and gain and loss are recorded in operating gain and loss accounts.

Depreciation is calculated using the straight-line method in accordance with 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 are for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(9) Pledged assets taken-over

Pledged assets taken-over consist of real estate provided as collateral by borrowers. A pledged assets taken-over is booked at the acquisition cost. 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.

(10) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “capital surplus”, according to applicable regulations. The capital surplus can only be used for making up operating losses and for capital increase.

Major additions, renewals and betterment are capitalized, while repairs and maintenance are expensed immediately.

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Upon the sale or disposal of properties and equipment, the relating cost and accumulated depreciation are eliminated. Gain or loss resulting from such sale or disposal is classified as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

(11) Deferred charges

Deferred charges are expenses where the associated economic benefit extend more than one year. Deferred charges are amortized over the economic useful life by the straight-line method.

(12) Operation bond

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

(13) Guaranteed depository insurance payment

Cathay Life and Cathay Century according to Article 141 of the ROC Insurance Law (“Insurance Law”), must deposit an amount equal to 15% of their capital stock, in a form of bond, in the Central Bank as the “Guaranteed Depository Insurance”.

(14) Reserves for operations

A. Cathay Life

Reserves for the operations are organized according to the Insurance Law. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provided the figures for these reserves.

The MOF promulgated a new regulation on December 24, 2002. Under this regulation, when the accumulated gross amount of “Special Reserve for the Loss Movement” exceeds 30% of the gross amount of “net earned premium”, the excess should be reversed and recorded as income.

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In addition, according to the MOF regulation which became effective 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 approved the surplus appropriation. This amount may not be distributed or used for other purposes unless approved by the MOF.

Cathay Life had a surplus of NT\$8,016,080 (US\$235,836) from the “Special Reserve for the Loss Movement” as of September 30, 2004.

B. Cathay Century

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

(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\$5.88 million). The reserve cannot be used for other purposes except to offsetting trading losses.

(16) Reserves for losses on guarantees

Reserves for losses on guarantees are provided 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\$5.88 million).

(18) Convertible bonds payable

The excess of the redemption price over the par value of a convertible bond is credited to redemption premium payable and amortized using the interest method. This amortization is recorded as interest expense.

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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 stock that the Company repurchases is recorded in the “treasury stock account”. The book value of this treasury stock is determined based on the reason of purchase and stock type (common or preferred stock) using the weighted average method. When treasury stock is retired, capital surplus-premium of common shares and common stock are debited according to the ratio of retired treasury stock to total issued stock. When the book value of the retired treasury stock is higher than the sum of its par value and capital surplus-premium of common shares, the difference is debited to other capital surplus. If other capital surplus is insufficient to cover the difference, retained earnings are debited. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus-premium of common shares, the difference is credited to capital surplus-treasury stock.

According to the Ministry of Finance Security and Future Committee (91) article 108164:

In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities and Exchange Law), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose of such treasury shares within this period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities and Exchange Law.

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According to the Securities and Futures Commission (91) article 111467, shares previously bought back by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities and Exchange Law), upon conversion of the institutions into wholly-owned subsidiaries of a financial holding company and the conversion of such shares into treasury shares of the financial holding company, must be treated by such subsidiaries as their own treasury shares and a deduction of shareholders' equity and must be treated as treasury shares of the financial holding company. If the financial institutions hold shares of other financial institutions whose shares are also converted into the shares of the same financial holding company, the principle of equity investment shall apply. The Company follows SFAS NO.30 "Treasury Stock Accounting Principle" and treats shares held by its subsidiaries as treasury stock in its income statements.

(20) Insurance premiums income and expenses

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

(21) Recognition of interest income and fee income

Interest income is recognized on an accrual basis except for loans classified as delinquent accounts. The accrual of income from delinquent accounts is discontinued; subsequent interest payments 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 funds" in income statements.

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(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 and its subsidiaries follow the ROC SFAS No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

According to the ROC SFAS No. 23 "Interim Financial Reporting and Disclosures", certain pension information is not required to be disclosed in the Company's interim financial statements.

(24) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency transactions are recorded in NT dollars at the spot rate when the conversion occurs. 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. Long-term investments in foreign currency are accounted for as cumulative translation adjustments and 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 foreign currencies, are converted into NT dollars using the method described in the preceding paragraph. Foreign currency denominated income and expenses of such branches are translated at the weighted-average exchange rate. Gains or losses resulting from the translation are treated as "cumulative conversion adjustments" under stockholders' equity.

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B. Conversion of foreign subsidiaries' statements

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

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements are 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.

(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 between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries jointly file corporation income tax returns and pay a 10% surcharge on their undistributed retained earnings under the Integrated Income Tax System. If there are any tax effects due to the adoption of the foregoing 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.

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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 statements, 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, if a company holds more than 90% of the outstanding issued shares of its domestic subsidiaries, such 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, research and development, education, training and investment in equity is accounted for under the current recognition method.

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

(26) Capital expenditure expenses

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

(27) Derivative financial products transaction

A. Transactions on forward foreign 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 foreign 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 foreign 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.

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- 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 payments for the market floating-rate interest payment obligations based on a notional principal amount. For IRS transactions undertaken for hedging purposes, income and expenses arising upon settlement are netted off and recognized in the statement of income and expenditure.
- D. The purpose of cross currency swaps (“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 rates are determined according to the applicable interest rate within the agreed period. The difference is credited or charged to the current income.
- E. Only memo entries of notional principal amounts 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 accrue 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 purposes 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 into the interest rate contracts, and are classified as realized or unrealized gains or losses depending on whether the gains or losses have been realized.

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(28) Investment-linked products

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

The Company has established 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 are recorded under the line items “investment-linked products assets”, “investment-linked products liabilities”, “investment-linked products revenues”, and “investment-linked products expenses”, respectively.

(29) Commitments and contingent liabilities

Contingent liabilities and commitments are recorded at estimated amounts if it is probable that they might be incurred and the amounts can be reasonably estimated. If it is not probable, or if the amounts cannot be reasonably estimated, the obligation is disclosed as a contingent liability in the footnotes to the financial statements.

(30) Convenience conversion into US dollars

The financial statements are stated in NT dollars. Conversion of the September 30, 2003 and 2004 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$33.78 and NT\$33.99 to US\$1.00 on September 30, 2003 and 2004, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as representation that the NT dollars amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects:

Effective January 1, 2004, Cathay United Bank (merged) adopted the new “Guidelines Governing the Preparation of Financial Statements of Public Banks” to account for its bills transaction related to resell or repurchase agreements using the financing method which resulted in an increase of NT\$170 (US\$5) in net income for the period from January 1 to September 30, 2004.

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Since the repurchase/resell transactions involve a significant volume of daily activities, and the accounting systems had been altered several times, the historical trading data for periods prior to January 1, 2004 are difficult to trace and accordingly, calculating the cumulative effect of this change in accounting principles is difficult for those prior periods. Thus, the Bank did not calculate the cumulative effect of this change in accounting principles, and the pro forma information was not disclosed for those prior periods.

4. Cash and cash equivalents

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Petty cash and cash on hand	\$7,877,526	\$233,201	\$8,271,018	\$243,337
Cash in banks	60,304,665	1,785,218	92,322,044	2,716,153
Cash equivalents	57,189,664	1,693,004	61,869,392	1,820,223
Checks for clearing	4,525,142	133,959	4,311,258	126,839
Due from commercial banks	17,390,969	514,830	4,414,099	129,865
Total	<u>\$147,287,966</u>	<u>\$4,360,212</u>	<u>\$171,187,811</u>	<u>\$5,036,417</u>

5. Short-term investments

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Common stock	\$46,509,707	\$1,376,842	\$80,045,123	\$2,354,961
Beneficiary certificates	70,249,410	2,079,616	48,230,728	1,418,968
Government bonds and corporate bonds	75,165,980	2,225,162	69,140,392	2,034,139
Oversea investments	126,663,522	3,749,660	156,086,476	4,592,129
Designated purpose trust fund	46,894,926	1,388,245	43,239,556	1,272,126
Depository receipt	28,276	837	27,667	814
Financial debentures	15,299,766	452,924	18,923,764	556,745
Certificates of deposit	99,256,635	2,938,325	117,104,721	3,445,270
Short-term notes	9,570,276	283,312	17,322,863	509,646
Securities purchased under agreements to resell	2,402,821	71,131	4,424,403	130,168
Operating securities	-	-	24,748	728
Subtotal	<u>492,041,319</u>	<u>14,566,054</u>	<u>554,570,441</u>	<u>16,315,694</u>
Less: Allowance for valuation loss	(366,997)	(10,864)	(424,851)	(12,499)
Total	<u>\$491,674,322</u>	<u>\$14,555,190</u>	<u>\$554,145,590</u>	<u>\$16,303,195</u>

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For Cathay United Bank (merged) as of September 30, 2003 and 2004, government and corporate bonds of NT\$14,548,100 (US\$430,672) and NT\$27,886,400 (US\$820,430), respectively, were sold under repurchase agreements at a price of NT\$16,041,680 (US\$474,887) and NT\$29,572,759 (US\$870,043), respectively. The bonds sold should be repurchased before March 26, 2004 and March 28, 2005 at a price of NT\$16,077,226 (US\$472,999) and NT\$29,608,173 (US\$871,085), respectively.

6. Exchange bills negotiated discounted and loans, net

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Exchange bills negotiated discounted	\$917,106	\$27,149	\$1,236,847	\$36,388
Short-term loans and overdrafts	227,750,184	6,742,160	214,157,107	6,300,592
Short-term secured loans and overdrafts	112,084,020	3,318,059	98,744,926	2,905,117
Medium-term loans	49,578,406	1,467,685	65,663,619	1,931,851
Medium-term secured loans	140,434,056	4,157,314	130,971,641	3,853,240
Long-term loans	23,728,719	702,449	19,320,909	568,429
Long-term secured loans	447,869,980	13,258,436	480,479,810	14,135,917
Subtotal	1,002,362,471	29,673,252	1,010,574,859	29,731,534
Less: Allowance for bad debts	(8,680,962)	(256,985)	(7,002,255)	(206,009)
Total	<u>\$993,681,509</u>	<u>\$29,416,267</u>	<u>\$1,003,572,604</u>	<u>\$29,525,525</u>

For Cathay Life and Cathay Century, secured loans are secured by government bonds, stocks, corporate bonds and real estate. Loans are classified as short-term, medium-term and long-term based on the terms as follows:

Short-term: within one year

Medium-term: over one year but less than seven years

Long-term: over seven years

For Cathay United Bank (merged), non-accrual accounts amounted to NT\$14,836,599 (US\$439,213) and NT\$8,250,524(US\$242,734) as of September 30, 2003 and 2004, respectively. The unrecognized interest on the non-accrual accounts amounted to NT\$626,818 (US\$18,556) and NT\$102,254 (US\$3,008) for the nine-month periods ended September 30, 2003 and 2004, respectively.

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7. Long-term investments in stocks

Investee	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
	Carrying value	Carrying value	Carrying value	Carrying value
A. Under the equity method:				
Cathay Pacific Venture Capital Co., Ltd.	\$595,296	\$17,623	\$586,017	\$17,241
Cathay Venture Capital Co., Ltd.	543,539	16,091	556,028	16,359
Cathay II Venture Capital Co., Ltd.	-	-	594,419	17,488
WK Technology Fund VI Co., Ltd.	375,440	11,114	375,627	11,051
Vista Technology Venture Capital Corp.	95,453	2,826	68,776	2,024
Omnitek Venture Capital Corp.	150,572	4,458	152,081	4,474
Wa Tech Venture Capital Co., Ltd.	179,871	5,325	178,895	5,263
Lin Yuan Property Management Co., Ltd.	37,059	1,097	31,825	936
Cathay Securities Investment Co., Ltd.	14,844	440	23,265	684
Cathay Capital management Inc.	-	-	10,897	321
Seaward Card Co., Ltd.	40,280	1,193	59,635	1,754
Seaward Leasing Ltd.	2,171,173	64,274	2,237,710	65,834
Cathay futures Corp. (formerly Seaward Futures Corp.)	1,671,020	49,468	721,533	21,228
Indovina Bank	443,882	13,140	527,149	15,509
Seaward Insurance Agent Corp.	40,325	1,194	-	-
Taiwan Real-estate Management Corp.	54,162	1,603	51,947	1,528
Taiwan Finance Corp.	1,196,385	35,417	1,296,483	38,143
Seaward Property Insurance Agent Co., Ltd.	2,000	59	-	-
Cathay Property Insurance Agent Co., Ltd.	6,898	204	9,388	276
Cathay Life Insurance Agent Co., Ltd.	16,505	489	117,846	3,467
IBT Venture Capital Corp.	565,288	16,734	575,239	16,924
Cathay Insurance (Bermuda) Co., Ltd.	53,511	1,584	60,760	1,788
Symphox Information Co., Ltd.	256,198	7,584	263,412	7,750
Cathay Securities Investment Trust Co., Ltd.	202,962	6,008	215,002	6,325
Subtotal	8,712,663	257,925	8,713,934	256,367
Less: Unrealized gain from intercompany transactions	(31,852)	(943)	(31,849)	(937)
Long-term investment under the equity method	8,680,811	256,982	8,682,085	255,430
B. Long-term investment under the cost method				
Net	50,110,761	1,483,445	16,083,531	473,184
Net	\$58,791,572	\$1,740,427	\$24,765,616	\$728,614

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8. Long-term investments in bonds

Long-term investments in bonds consist mainly of the government bonds. As of September 30, 2003 and 2004, long-term investments in bonds amounted to NT\$258,445,152 (US\$7,650,833) and NT\$395,823,106 (US\$11,645,281), respectively.

9. Investment in real estate

Item	September 30, 2003							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in real estate	\$94,247,100	\$2,790,027	\$5,010	\$148	\$(11,529,698)	\$(341,317)	\$82,722,412	\$2,448,858
Construction	11,108,501	328,848	-	-	-	-	11,108,501	328,848
Prepayments for buildings and land	414	12	-	-	-	-	414	12
Total	\$105,356,015	\$3,118,887	\$5,010	\$148	\$(11,529,698)	\$(341,317)	\$93,831,327	\$2,777,718

Item	September 30, 2004							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in real estate	\$104,585,379	\$3,076,946	\$4,565	\$134	\$(12,669,585)	\$(372,744)	\$91,920,359	\$2,704,336
Construction	9,044,235	266,085	-	-	-	-	9,044,235	266,085
Total	\$113,629,614	\$3,343,031	\$4,565	\$134	\$(12,669,585)	\$(372,744)	\$100,964,594	\$2,970,421

(1) The real estate investments are held mainly to generate rental revenue.

(2) Rents from real estate investment can be paid annually, semi-annually, quarter, monthly or in a lump sum.

(3) No investments in real estate were pledged as collateral. Investments in real estate were fully insured.

10. Deposits and remittances

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Check deposit	\$11,509,198	\$340,710	\$9,948,579	\$292,691
Demand deposits	79,817,481	2,362,862	90,551,508	2,664,063
Demand savings deposits	399,617,345	11,829,998	435,449,840	12,811,116
Time deposits	195,972,227	5,801,428	128,755,577	3,788,043
Remittances	259,523	7,683	327,164	9,625
Financial debentures payable	17,350,000	513,618	34,550,000	1,016,476
Total	\$704,525,774	\$20,856,299	\$699,582,668	\$20,582,014

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Financial debentures payable as follows:

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Financial debenture	\$5,000,000	\$148,017	\$22,200,000	\$653,133
Subordinate financial debenture	12,350,000	365,601	12,350,000	363,343
Total	<u>\$17,350,000</u>	<u>\$513,618</u>	<u>\$34,550,000</u>	<u>\$1,016,476</u>

On May 23, 2002, Cathay United Bank (merged) issued five-year subordinated financial debentures amounting to NT\$5,000,000 (US\$147,102) with a stated interest rate of 4.15%. On September 10, 2002, Cathay United Bank (merged) issued another five-year and six-month subordinated financial debentures amounting to NT\$5,000,000 (US\$147,102) with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinated financial debentures are repayable at maturity, and the interest is payable semi-annually.

On April 28, 2003, Cathay United Bank (formerly) issued five-year subordinated financial debentures amounting to NT\$2,350,000 (US\$69,138) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

On June 20, 2003, Cathay United Bank (merged) issued five-year and six month financial debentures amounting to NT\$5,000,000 (US\$147,102) 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 financial debentures amounting to NT\$3,200,000 (US\$94,145), NT\$2,700,000 (US\$79,435) and NT\$1,800,000 (US\$52,957), respectively, with floating interest rates; thereafter, six-year financial debentures amounting to NT\$2,000,000 (US\$58,841) were issued with floating interest rate on March 29, 2004. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

On July 8, and July 15, 2004, Cathay United Bank (merged) issued five-year to seven-year financial debentures amounting to NT\$1,000,000 (US\$29,420), NT\$3,500,000 (US\$102,971), NT\$2,000,000 (US\$58,841) and NT\$1,000,000 (US\$29,420), respectively, with floating interest rates. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

The priority claim of these financial debentures, including principal and interest, is equal to the other debts of Cathay United Bank (merged) but is senior to common stock.

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11. Bonds payable

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Zero coupon convertible notes	\$23,653,000	\$700,207	\$23,793,000	\$700,000
Redemption premium payable	1,122,924	33,243	1,984,354	58,381
Total	<u>\$24,775,924</u>	<u>\$733,450</u>	<u>\$25,777,354</u>	<u>\$758,381</u>

Please see note 25(5) “Zero coupon convertible notes related information” for details about notes.

12. Reserve for operations and liabilities

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Unearned premium reserve	\$13,270,042	\$392,837	\$12,700,550	\$373,656
Reserve for life insurance	1,273,403,222	37,696,958	1,414,630,380	41,619,017
Special reserve	14,870,635	440,220	19,130,708	562,833
Claims reserve	934,216	27,656	898,610	26,437
Reserves for losses on guarantees	28,796	852	28,823	848
Reserves for losses on stock brokerage transactions	38,403	1,137	576	17
Reserves for losses on trading securities	123,974	3,670	131,160	3,859
Total	<u>\$1,302,669,288</u>	<u>\$38,563,330</u>	<u>\$1,447,520,807</u>	<u>\$42,586,667</u>

13. Common stock

As of September 30, 2003 and 2004, the numbers of issued shares, par value of NT\$10 (US\$0.3) per share, was 8,307,489,100 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 a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depository Shares.

14. Capital surplus

(1) Capital surplus was NT\$53,101,646 (US\$1,571,985) and NT\$53,697,720 (US\$1,579,809) as of September 30, 2003 and 2004. Before conversion into a financial holding company, NT\$267,215 (US\$7,862) constituted retained earnings of certain subsidiaries of the Company.

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- (2) The additional paid-in capital of par value through the conversion 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 undistributed 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 after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total 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 incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.
- B. The distribution of the 2003 earnings was approved in the shareholders' meeting on June 3, 2004. The distribution resulted from retained earnings of NT\$20,588,763 (US\$605,730) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$26,109) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,697), respectively. The Company declared cash dividends of NT\$2 (US\$0.06) on each common share and such dividends were paid on July 9, 2004.

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- C. The stockholder's meeting of the Company approved the declaration of dividends on June 6, 2003. It is the Company's policy to distribute the aforementioned dividends based on its annual earnings of NT\$13,085,153 (US\$387,364), its subsidiaries' capital surplus belongs to unappropriated retained earnings before stock conversion of NT\$1,917,548 (US\$56,766) and its disposal of fixed assets retransfer as unappropriated retained earnings of NT\$128,170 (US\$3,794). The Company declared cash dividends of NT\$1.5 (US\$0.04) on each common share and such dividend was paid on July 11, 2003.
- D. Cathay Life originally held 156,927,000 shares of the Company. After conversion into a financial holding company, Cathay Life's treasury stock has been treated as the Company's treasury stock without any stockholder rights. As of September 30, 2004, Cathay Life had transferred all such treasury shares to employees.
- E. 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.
- F. In accordance with SFC regulations, in addition to the legal reserve retained, the Company is required to provide a special reserve in the amount equal to current year's contra account in shareholders' equity from current year's earnings after tax or prior years' undistributed earnings. However, contra accounts in prior years' accumulated shareholders' equity should only be provided from prior years' undistributed earnings. If a reversal of shareholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.
- G. 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.
- H. Dividends policy

The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations with excess cash from retained earnings distributed in cash, but cash dividends must be a minimum of 10% of the total dividends declared.

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16. Treasury stock

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

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2004			September 30, 2004			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)
	2004	Increase	Decrease	30, 2004	Book value (NT\$)	Book value (US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Subsidiaries										
transferred shares										
to employees	51,551	-	51,551	-	\$-	\$-	\$-	\$-	\$-	\$-
Parent's stock that its subsidiaries held which are treated as treasury stock										
	11,705	-	608	11,097	530,389	15,604	47.80	1.41	62.67	1.84
Subsidiaries' stocks held by the Company after conversion which are treated as treasury stock										
	254,911	-	-	254,911	11,450,762	336,886	44.92	1.32	62.67	1.84
Total	318,167	-	52,159	266,008	\$11,981,151	\$352,490				

(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	\$463,776	\$13,645	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay Century	3,397	212,886	6,263	"	None	Within three years	None
Total	11,097	\$676,662	\$19,908				

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(3) Cathay Life

A. Cathay Life's treasury stock information for the nine-month period ended September, 30 2004 is as follows:

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2004	Increase	Decrease	September 30, 2004
Transferred to employees	51,551	-	51,551	-

B. Pursuant to the ROC Securities and Exchange Law, the shares which a company can repurchase as treasury stock cannot exceed 10% of the total shares issued. The amount of the repurchase 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 repurchased 156,927,000 shares of treasury stock for NT\$7,333,863 (US\$215,765).

C. Treasury stock of Cathay Life was converted into common stock of the Company on December 31, 2001. As a result of this conversion, the Company owns 100% of Cathay Life's shares.

D. Cathay Life transferred 51,551,000 shares to its employees at a price of NT\$58.83 per share (US\$1.73 per share), which was approved by the SFC on March 13, 2004. After the transfer, treasury stock of Cathay Life was eliminated.

17. Personnel, depreciation, depletion and amortizations

(1) The Company

Item	For the nine-month period ended September 30,2003 (NT\$)			For the nine-month period ended September 30,2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$42,611	\$42,611	\$-	\$57,631	\$57,631
Labor & health insurance expenses	-	1,290	1,290	-	2,270	2,270
Pension expenses	-	877	877	-	2,765	2,765
Other expenses	-	9,662	9,662	-	29,021	29,021
Depreciation	-	611	611	-	771	771
Depletion	-	-	-	-	-	-
Amortizations	-	109,025	109,025	-	109,025	109,025

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Item	For the nine-month period ended September 30,2003 (US\$)			For the nine-month period ended September 30,2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$1,261	\$1,261	\$-	\$1,696	\$1,696
Labor & health insurance expenses	-	38	38	-	67	67
Pension expenses	-	26	26	-	81	81
Other expenses	-	286	286	-	854	854
Depreciation	-	18	18	-	23	23
Depletion	-	-	-	-	-	-
Amortizations	-	3,228	3,228	-	3,208	3,208

(2) Cathay Life

Item	For the nine-month period ended September 30,2003 (NT\$)			For the nine-month period ended September 30,2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$15,310,952	\$2,217,654	\$17,528,606	\$16,311,334	\$2,141,821	\$18,453,155
Labor & health insurance expenses	928,323	156,209	1,084,532	861,574	157,433	1,019,007
Pension expenses	707,905	119,120	827,025	628,717	114,884	743,601
Other expenses	831,876	167,549	999,425	794,153	167,558	961,711
Depreciation	-	1,654,917	1,654,917	-	1,414,547	1,414,547
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	2,533	2,533

Item	For the nine-month period ended September 30,2003 (US\$)			For the nine-month period ended September 30,2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$453,255	\$65,650	\$518,905	\$479,886	\$63,013	\$542,899
Labor & health insurance expenses	27,482	4,624	32,106	25,348	4,632	29,980
Pension expenses	20,956	3,526	24,482	18,497	3,380	21,877
Other expenses	24,626	4,960	29,586	23,364	4,930	28,294
Depreciation	-	48,991	48,991	-	41,617	41,617
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	75	75

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

Item	For the nine-month period ended September 30, 2003 (NT\$)			For the nine-month period ended September 30, 2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$1,898,450	\$1,898,450	\$-	\$2,842,651	\$2,842,651
Labor & health insurance expenses	-	191,612	191,612	-	277,027	277,027
Pension expenses	-	247,070	247,070	-	268,377	268,377
Other expenses	-	409,695	409,695	-	696,898	696,898
Depreciation	-	456,296	456,296	-	690,867	690,867
Depletion	-	-	-	-	-	-
Amortizations	-	46,648	46,648	-	157,643	157,643

Item	For the nine-month period ended September 30, 2004 (US\$)			For the nine-month period ended September 30, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$56,200	\$56,200	\$-	\$83,632	\$83,632
Labor & health insurance expenses	-	5,672	5,672	-	8,150	8,150
Pension expenses	-	7,314	7,314	-	7,896	7,896
Other expenses	-	12,128	12,128	-	20,503	20,503
Depreciation	-	13,508	13,508	-	20,326	20,326
Depletion	-	-	-	-	-	-
Amortizations	-	1,381	1,381	-	4,638	4,638

(4) Cathay Century

Item	For the nine-month period ended September 30, 2003 (NT\$)			For the nine-month period ended September 30, 2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$390,008	\$390,008	\$-	\$354,884	\$354,884
Labor & health insurance expenses	-	25,799	25,799	-	23,330	23,330
Pension expenses	-	22,728	22,728	-	36,165	36,165
Other expenses	-	159,229	159,229	-	159,895	159,895
Depreciation	-	18,247	18,247	-	15,170	15,170
Depletion	-	-	-	-	-	-
Amortizations	-	3,107	3,107	-	3,599	3,599

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Item	For the nine-month period ended September 30, 2003 (US\$)			For the nine-month period ended September 30, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$11,546	\$11,546	\$-	\$10,441	\$10,441
Labor & health insurance expenses	-	764	764	-	686	686
Pension expenses	-	673	673	-	1,064	1,064
Other expenses	-	4,714	4,714	-	4,704	4,704
Depreciation	-	540	540	-	446	446
Depletion	-	-	-	-	-	-
Amortizations	-	92	92	-	106	106

(5) Cathay Securities

Item	For the nine-month period ended September 30, 2004 (NT\$)			For the nine-month period ended September 30, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$25,328	\$25,328	\$-	\$745	\$745
Labor & health insurance expenses	-	1,303	1,303	-	38	38
Pension expenses	-	-	-	-	-	-
Other expenses	-	343	343	-	10	10
Depreciation	-	374	374	-	11	11
Depletion	-	-	-	-	-	-
Amortizations	-	87	87	-	3	3

18. Estimated income taxes

(1) Income tax expenses include the following:

	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Expected income tax expense	\$1,656,722	\$49,044	\$755,898	\$22,239
Plus: Interest income of tax on a separate basis	254,329	7,529	188,804	5,554
Deferred income tax expenses (benefits)	1,201,649	35,573	2,491,968	73,315
Extra 10% income tax on undistributed retained earnings	145,590	4,310	338,048	9,946
Less: Adjustment of income tax	(300,046)	(8,882)	(471,375)	(13,868)
Income tax credit	(13,270)	(393)	(69,137)	(2,034)
Tax effects under integrated income tax systems	(145,590)	(4,310)	(338,038)	(9,946)
Total income tax expenses (benefit)	\$2,799,384	\$82,871	\$2,896,168	\$85,206

The Company, in accordance with the Financial Holding Company Act, elected to be the

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payer of the consolidated income tax and the 10% additional undistributed earnings tax filing the consolidated income tax return which includes all subsidiaries who have twelve months of operations in a taxable year.

(2)Income tax return:

- A. The Tax Authority has examined and cleared income tax returns of the Company through 2001.
- B. The Tax Authority has examined and cleared income tax returns of Cathay Life through 2000.
- C. Cathay Century's income tax returns, until 2001 (except for 1999), have been examined and cleared by the Tax Authority.
- D. Cathay United Bank's (merged) income tax returns for the years from 1994 to 1998 and 2000 have been assessed by the Tax Authority. Cathay United Bank (merged) accrued appropriate tax provisions. However, Cathay United Bank (merged) disagreed with the assessment and appealed to the Tax Authority. After further review, the Tax Authority has reversed its previous decision and re-determined the income tax obligation of Cathay United Bank (merged) for the years from 1994 to 1998 and 2000 in 2004.
- E. For the former Cathay United Bank's income tax for 1994, 1995 and 2001, withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors (the "bond withholding taxes") were disallowed by the Tax Authority as a deduction. Former Cathay United Bank was not satisfied with the authority's decisions and, after accruing appropriate tax provisions, filed for administrative remediation. In 2004, former Cathay United Bank entered into a settlement with the Tax Authority.
- F. Cathay United Bank's (merged) income tax returns for the years prior to 2000 had been assessed by the Tax Authority, except for 1998.
- G. Except for 1999, the Tax Authority has examined and assessed the former Cathay United Bank's income tax returns through 2002.

(3)Information related tax imputation:

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A. The Company

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$2,171	\$64	\$356,633	\$10,492
	For the nine-month period ended September 30, 2003		For the nine-month period ended September 30, 2004	
Imputation credit account ratio – Actual	35.19%		19.17%	

B. Cathay Life

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$82,872	\$2,453	\$98,422	\$2,896
	For the nine-month period ended September 30, 2003		For the nine-month period ended September 30, 2004	
Imputation credit account ratio-Actual	30.17%		8.34%	

C. Cathay United Bank (merged)

	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$165,507	\$4,900	\$91,508	\$2,692
	For the nine-month period ended September 30, 2003		For the nine-month period ended September 30, 2004	
Imputation credit account ratio:	16.57%		10.94%	
Cash dividend-Actual	23.80%		-	
Stock dividend-Actual				

D. Cathay Century

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	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$176,389	\$5,222	\$8,799	\$259

	For the nine-month period ended September 30, 2003	For the nine-month period ended September 30, 2004
	Imputation credit account ratio-Actual	33.33%

E. Cathay Securities

	September 30,	
	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$1,103	\$32

	For the nine-month period ended September 30, 2004
	Imputation credit account ratio-Actual

F. Former Cathay United Bank

	September 30,	
	2003(NT\$)	2003(US\$)
Balance of imputation credit account	\$120,998	\$3,582

	For the nine-month period ended September 30, 2003
	Imputation credit account ratio-Estimate

(4)Information relating of undistributed earnings:

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Year	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Prior to 1997	\$267,215	\$7,910	\$267,215	\$7,862
After 1998	-	-	813,842	23,943
Total	\$267,215	\$7,910	\$1,081,057	\$31,805

The above undistributed earnings do not include the net income for the nine-month periods ended September 30, 2003 and 2004.

The undistributed earnings include additional paid-in capital from the stock conversion creating the Company's financial holding company structure, which came from the original financial institution's undistributed retained earnings and is allowed to be distributed as cash dividends.

Undistributed earnings before 1997 are from the Company's subsidiaries (before conversion) in that period.

19. Earnings per share

	For the nine-month period ended September 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)	(US\$)	EPS (in dollars)	(US\$)
Net income	\$23,720,266	\$702,198	\$20,920,882	\$619,327					
Primary earnings per share									
Net income for common stock holder	\$23,720,266	\$702,198	\$20,920,882	\$619,327	7,532,906	\$3.15	\$0.09	\$2.78	\$0.08
Effect of potentially dilutive common stock									
Convertible bonds payable	\$606,445	\$17,953	\$454,834	\$13,465	421,873				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$24,326,711	\$720,151	\$21,375,716	\$632,792	7,954,779	\$3.06	\$0.09	\$2.69	\$0.08

For the nine-month period ended September 30, 2004							
Amount (Numerator)				EPS			

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Notes to consolidated financial statements (Continued)
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					Shares (in thousands of shares) (denominator)	Before income tax		After income tax	
	Before income taxes		After income taxes			EPS (in dollars)		EPS (in dollars)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Net income	\$28,316,298	\$833,077	\$25,420,130	\$747,871					
Primary earnings per share									
Net income for common stock holder	\$28,316,298	\$833,077	\$25,420,130	\$747,871	8,027,124	\$3.53	\$0.10	\$3.17	\$0.09
Effect of potentially dilutive common stock									
Convertible bonds payable	\$642,264	\$18,896	\$481,698	\$14,172	447,017				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$28,958,562	\$851,973	\$25,901,828	\$762,043	8,474,141	\$3.42	\$0.10	\$3.06	\$0.09

20. Related party transactions

(1) Related parties

Name	Relationship
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of company
Cathay II Venture Capital Co., Ltd.	Subsidiary of company
Cathay Capital Management Inc.	Subsidiary of company
Cathay Venture Capital Co., Ltd.	The investee is accounted for using the equity method
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 Futures Co., Ltd. (formerly Seaward Futures Co., Ltd.)	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 an immediate family member of the Company's chairman

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Lin Yuan Investment Co., Ltd.	Their chairman is an 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 (was 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
China England Company Ltd. and etc.	Investee company of Cathay United Bank (merged)
Gemfor Tech Co.	Their chairman of the board is the president of 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 appointed a supervisor for KG Telecommunication Ltd. (resigned on Jan. 19, 2004)
Wu Ming-Yang	Senior manager of Cathay Century

(2) *Significant transactions with related parties:*

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A. Property transactions:

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

Name	Item	For the nine-month period ended September 30, 2003	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$9,241	\$274
	Hsinyi District Base-D	571,197	16,909
	Cathay Information Building	22,122	655
	Tucheng office Building	14,897	441
	Other	2,901	86
	Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	3,749
	Other	2,240	66
	Total	<u>\$626,347</u>	<u>\$18,542</u>

Name	Item	For the nine-month period ended September 30, 2004	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$6,931	\$204
	Hsinyi District Base-D	20,338	599
	Cathay Information Building	11,567	340
	Ban Ciao Building	208,610	6,137
	Sheraton Taipei Hotel	40,340	1,187
	Siangyang Building	18,362	540
	Li-Yuan Bldg.	40,045	1,178
	Xi-Men Bldg.	16,490	485
	Tucheng Office Building	84,728	2,493
	Cathay Golden & Sliver Bldg.	19,105	562
	Others	41,959	1,234
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,572	46
	Others	448	13
Symphox Information Co., Ltd.	Hsinyi District Base-E	27,000	795
	Total	<u>\$537,495</u>	<u>\$15,813</u>

- (a) The total amount of contracted projects for real estate as of September 30, 2003 and 2004 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$10,139,651 (US\$300,167) and NT\$9,708,892 (US\$285,640), respectively.

- (b) In the nine-month period ended September 30, 2003, former Cathay United Bank engaged San Ching Engineering Co., Ltd. to install office equipment and

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furniture, and to decorate office buildings and workplaces. The installation fees amounted to NT\$17,531 (US\$519) for the nine-month period ended September 30, 2003. As of September 30, 2003, the foregoing installation fees had been paid off.

(c) Cathay United Bank (merged) paid NT\$792 (US\$23) of the total purchase amount of NT\$1,980 (US\$59) for web design services provided by Gemfor Tech Co. during the nine-month period ended September 30, 2003. Gemfor Tech Co. ceased to be the related party of Cathay United Bank (merged) since April 2004 and therefore the transaction with this company was not required to be disclosed as of September 30, 2004.

(d) Cathay United Bank (merged) paid project and construction management fees to Taiwan Real-Estate Management Corp. in the amounts of NT\$558 (US\$17) and NT\$217 (US\$6) during the nine-month periods ended September 30, 2003 and 2004, respectively.

(e) Cathay United Bank (merged) paid Sanching Engineering Corp. for the installment of automated systems for the 24-hour self-service banking center in the amounts of NT\$3,020 (US\$89) and NT\$88,422 (US\$2,601) during the nine-month periods ended September 30, 2003 and 2004, respectively.

(f) For the nine-month periods ended September 30, 2003 and 2004, the Company and the Subsidiaries did not repurchase any property and investments it had previously sold.

b. Cathay Life acquisition of property and equipment information:

Name	Item	For the nine-month periods ended September 30,			
		2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	Communication and transportation equipment	\$1,560	\$46	\$-	\$-

c. Acquisition other equipment

For the nine-month periods ended September 30,

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Name	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Lin Yuan Property Management Co., Ltd.	\$-	\$-	\$152	\$4

d. Cathay Life disposal of property and equipment information:

Cathay Life did not sell any real estate to its related parties for the nine-month period ended September 30, 2003.

Name	Item	For the nine-month period ended September 30, 2004			
		Sales amount		Loss on disposal of assets	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay General Hospital	No 678 Sec. 2 Chung-Hwa Rd. Hsinchu	\$1,520,000	\$44,719	\$(8,390)	\$(247)

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

Name	Rental income			
	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$22,010	\$652	\$17,004	\$500
San Ching Engineering Co., Ltd.	14,439	427	10,770	317
Cathay Securities Investment Trust Co., Ltd.	6,684	198	6,454	190
Cathay General Hospital	171,193	5,068	103,002	3,030
Symphox Information Co., Ltd.	22,536	667	18,406	542
Cathay Securities Investment Co., Ltd.	3,105	92	3,175	93
Lin Yuan Property Management Co., Ltd.	324	10	337	10
Lin Ynan Investment Co., Ltd.	98	3	38	1
Seaward Leasing Ltd.	1,497	44	1,412	42
Taipei Smart Card Corp.	5,477	162	4,280	126
Culture and Charity Foundation of the UWCCB	250	7	750	22
KG Telecommunication Ltd.	5,854	173	-	-
Total	\$253,467	\$7,503	\$165,628	\$4,873

Guarantee deposits received
September 30,

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Name	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,386	\$367	\$5,796	\$171
San Ching Engineering Co., Ltd.	6,779	201	6,779	199
Cathay General Hospital	1,985	59	2,354	69
Cathay Securities Investment Trust Co., Ltd.	2,144	63	2,144	63
Symphox Information Co., Ltd.	1,421	42	1,394	41
KG Telecommunication Ltd.	8,354	247	-	-
Lin Yuan Property Management Co., Ltd.	49	1	49	1
Lin Ynan Investment Co., Ltd.	16	1	16	1
Total	<u>\$33,134</u>	<u>\$981</u>	<u>\$18,532</u>	<u>\$545</u>

Lease term and collection of rental are governed by signed contracts, with lease terms generally 2 to 5 years. Rentals are collected monthly.

f. Real estate rental expense from Cathay Life and Cathay United Bank (merged)

Name	Rental expense			
	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$22,772	\$674	\$32,597	\$959
Lin Yuan Investment Co., Ltd.	3,345	99	5,006	147
Symphox Information Co., Ltd.	-	-	37	1
Total	<u>\$26,117</u>	<u>\$773</u>	<u>\$37,640</u>	<u>\$1,107</u>

Name	Guarantee deposits paid			
	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$9,352	\$277	\$12,565	\$370
Lin Yuan Investment Co., Ltd.	1,650	49	1,650	48
Seaward Leasing Ltd.	42,000	1,243	42,000	1,236
Total	<u>\$53,002</u>	<u>\$1,569</u>	<u>\$56,215</u>	<u>\$1,654</u>

According to contracts, terms of lease with third parties generally were 3 years, and rentals are paid monthly.

B. Beneficiary certificates

Name	Item	September 30,			
		2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Securities Investment Trust Co., Ltd.	Cost	<u>\$4,275,410</u>	<u>\$126,566</u>	<u>\$5,187,590</u>	<u>\$152,621</u>
	Market Value	<u>\$4,220,391</u>	<u>\$124,938</u>	<u>\$5,139,514</u>	<u>\$151,207</u>

C. Deposits

Cathay Financial Holding Co., Ltd. and Subsidiaries
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As of September 30, 2003 and 2004, Cathay United Bank's (merged) deposits from related parties amounted to NT\$12,846,686 (US\$380,304) and NT\$41,836,195 (US\$1,230,838), respectively. The related interest expenses paid to related parties for the nine-month periods ended September 30, 2003 and 2004 amounted to NT\$103,859 (US\$3,075) and NT\$253,645 (US\$7,462), respectively.

As of September 30, 2003, former Cathay United Bank's deposits from related parties amounted to NT\$2,955,357 (US\$87,488). The related interest expenses paid to related parties for the nine-month period ended September 30, 2003 amounted to NT\$88,375 (US\$2,616).

Except for the staff savings accounts and the checking accounts which bear zero interest, all other interest expenses were computed at general market rates, ranging from 0% to 2.65% during the nine-month period ended September 30, 2003. The details of deposit balances (over NT\$0.1 billion) were as follows:

Name	As of and for the nine-month period ended September 30, 2003			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay Real Estate Development Co., Ltd.	\$925,682	\$21	0%~0.50%	\$83,701

Name	As of and for the nine-month period ended September 30, 2003			
	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay Real Estate Development Co., Ltd.	\$27,403	\$1	0%~0.50%	\$2,478

D. Loans

As of September 30, 2003 and 2004, Cathay United Bank's (merged) loans to related parties amounted to NT\$3,841,275 (US\$113,714) and NT\$2,039,973 (US\$60,017), respectively.

The interest revenue received from related parties for the nine-month periods ended

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September 30, 2003 and 2004 amounted to NT\$76,794 (US\$2,273) and NT\$28,759 (US\$846), respectively.

As of September 30, 2003, former Cathay United Bank's loans to related parties amounted to NT\$14,847 (US\$440).

The interest revenue received from related parties for the nine-month period ended September 30, 2003 amounted to NT\$251 (US\$7) with interest rates ranging from 2.125% to 13.45%.

E. Call loans to banks

Name	As of and for the nine-month period ended September 30, 2003			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Former Cathay United Bank	\$1,038,300	\$1,012,800	1.02%~1.54%	\$5,834

Name	As of and for the nine-month period ended September 30, 2003			
	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Former Cathay United Bank	\$30,737	\$29,982	1.02%~1.54%	\$173

F. Regular secured loans

Name	As of and for the nine-month period ended September 30, 2003			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$1,173,912	\$1,173,368	3.67%~4.25%	\$34,345
Wu Ming-Yang	3,189	2,409	3.5%	71
Total		\$1,175,777		\$34,416

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Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,192,866	\$2,192,609	2.60%~3.50%	\$36,544
Wu Ming-Yang	2,374	1,680	2.48%	38
Total		\$2,194,289		\$36,582

As of and for the nine-month period ended September 30, 2003

Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$34,752	\$34,736	3.67%~4.25%	\$1,017
Wu Ming-Yang	94	71	3.50%	2
Total		\$34,807		\$1,019

As of and for the nine-month period ended September 30, 2004

Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$64,515	\$64,508	2.60%~3.50%	\$1,075
Wu Ming-Yang	70	49	2.48%	1
Total		\$64,557		\$1,076

G. Receivables

Name	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Notes Receivable				
Cathay General Hospital	\$57,192	\$1,693	\$-	\$-
Symphox Information Co., Ltd.	582	17	-	-
Subtotal	57,774	1,710	-	-
Account Receivable				
Cathay General Hospital	-	-	148,558	4,371
Symphox Information Co., Ltd.	-	-	834	25
Cathay Futures Corp.	-	-	242	7
Cahtay Insurance (Bermuda) Co., Ltd.	2,124	63	2,867	84
Subtotal	2,124	63	152,501	4,487
Total	\$59,898	\$1,773	\$152,501	\$4,487

H. Payable

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Name	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	\$24,855	\$736	\$20,477	\$603
Lin Yuan Property Management Co., Ltd.	39,341	1,164	45,826	1,348
Seaward Card Co., Ltd.	25,494	755	47,753	1,405
Cathay Real Estate Development Co., Ltd.	1,417	42	1,800	53
Total	\$91,107	\$2,697	\$115,856	\$3,409

I. Accounts collected in advance

Name	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay General Hospital	\$119,205	\$3,529	\$425	\$12
Sanching Engineering Co., Ltd.	-	-	22	1
Lin Yuan Investment Co., Ltd.	-	-	19	1
Total	\$119,205	\$3,529	\$466	\$14

J. Prepayments

Name	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	\$23,553	\$697	\$7,779	\$229

K. Premium revenues

Name	As of and for the nine-month period ended September 30, 2003			
	Direct written premiums		Premiums receivable	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay General Hospital	\$5,095	\$151	\$2,491	\$73
Others	2,918	86	567	17
Total	\$8,013	\$237	\$3,058	\$90

Name	As of and for the nine-month period ended September 30, 2004			
	Direct written premiums		Premiums receivable	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay General Hospital	\$4,606	\$137	\$2,370	\$70
Others	4,195	124	1,234	36
Total	\$8,801	\$261	\$3,604	\$106

L. Reinsurance income

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Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$51,929	\$1,537	\$57,830	\$1,701

Cathay Insurance (Bermuda) Co., Ltd. started its reinsurance business on April 1, 2000 by assuming damage reinsurance policies from Reinsurance Group of America Incorporated and Central Reinsurance Corporation. Cathay Insurance (Bermuda) Co., Ltd. subsequently retroceded 90% of such policies to Cathay Life.

M. Handling fee Income

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Futures Co., Ltd.	\$2,258	\$67	\$2,146	\$63

N. Feature commission revenue

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Futures Co., Ltd.	\$-	\$-	\$367	\$11

O. Reinsurance claims payment

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$29,528	\$874	\$8,397	\$247

P. Reinsurance commissions expense

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$12,503	\$370	\$10,681	\$314

Q. Commissions expense

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Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life Insurance Agent Co., Ltd.	\$108,364	\$3,208	\$207,334	\$6,100

R. Reinsurance handing fee expense

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$4,527	\$134	\$5,530	\$163

S. Miscellaneous income

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$4,985	\$147
Cathay Futures Co., Ltd.	-	-	199	6
Total	\$-	\$-	\$5,184	\$153

(1) The miscellaneous income was commission and cross-selling income received by Cathay Life for fire and earthquake insurance bundled with loans to customers.

T. Credit card processing charges

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Seaward Card Co., Ltd.	\$242,458	\$7,178	\$515,353	\$15,162

U. Repair expense

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

V. Benefits expense

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Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	\$-	\$-	\$167	\$5

W. Other expense

Name	For the nine-month periods ended September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Lin Yuan Property Management Co., Ltd.	\$542,787	\$16,069	\$552,676	\$16,260
Cathay Real Estate Development Co., Ltd.	14,725	436	6,058	178
Cathay Securities Investment Co., Ltd.	25,000	740	39,375	1,159
San Ching Engineering Co., Ltd.	-	-	4,500	132
Symphox Information Co., Ltd.	291,565	8,631	195,903	5,764
Total	<u>\$874,077</u>	<u>\$25,876</u>	<u>\$798,512</u>	<u>\$23,493</u>

21. Pledged assets

A. Cathay Life

Item	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Long-term investment in bonds	\$7,951,632	\$235,395	\$7,936,557	\$233,497
Time deposits	1,013,750	30,010	303,350	8,925
Total	<u>\$8,965,382</u>	<u>\$265,405</u>	<u>\$8,239,907</u>	<u>\$242,422</u>

As of September 30, 2003 and 2004, Cathay Life provided time deposits as guarantees for the return of the deposits received from its real estate lessees. In addition, these time deposits serve as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Law, Cathay Life is required to deposit long-term investment in bonds equal to 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)

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(a) NT\$14,375,164 (US\$425,553) and NT\$16,127,907 (US\$474,490) of the securities purchased on September 30, 2003 and 2004, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(b) Long-term investments-government bond of NT\$144,746 (US\$4,258) on September 30, 2004, were pledged to other parties as collateral for business reserves and guarantees.

C. Cathay Century

Item	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Securities serving as deposits paid-government bonds	\$361,523	\$10,702	\$356,594	\$10,491

According to Article 141 of the Insurance Law, Cathay Century must deposit government bonds, an amount equal to 15% of its stockholders' equity with the Central Bank as a capital guarantee deposit.

The pledged assets are recorded at their net carrying values.

D. Cathay Securities

Item	September 30, 2004	
	(NT\$)	(US\$)
Restricted assets-time deposit	\$500,000	\$14,710

As of September 30, 2004, Cathay Securities pledged its time deposit to Cathay United Bank (merged) as collateral for the over-loaning of settlement accounts.

The restricted assets-time deposit is disclosed at its net carrying value.

E. Former Cathay United Bank

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The operating deposits of Former Cathay Bank, composed of cash, time deposits and bonds stated at cost adjusted for amortization of premium or discount, were as follows:

Item	September 30, 2003	
	(NT\$)	(US\$)
Cash	\$194,753	\$5,766
Government bonds and financial debentures	1,022,525	30,270
Time deposits (issued by the Central Bank) and negotiable certificates of deposit	3,650,000	108,052
Time deposits due from banks	-	-
Total	\$4,867,278	\$144,088

22. Other important matters and contingent liabilities

(1) Cathay United Bank (merged)

As of September 30, 2004, Cathay United Bank (merged) had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	(NT\$)	(US\$)
A. Entrusted items and guarantees:		
Trust and security held for safe keeping	\$591,792,536	\$17,410,784
Travelers checks for sale	677,083	19,920
Bills for collection	61,643,714	1,813,584
Guarantees on duties and contracts	16,694,716	491,166
Unused commercial letters of credit	5,280,340	155,350
Stamp tax, securities and memorial currency consignments	1,997	59
Loan commitments	20,186,154	593,885
Credit card lines	253,783,202	7,466,408

B. As of September 30, 2004, Cathay United Bank (merged) had various pending lawsuits, claims and proceedings. The most significant ones are described below:

a. In 1997, Cathy United Bank (merged), as requested by Polaris International

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Securities Investment Trust Co., Ltd., issued a check payable to Chung Shing Bank in an amount of NT\$600,000 (US\$17,652) for the purchase of its certificate of time deposits. Chung Shing Bank honored the check and the certificate was later found to be forged by Mr. Chung-For Su. Cathay United Bank (merged) has filed a suit later against Chung Shing Bank, seeking the return of the unjustified benefit. Cathay United Bank (merged) obtained a judgment rendered by Taiwan High Court in favor of Chung Shing Bank and has appealed against such decision. This case is currently pending in the Taiwan Supreme Court.

- b. In 1996, several clients of Cathay United Bank (merged) filed a lawsuit against Cathay United Bank (merged), claiming restitution in the amount of NT\$24,000 (US\$706) for thievery of their properties stored in a safe at Chung-Li Branch. The higher court has held Cathay United Bank (merged) responsible for making restitution. However, Cathay United Bank (merged) has filed an appeal and the higher court is processing the appeal. Cathay United Bank (merged) also has filed an insurance claim against Taiwan Secom Co., Ltd. related to the loss mentioned above.
 - c. In 2001, embezzlement and illegal acts in the amount of NT\$60,204 (US\$1,771) and NT\$17,900 (US\$527), respectively, were made by Cathay United Bank (merged) employees. Cathay United Bank (merged) has filed a motion of injunction against the employees' personal properties.
 - d. On January 1, 2004, Pacific SOGO Department store ("SOGO") issued its own SOGO membership card, which SOGO believes constitutes a breach of its co-branded card contract with Cathay United Bank (merged). Cathay United Bank (merged) has filed a motion of injunction against certain of SOGO's properties and the issuance of its own membership card.
- C. As of September 30, 2004, Cathay United Bank (merged) had entered into certain contracts to purchase premises and equipment totaling NT\$966,985 (US\$28,449) with prepayments of NT\$796,458 (US\$23,432).

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

B. As of September 30, 2004, Cathay Century had signed several significant rental contracts, and based on which, we estimate that the rents for the following 5 years are as below:

Period	Amount	
	(NT\$)	(US\$)
October 01, 2004 ~ September 30, 2005	\$56,194	\$1,653
October 01, 2005 ~ September 30, 2006	57,718	1,698
October 01, 2006 ~ September 30, 2007	59,405	1,748
October 01, 2007 ~ September 30, 2008	61,142	1,799
October 01, 2008 ~ September 30, 2009	62,931	1,851
Total	\$297,390	\$8,749

(3) Cathay Securities

Cathay Securities has several operating lease agreements that have terms ranging from one to five years.

Period	Amount	
	(NT\$)	(US\$)
October 01, 2004 ~ September 30, 2005	\$24,073	\$708
October 01, 2005 ~ September 30, 2006	23,463	690
October 01, 2006 ~ September 30, 2007	21,416	630
October 01, 2007 ~ September 30, 2008	9,438	278
October 01, 2008 ~ September 30, 2009	7,865	232
Total	\$86,255	\$2,538

(4) Former Cathay United Bank

As of September 30, 2003, Former Cathay United Bank had the following commitments and contingent liabilities:

A. Guarantees on commercial paper issued for customers and loans secured by other

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banks amounted to NT\$5,200,796 (US\$153,961). The reserve for guarantees amounted to NT\$10,000 (US\$296) and was determined by evaluating the potential losses of total outstanding guarantees issued.

- B. Unused commercial letters of credit which were issued for customers amounted to NT\$392,782 (US\$11,628).
- C. Former Cathay United Bank entered into contract for significant equipment renovation, purchase and maintenance of computer hardware and software due to operating requirements. As of September 30, 2003, the contracts for equipment renovation and computer purchase delivered but not yet tested, and for maintenance services provided already, amounted to NT\$118,031(US\$3,494).
- D. Total repurchase prices of bonds and bills sold under repurchase agreements amounted to NT\$8,896,072 (US\$263,353).
- E. Former Cathay United Bank entered into certain operating leases for its branch premises and equipment (including leasing office premises from related parties). As of September 30, 2003, the related refundable deposits amounted to NT\$60,255 (US\$1,784). The estimated future lease payments under the lease contracts were as follows:

Period	Amount	
	(NT\$)	(US\$)
October 01, 2003 ~ September 30, 2004	\$221,643	\$6,562
October 01, 2004 ~ September 30, 2005	121,673	3,602
October 01, 2005 ~ September 30, 2006	88,204	2,611
October 01, 2006 ~ September 30, 2007	82,191	2,433
October 01, 2007 ~ September 30, 2008	91,375	2,705
Total	\$605,086	\$17,913

F. Trust fund assets/liabilities

Cathay United Bank is permitted, under the ROC Trust Law, to engage in trust operations. As of September 30, 2003, the trust fund assets amounted to NT\$25,293,104 (US\$748,760).

(5) Cathay Pacific Venture Capital Corp.

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Under a contract effective until 2010, Cathay Pacific Partners Co., Ltd. (CPP) manages Cathay Pacific Venture Capital's investment activities. For its services, CPP receives a management fee at the following percentage of the average par value of Cathay Pacific Venture Capital's issued stock each year: 2.5% from the first to the fourth years and 2% from the fifth to the seventh years. CPP also receives a performance bonus of 20% of the net capital gain (as defined in the contract) each year. Management fees were \$7,500 (US\$221) for the nine-month period September 23, 2002 to September 30, 2003 and \$11,250 (US\$331) for the period January 1, 2004 to September 30, 2004.

23. Serious damages: None.

24. Subsequent events: None.

25. Other important events

(1) Pension related information

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

(2) Derivative financial instruments related information

A. The Company

a. Credit and market price risk

The Company has entered into certain derivative transactions with financial institutions with high credit ratings to manage exposures related to interest rates and foreign currencies. Management believes its exposure related to the potential default by those counterparties is low. In addition, gains or losses from forward foreign 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, there is no material fund raising risk or cash flow risk associated with these instruments.

c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on

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the expiration date of a forward contract, no demand for substantial cash flow is expected in connection with such transactions.

d. Interest rate swaps (IRS)

(a) IRS transactions may involve the exchange of fixed-rate interest payments for a market floating-rate interest payment obligation based on a notional principal amount. For IRS transactions undertaken for hedging purposes, income and expenses that arise upon settlement are netted off and recognized in the statement of income.

(b) As of September 30, 2004, the maturity dates of IRS ranged from May 20, 2002 to May 20, 2007.

As of September 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

As of September 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

e. Foreign currency options

The Company uses foreign currency option contracts to manage currency exposures.

As of September 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

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a. Purpose

As of September 30, 2004, Cathay Life held the following derivative financial instruments: futures contracts, forward foreign exchange contracts and IRS. Futures contracts are entered into to hedge against risks of stock price fluctuations; forward contracts are entered into to hedge against risks of foreign currency and exchange rate fluctuations; IRS contracts are entered into to hedge against risk of interest rate fluctuations. None of them was for trading purposes.

b. Credit and market risks

The counterparties for all of Cathay Life's futures contracts, forward foreign exchange contracts, and IRS are international financial organizations with a superior credit ratings. In addition, Cathay Life worked with several other financial institutions to diversify its risks. Cathay Life believes that the possibility of a breach of contract was quite low. Moreover, if there is a breach, Cathay Life believes that it would not encounter major loss due to the nature of the investments. Further, Cathay Life was exposed to various exchange rate risks but the possible loss can be balanced out by gain/loss from hedging transactions.

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 in connection with such transactions.

d. Futures

Item	Transaction type	Lot	September 30, 2003			
			Contract amount		Net gain (loss) of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan weighted stock index futures	Selling out	150	\$169,230	\$5,010	\$3,455	\$102
			September 30, 2004			
			Contract amount		Net gain (loss) of fair value estimated	

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Item	Transaction type	Lot	September 30, 2003		September 30, 2004	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas stock futures	Selling out	3,086	\$7,812,121	\$229,836	\$98,019	\$2,884
Overseas bonds futures	Selling out	6,550	24,618,584	724,289	(135,787)	(3,995)

e. Forward and CCS contracts

- (a) Receivables and payables resulting from forward foreign exchange contracts are offset against each other. The differences between receivables and payables are recorded as assets or liabilities.
- (b) As of September 30, 2003 and 2004, Cathay Life had forward foreign exchange contracts of approximately US\$9,235,800 and US\$13,780,800, respectively, in notional value.

The forward foreign exchange contracts as of September 30, 2003 are due between October 1, 2003 and December 2, 2004. In addition, the forward foreign exchange contracts as of September 30, 2004 were due between October 1, 2004 and October 25, 2005.

		September 30, 2003			
Item	Contract amount	Fair value		Due value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$11,274,800	\$382,423,730	\$11,321,010	\$388,168,512	\$11,491,075

		September 30, 2004			
Item	Contract amount	Fair value		Due value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$14,830,800	\$503,479,509	\$14,812,577	\$500,548,772	\$14,726,354

The above-mentioned forward foreign exchange contracts hedge against risks associated with exchange rate fluctuations for the following short-term

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investments.

Net assets	September 30,	
	2003	2004
Short-term investment	US\$11,274,800	US\$14,830,800

Losses on the forward foreign exchange and currency swap contracts were NT\$713,846 (US\$21,132) and NT\$1,150,878 (US\$33,859), respectively, for the nine-month periods ended September 30, 2003 and 2004.

f. Interest rate swap agreement (IRS)

The IRS agreements of Cathay Life as of September 30, 2004 are set forth below:

Category	Currency	Period	Amount	
			(NT\$)	(US\$)
IRS	NTD	2002.09.13~2014.05.12	\$50,384,212	\$1,482,325

g. Option

No option transactions were outstanding on September 30, 2003.

Item	Transaction type	Lot	September 30, 2004			
			Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan weighted stock index futures	Call Option	35,129	\$157,803	\$4,643	\$(77,538)	\$(2,281)

C. Cathay United Bank (merged)

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

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

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Derivative financial instruments	Contract (nominal) amount	Credit risk	Fair value
For the purpose of hedging customers' needs or hedging Cathay United Bank's (merged) exposures			
Forward foreign exchange contracts	\$1,302,603	\$14,541	\$1,257
Forward rate agreements	50,000	-	(2)
For non-trading purpose			
Interest rate swap contracts	645,848	4,771	11,558
Cross-currency swap contracts	17,995	188	92
	September 30, 2004		
Derivative financial instruments	Contract (nominal) amount	Credit risk	Fair value
For the purpose of hedging customers' needs or hedging Cathay United Bank's (merged) exposures			
Forward foreign exchange contracts	\$2,382,810	\$199,961	\$(3,812)
For trading purpose			
Interest rate swap contracts	314,320	4,384	(10)
Option contracts	90,247	1,797	706
Futures	294	-	(1)
For non-trading purpose			
Interest rate swap contracts	952,991	7,858	25,846
Cross-currency swap contracts	577,707	9,935	7,866
Option contracts	370	-	(52)

Credit risk is the possibility of loss if a counterparty fails to perform its contractual obligations under the terms of a derivative financial instrument, and credit risks for different counterparties cannot be netted. The above amount of credit risk represents losses which Cathay United Bank (merged) would suffer if counterparties failed to perform according to the terms of the contract after the effects of master netting agreements.

Forward foreign exchange contracts are agreements to exchange designated currencies at a specified date at a predetermined price. Cathay United Bank's (merged) clients enter into forward foreign exchange contracts with Cathay United

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Bank (merged) to hedge their trading currency exposure. All clients are required to have approved credit limits in place prior to entering into such transactions. The limit approval process is similar to policies and procedures used for lending activities to ensure that exposure to all clients is properly monitored and controlled. Certain clients are required to provide collateral, generally cash, before entering into these transactions. Such collateral is deemed necessary over the life of the contract to reduce Cathay United Bank's (merged) overall credit exposure.

As of September 30, 2004, the maturities of Cathay United Bank's (merged) outstanding interest rate swaps ranged from seven months to seven years and ten months. Those interest rate swap contracts are agreements between two parties to exchange periodic interest payments, usually fixed versus floating, based on a notional principal amount. Some of them are Euro convertible bond related asset swaps.

As of September 30, 2004, Cathay United Bank's (merged) outstanding cross-currency swaps had remaining maturities from one year and seven months to six years and ten months. Cross-currency swaps 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 the exchange rate risk and interest rate risk resulting from Cathay United Bank's (merged) foreign currency securities investment and foreign currency liquidity gap. Since the swap contracts are entered into with major international financial institutions with pre-approved credit limits based on each financial institution's world ranking and credit rating Cathay United Bank (merged) believes that risks associated with these swap contracts are limited.

All the option transactions are entered for match Cathay United Bank's (merged) structured deposit business or to meet customers' commercial needs. The counterparties of option transactions are either Cathay United Bank's (merged) depositors or major international financial institutions. Due to the fact that the options are linked to clients' deposits, the paid premiums are supported by interest revenue from their own deposits with Cathay United Bank (merged). Consequently, the credit risks are considered very limited.

Forward rate transactions are for the purposes of hedging risks derived from transactions with customers or hedging the Cathay United Bank's (merged) exposures. The forward rate contracts are made with major international financial

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institutions under pre-approved credit limits that are based on each financial institution's worldwide ranking and credit rating. In addition, the settlement amount of forward rate contracts is the present value of interest differences between market rate and contract rate. Therefore, the credit risks associated with forward rate contracts are limited.

b. Market risk

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

Items	September 30,	
	2003	2004
Interest rate risk exposures	\$77,465	\$415,986
Foreign exchange risk exposures	422,438	363,700

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

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

Forward foreign exchange contracts, which are entered into by Cathay United Bank (merged) with customers' are not very liquid. However, since Cathay United Bank (merged) provides these financial instruments to its customers as hedging instruments, which requires customers to provide supporting documents for underlying transactions, and both parties will commit to the terms of contracts, the liquidity risk of forward foreign exchange contracts could be immaterial. Cathay United Bank (merged) also manages the forward rate risk through the interbank market. The liquidity risk of this type of transaction is very low because interbank forward market are very liquid. Liquidity risk of interest rate swap contracts and cross-currency swap contracts are considered limited because most of the counterparties hold the contracts to maturities. The use of derivative financial instruments by Cathay United Bank (merged) was mainly driven by customer's demands as well as Cathay United Bank's (merged) funding or hedging investment purposes, and therefore they did not involve high leverage transactions.

As for the asset-backed swap contracts, the cash flow is determined by the difference between the fixed rate of the underlying bonds and floating rate index. As a result, there is no additional significant cash flow demand.

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- d. The policies for disclosing gains or losses of derivative financial instruments on financial statements are summarized below:

When Cathay United Bank (merged) enters into foreign exchange forward contracts for trading purposes, it 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 its statement 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 its statement of income. In addition, for financial presentation purposes, balances of these receivables and payables are netted.

IRS, which does not involve exchanges of the notional principal, is not recognized as either assets and/or liabilities on the contract dates. For IRS transactions undertaken for trading purposes, the interest received or paid at each settlement date is recognized as gain or loss, and 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, and 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. These transactions may involve the exchange of fixed-rate interest payments for market floating-rate interest payments 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 options purchased or sold are recorded as assets or liabilities. As of the balance sheet date, each option is marked-to-market and the resulting gains and losses are recognized. Gains and losses on the exercise of options are recognized in the statement of income.

Only memorandum entries of notional principal amounts 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

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gains or losses. For non-trading FRA, interest receivables or payables accrue at 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 purposes 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 have been realized.

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

Account	For the nine-month periods ended September 30,	
	2003	2004
<u>For trading purpose</u>		
Forward foreign exchange contracts		
-Realized	Interest revenue	\$4,587
		\$7,342
-Unrealized	Interest expense	1,670
		5,465
Interest rate swap contracts		
-Realized	Gain (loss) of derivative financial instruments	-
		685
-Unrealized	"	-
		31
Option contracts		
-Realized	"	9
		397
-Unrealized	"	-
		13
Forward rate agreements		
-Realized	"	(24)
		-
Futures contracts		
-Realized	"	-
		153
-Unrealized	"	-
		(1)
<u>For non-trading purpose</u>		
Interest rate swap contracts		
-Realized	Interest revenue	15,207
		21,074
-Realized	Interest expense	3,517
		7,897
Cross-currency swap contracts		
-Realized	Interest revenue	1,365
		8,145
-Realized	Interest expense	446
		4,343

e. Off-balance sheet credit risk

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Cathay United Bank (merged) enters into certain transactions with customers to repurchase or resell securities or short-term notes for business purpose from time to time. Cathay United Bank (merged) also provides various types of loans and credit card services. The terms for the related loans vary with the credit status of the borrowers. The interest rate for credit card loans was 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 is in the table below:

Item	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Securities purchase under agreements to resell	\$3,029,856	\$89,694	\$(Note)	\$(Note)
Securities sold under agreements to repurchase	19,358,623	573,079	-(Note)	-(Note)
Loan commitments	19,353,121	572,917	20,186,154	593,885
Credit card lines	41,237,566	1,220,769	253,783,202	7,466,408
Guaranty and Commercial letters of credit	14,737,726	436,286	21,975,056	646,515

Note: Cathay United Bank (merged) has adopted the law to account for its bills transactions relating to resell and repurchase agreements 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 demand. 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 the terms of the contract.

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 liquidate 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 Century

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a. Purpose

As of September 30, 2004, Cathay Century held forward foreign exchange contracts to hedge against risks of foreign currency and net assets exchange rate fluctuations.

b. Credit and market risk

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

c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward contracts, no demand for substantial cash flow is expected in connection with such transactions.

d. Forward foreign exchange contracts

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

Item	September 30,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Forward exchange contracts receivable	\$1,844,895	\$54,615	\$2,384,052	\$70,140
Discount on forward exchange contracts	7,282	216	4,783	141
Payables on forward exchange purchased	(1,824,120)	(54,000)	(2,412,864)	(70,988)
Net-other receivable (Payable)	\$28,057	\$831	\$(24,029)	\$(707)

(b) As of September 30, 2003 and 2004, Cathay Century has forward exchange

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contracts of approximately US\$54,000 and US\$71,000, respectively, in notional value. The forward foreign exchange contracts as of September 30, 2003 were due between December 18, 2003 and August 25, 2004. In addition, the forward contracts as of September 30, 2004 were due between October 14, 2004 and May 26, 2005.

		September 30, 2003			
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>USD\$54,000</u>	<u>\$1,824,120</u>	<u>\$54,000</u>	<u>\$1,844,895</u>	<u>\$54,615</u>

		September 30, 2004			
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>USD\$71,000</u>	<u>\$2,412,864</u>	<u>\$70,988</u>	<u>\$2,384,052</u>	<u>\$70,140</u>

The above-mentioned forward foreign exchange contracts hedge against risks associated with net assets exchange rate fluctuations for the following long-term investments in bonds.

Net assets	September 30,	
	2003	2004
Long-term investments in bonds	<u>USD\$54,000</u>	<u>USD\$71,000</u>

E. Former Cathay United Bank

a. Forward foreign exchange and swap contracts

Former Cathay United Bank entered into forward foreign exchange contracts and swap contracts for the purpose of hedging foreign exchange risk. The forward foreign exchange contracts and swap contracts were recorded at acquisition cost and valued at the spot currency rate on the balance sheet date. As of September 30, 2003, receivables and payables resulting from forward foreign exchange contracts and swap contracts, which were recorded at the net receivable amount, amounted to NT\$6,101 (US\$181). As of September 30, 2003, the unsettled balance of forward foreign exchange contracts and swap contracts amounted to US\$40,030, JPD440,000, EUR 2,000 and HKD3,500 with maturity dates ranging from October 1, to December 29, 2003.

Credit risk arises when the transaction counterparties breach the contracts. When

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derivative financial instruments are profitable, credit risk increases. To lower credit risk effectively, former Cathay United Bank took the same policy as for loans, primarily by setting credit limits and limiting its selection of counterparties to those with high credit ratings. Because the counterparties of forward foreign exchange contracts are international banking institutions with high credit ratings, the possibility of default on the contractual obligations were considered low.

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

Liquidity risk arises when the contract cannot be cleared in the anticipated time period. Former Cathay United Bank monitored 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 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

Former Cathay United Bank engaged in option transactions to enable it to engage in the new business of combined foreign currency deposits. Depositors included savings deposit clients and internationally recognized banks, which had to qualify under the risk management assessment of former Cathay United Bank. The deposit clients were those who deposited their principal in former Cathay United Bank and used the interest earned to buy the options. Therefore, the credit risk was considered very low. In order to eliminate the potential market risk, former Cathay United Bank bought opposite options at the same time the clients bought their options.

c. As of September 30, 2003, the nominal principal and fair value of derivative

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contracts which had not matured were as follows:

	September 30, 2003			
	Nominal principal		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
For trading purposes				
Foreign exchange forward and swap contracts	\$4,780,836	\$141,529	\$6,456	\$191
Foreign exchange forward contracts	223,397	6,613	443	13

(3) Non-derivative financial instruments related information

A. The Company

Item	September 30, 2003			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$3,614,555	\$3,614,555	\$107,003	\$107,003
Short-term investments	4,917	4,917	146	146
Receivables	4,747,057	4,747,057	140,529	140,529
Long-term investments in stocks	153,181,275	153,603,945	4,534,674	4,547,186
Deferred charges	272,449	272,449	8,065	8,065
Liabilities				
Payables	642,813	642,813	19,029	19,029
Bond payable	24,775,924	24,775,924	733,449	733,449

Item	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$353,349	\$353,349	\$10,396	\$10,396
Receivables	4,674,496	4,674,496	137,526	137,526
Long-term investment in stocks	174,692,729	175,240,041	5,139,533	5,155,635
Deferred charges	108,980	108,980	3,206	3,206
Liabilities				
Payables	759,343	759,343	22,340	22,340
Bond payable	25,777,355	25,777,355	758,381	758,381

Methods and assumptions for estimating the fair value of non-derivative financial

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instruments are as follows:

- a. Short-term financial instruments are stated at carrying amount on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents and receivables.
- b. If short-term investments and long-term investment in stocks have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on other financial information or their carrying amount on the balance sheet date.

B. Cathay Life

Except for the items listed in the following table, the carrying amounts of non-derivative financial instruments as of September 30, 2003 and 2004 were the same as their estimated fair values:

Item	September 30, 2003			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Short-term				
Investment	\$326,942,272	\$333,696,751	\$9,678,575	\$9,878,530
Long-term				
Investment-cost method	43,694,632	44,960,115	1,293,506	1,330,968
Item	September 30, 2004			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Short-term				
Investment	\$366,133,359	\$372,592,573	\$10,771,796	\$10,961,829
Long-term				
Investment-cost method	10,161,968	10,161,968	298,969	298,969

C. Cathay United Bank (merged)

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a. Fair value of the non-derivative financial instruments

As of September, 30 2003 and 2004, except as shown in the table below, the carrying amounts of financial assets and liabilities reported on the balance sheets were approximately equal to their carrying values:

Financial Assets	September, 30							
	2003				2004			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Securities purchased	\$159,732,321	\$4,728,606	\$160,556,102	\$4,752,993	\$185,864,690	\$5,468,217	\$185,975,328	\$5,471,472
Long-term Investments	11,983,504	354,751	12,069,845	357,307	39,702,953	1,168,077	39,729,141	1,168,848

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

b. Others

(a) Information on concentrations of credit risk

Concentrations of credit risk exist when the counterparties to financial instrument transactions are either concentrated in certain individuals or group of individuals 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) to concentration risk. However, Cathay United Bank (merged) is likely to be exposed to industry concentration risk. Cathay United Bank's (merged) information on concentration of credit risk is as follows:

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	2003		2004	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$396,379,472	\$11,734,147	\$539,642,267	\$15,876,501
South East Asia	9,409,948	278,566	12,682,716	373,131
North East Asia	516,427	15,288	252,133	7,418
North America	6,322,975	187,181	8,911,243	262,172
Others	3,756,754	111,212	10,331,077	303,945
Total	<u>\$416,385,576</u>	<u>\$12,326,394</u>	<u>\$571,819,436</u>	<u>\$16,823,167</u>
Industry type				
Manufacturing	\$50,518,626	\$1,495,519	\$72,089,905	\$2,120,915
Financial institutions and insurance	25,996,870	769,594	31,623,145	930,366
Leasing and real estate	65,602,629	1,942,055	65,892,910	1,938,597
Individuals	180,048,395	5,330,030	285,060,153	8,386,589
Others	94,219,056	2,789,196	117,153,323	3,446,700
Total	<u>\$416,385,576</u>	<u>\$12,326,394</u>	<u>\$571,819,436</u>	<u>\$16,823,167</u>

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

D. Cathay Century

Item	September 30, 2003			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$3,330,264	\$3,330,264	\$98,587	\$98,587
Short-term investments	1,915,123	2,038,891	56,694	60,358
Receivables	752,886	752,886	22,288	22,288
Claims recoverable from reinsurers	255,635	255,635	7,568	7,568
Due from reinsurers and ceding companies	55,836	55,836	1,653	1,653
Secured loans	870,310	870,310	25,764	25,764
Long-term investments in stocks	459,292	459,292	13,597	13,597
Guarantee deposits paid	16,525	16,525	489	489
Securities serving as deposits paid-bonds	361,523	361,523	10,702	10,702

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Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
September 30, 2004				
Item	NT\$		US\$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$3,663,098	\$3,663,098	\$107,770	\$107,770
Short-term investments	1,995,735	2,028,381	58,715	59,676
Receivables	984,452	984,452	28,963	28,963
Claims recoverable from reinsurers	277,624	277,624	8,168	8,168
Due from reinsurers and ceding companies	59,462	59,462	1,749	1,749
Secured loans	823,217	823,217	24,219	24,219
Long-term investments in stocks	319,140	321,216	9,389	9,450
Guarantee deposits paid	16,801	16,801	494	494
Securities serving as deposits paid-bonds	356,594	356,594	10,491	10,491
Liabilities				
Claims outstanding	1,496	1,496	44	44
Due to reinsurers and ceding companies	153,807	153,807	4,525	4,525
Reserve for operations and liabilities	7,055,500	7,055,500	207,576	207,576

Methods and assumptions for estimating the fair value of non-derivative financial instruments are as follows:

- a. Short-term financial instruments are stated at the carrying amounts on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents, receivables, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding and reserve for operations and liabilities.
- b. Guarantee deposits paid and the amounts expected to be received from securities serving as guarantee deposits are closed to the book value; accordingly their fair values are equal to their book values.
- c. If short-term investments and long-term investments in stocks have a market value, that will be their fair value. If there is no market value, their fair value

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will be estimated based on other financial information or their carrying amount on the balance sheet date.

E. Cathay Securities

Item	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$1,706,470	\$1,706,470	\$50,205	\$50,205
Short-term investments	734,000	734,140	21,595	21,599
Bonds purchased under agreements to resell	70,000	70,000	2,059	2,059
Operating securities-net	24,467	24,467	720	720
Receivable amount for margin loans	282,151	282,151	8,301	8,301
Securities refinancing margin deposits	715	715	21	21
Receivables	9,336	9,336	275	275
Restricted assets	500,000	500,000	14,710	14,710
Long-term investment in stock	18	18	1	1
Operating deposits	150,098	150,098	4,416	4,416
Settlement and clearance funds	64,000	64,000	1,883	1,883
Refundable deposits	8,839	8,839	260	260
Liabilities				
Bonds sold under agreements to repurchase	70,000	70,000	2,059	2,059
Financing securities guaranty deposits	9,314	9,314	274	274
Financing securities guaranteed proceeds payable	10,298	10,298	303	303
Payables	11,890	11,890	350	350

Methods and assumptions for estimating the fair value of non-derivative financial instruments are as follows:

- a. Short-term financial instruments are stated at their book value on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their book values are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents, bonds purchased under agreements to resell, receivable amount for margin loans, securities refinancing margin deposits, receivables, restricted asset, operating deposits, settlement and clearance funds, refundable deposits, bonds sold under agreements to repurchase, financing securities guaranty deposits, financing securities guaranteed proceeds payable, and payables.
- b. The fair value of marketable securities is estimated based on the market price if

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available. Otherwise, the book value is used to estimate the fair value.

- c. The fair value of long-term equity investments is estimated based on the market value if available. If the long-term equity investment of Cathay Securities is not traded on the open market, the book value is used to estimate the fair value.

F. Former Cathay United Bank

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

The book values and the estimated fair values of former Cathay United Bank's financial instruments were as follows:

	September 30, 2003			
	Carrying amount		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets:				
Cash and due from banks	\$14,741,141	\$436,387	\$14,741,141	\$436,387
Due from Central Bank	10,960,044	324,454	10,960,044	324,454
Bills and securities purchased, net	3,592,004	106,335	3,592,004	106,335
Receivables	27,888,193	825,583	27,888,193	825,583
Loans and exchange bills				
negotiated and discounted	119,020,093	3,523,389	119,020,093	3,523,389
Long-term investment	15,211,090	450,299	15,056,024	445,708
Other assets	8,386,615	248,272	8,344,952	247,038
Financial liabilities:				
Due to banks	3,596,392	106,465	3,596,392	106,465
Accrued expenses	6,393,931	189,282	6,393,931	189,282
Deposits and remittances payable	177,502,987	5,254,677	177,502,987	5,254,677
Financial debentures	2,350,000	69,568	2,350,000	69,568
Other liabilities	171,232	5,069	171,232	5,069
Off-balance sheet financial instruments:				
Guarantees on loans and letters of credit	-	-	5,200,796	153,961

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

- (a) 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

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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.

- (b) 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.
 - (c) Loans and exchange bills negotiated and discounted, due to banks, deposits are the interest-bearing financial assets and liabilities, and their face value approximates fair value.
 - (d) 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, former Cathay United Bank held large credit commitments. During the nine-month period ended September 30, 2003, according to the different types of loans, the interest rates on loans ranged from 2.01% to 13.32%. The maximum credit card interest rate at the reporting date was 19.89%. Former Cathay United Bank also provided guarantees and letters of credit to guarantee customers' performance of obligations to third parties. These agreements generally extended for up to one year. Expirations were not concentrated in any particular period.

The net total amount under the contracts was paid by former Cathay United Bank when due, and accordingly; the total contractual amounts did not represent future cash payments.

Former Cathay United Bank's policy was to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit were also subject to strict credit assessments before being provided. As of September 30, 2003, the ratio of secured loans to total loans (excluding credit card operations) was 76.57%, respectively, and the extent of collateral held for guarantees and letters of credit was 42.49%. Collateral for loans, guarantees, and letters of credit was usually in the form of time deposits, marketable securities, real estate, or other property. When customers were in default, former Cathay United Bank could forcibly execute on its related collateral or security rights.

Credit card commitments were unsecured. Periodic reviews of cardholders' credit status were performed to adjust card limits if necessary.

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Former Cathay United Bank required strict credit assessment in the investment in credit-linked notes and U.S. dollar interest rate-linked notes. The criteria on the investment objectives were based on the guidelines of the MOF. The assessment was based on having financial institutions with sound finances and good reputations, or the financial instruments ranking “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 financial instruments were all above these grades, and no material credit risk existed during the nine-month period ended September 30, 2003. Former Cathay United Bank periodically assessed the credit and financial position of the issuers and the financial instruments. When credit risks arose, former Cathay United Bank would take necessary action, or dispose of its investments.

c. Information on concentrations of credit risk

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. Former Cathay United Bank did not have material concentrations of credit risk with respect to any individual customer or counterparty but was 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 former Cathay United Bank’s loan balance by industry is as follows:

	September 30, 2003	
	(NT\$)	(US\$)
Manufacturing	\$14,763,124	\$437,038
Real estate and lease	13,619,031	403,168
Others (less than 10% of loans)	91,437,368	2,706,849
	\$119,819,523	\$3,547,055

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.

(4) Discretionary account management

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A. Cathay Life

Item	September 30, 2003			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$1,068,292	\$31,625	\$1,055,747	\$31,254
Repurchase bonds	5,591,046	165,514	5,592,124	165,545
Convertible bonds	543,464	16,088	578,541	17,127
Governmental bonds	1,185,010	35,080	1,180,976	34,961
Cash in bank	205,480	6,083	205,480	6,083
Net other assets less liabilities	(8,576)	(254)	(8,576)	(254)
Total	<u>\$8,584,716</u>	<u>\$254,136</u>	<u>\$8,604,292</u>	<u>\$254,716</u>

Item	September 30, 2004			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$2,039,631	\$60,007	\$2,055,522	\$60,474
Repurchase bonds	2,253,090	66,287	2,253,613	66,302
Convertible bonds	737,656	21,702	713,528	20,992
Governmental bonds	5,375,992	158,164	5,381,432	158,324
Cash in bank	439,620	12,934	439,620	12,934
Net other assets less liabilities	(22,009)	(648)	(22,009)	(647)
Total	<u>\$10,823,980</u>	<u>\$318,446</u>	<u>\$10,821,706</u>	<u>\$318,379</u>

As of September 30, 2003 and 2004, the securities investment and trust company had recorded that Cathay Life had discretionary account management contracts in the amount of NT\$7,800,000 (US\$230,906) and NT\$10,050,000 (US\$295,675), respectively.

B. Cathay Century

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Item	September 30, 2003			
	Carrying Value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$11,738	\$347	\$11,953	\$354
Cash in bank	38,156	1,130	38,156	1,130
Net other assets less liabilities	(52)	(2)	(52)	(2)
Total	<u>\$49,842</u>	<u>\$1,475</u>	<u>\$50,057</u>	<u>\$1,482</u>

Item	September 30, 2004			
	Carrying Value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$84,513	\$2,486	\$85,423	\$2,513
Cash in bank	56,483	1,662	56,483	1,662
Net other assets less liabilities	8,298	244	8,298	244
Total	<u>\$149,294</u>	<u>\$4,392</u>	<u>\$150,204</u>	<u>\$4,419</u>

As of September 30, 2003 and 2004, Cathay Century had discretionary account management contracts in the amount of NT\$50,000 (US\$1,480) and NT\$150,000 (US\$4,413), respectively.

(5) Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd.

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The notes do not bear interest except in the limited circumstances.

Conversion rights:

Subject to certain conditions, each holder of the notes (the "Holder") has 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.

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 the

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Company 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. The redemption premium is the amount payable at the issue price on the original issue date, plus a compound yield rate of 2.75% per annum (computed on a semi-annual note equivalent basis).

Repurchase in the event of delisting:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Company's 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 the Company 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 the Company 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 the Company:

The notes may be redeemed at the option of the Company, 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 for the notes) and (b) the applicable redemption date does not fall within a closed period. Notwithstanding the foregoing, the Company may redeem, in whole but not in part, the notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that the applicable redemption date does not fall within a closed period.

Tax redemption:

If, as a result of certain changes relating to the ROC tax laws or such other jurisdiction

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in which the Company is then organized, the Company becomes obligated to pay certain additional amounts, the notes may be redeemed at the option of the Company, 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, the Company will redeem the notes on the maturity date at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Negative pledge:

Subject to certain exceptions, the Company 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:

The Company 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 so that such further issuance shall be consolidated and form a single series with the notes.

Governing law:

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

(6) Material contract: None.

(7) Presentation of financial statements:

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Certain accounts in the financial statements for the nine-month period ended September 30, 2003 have been reclassified in order to be comparable with those in the financial statements for the nine-month period ended September 30, 2004.

26. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company called Cathay Life Insurance Co., Ltd. (Guangzhou) to engage in the life insurance business. On September 25, 2003, MOEAIC approved Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Cathay Life Insurance Co., Ltd. In Shanghai is currently in its preparatory stage. As of September 30, 2004, Cathay Life's remittance to this new company totaled approximately US\$48,330.

27. Segment information: None

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

(a) Concise balance sheets:

Items/Period	Cathay Life				Cathay United Band (merged)				Cathay Century				Former Cathay United Bank		Cathay Securities	
	September 30, 2003		September 30, 2004		September 30, 2003		September 30, 2004		September 30, 2003		September 30, 2004		September 30, 2003		September 30, 2004	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Current assets	\$492,457,215	14,578,367	\$581,059,842	\$17,095,023	\$247,929,931	\$7,339,548	\$324,804,404	\$9,555,881	\$6,403,024	\$189,551	\$7,088,439	\$208,545	\$57,210,291	\$1,693,614	\$3,339,640	\$98,252
Exchange bills negotiated, discounted, and loans	485,853,150	14,382,864	456,958,880	13,443,921	396,790,672	11,746,319	548,579,361	16,139,434	870,310	25,764	823,217	24,220	119,020,093	3,523,389	-	-
Funds and long-term investments	381,221,734	11,285,427	479,772,810	14,115,117	11,983,504	354,751	39,702,953	1,168,078	2,282,905	67,581	2,739,718	80,604	15,211,090	450,299	18	1
Fixed assets	15,885,887	470,275	15,297,952	450,072	23,148,805	685,281	25,663,377	755,027	55,568	1,645	55,628	1,636	1,858,016	55,004	13,179	388
Other assets(including intangible assets)	26,565,244	786,419	48,151,597	1,416,640	6,805,252	201,459	4,459,099	131,189	462,517	13,692	478,133	14,066	10,137,617	300,107	236,541	6,960
Current liabilities	10,934,263	323,690	14,354,602	422,318	610,541,869	18,074,064	830,490,537	24,433,379	735,982	21,787	916,146	26,954	189,966,830	5,623,648	102,842	3,026
Long-term liabilities	528,754	15,653	1,252,595	36,852	-	-	-	-	8,067	239	18,966	558	-	-	-	-
Other liabilities	1,313,029,065	38,870,014	1,476,565,141	43,441,163	16,827,926	498,162	34,409,555	1,012,343	6,351,061	188,012	7,110,933	209,206	304,236	9,006	585	17
Capital stocks	50,686,158	1,500,478	50,686,158	1,491,208	39,715,627	1,175,714	43,182,407	1,270,445	2,317,006	68,591	2,317,006	68,167	12,346,083	365,485	3,500,000	102,971
Capital surplus	5,200	154	12,591	371	4,261,892	126,166	13,463,074	396,089	430	13	1,909	56	430	13	-	-
Retained earnings	34,148,047	1,010,895	38,385,188	1,129,308	15,382,006	455,359	21,589,072	635,159	659,535	19,524	818,915	24,093	819,457	24,259	(14,049)	(413)
Equity adjustments	(14,394)	(425)	(15,194)	(447)	(71,156)	(2,107)	74,549	2,194	2,243	67	1,260	37	71	2	-	-
Treasury stocks	(7,333,863)	(217,107)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$1,401,983,230	\$41,503,352	\$1,581,241,081	\$46,520,773	\$686,658,164	\$20,327,358	\$943,209,194	\$27,749,609	\$10,074,324	\$298,233	\$11,185,135	\$329,071	\$203,437,107	\$6,022,413	\$3,589,378	\$105,601
Total liabilities	\$1,324,492,082	\$39,209,357	\$1,492,172,338	\$43,900,333	\$627,369,795	\$18,572,226	\$864,900,092	\$25,445,722	\$7,095,110	\$210,038	\$8,046,045	\$236,718	\$190,271,066	\$5,632,654	\$103,427	\$3,043
Total stockholders' equity	\$77,491,148	\$2,293,995	\$89,068,743	\$2,620,440	\$59,288,369	\$1,755,132	\$78,309,102	\$2,303,887	\$2,979,214	\$88,195	\$3,139,090	\$92,353	\$13,166,041	\$389,759	\$3,485,951	\$102,558

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(b) Concise statements of income:

Items/Period	Cathay Life				Cathay United Band (merged)				Cathay Century				Former Cathay United Bank		Cathay Securities	
	The nine-month period ended		The nine-month period ended		The nine-month period ended		The nine-month period ended		The nine-month period ended		The nine-month period ended		The nine-month period ended		12.5.2004-30.6.2004	
	September 30, 2003		September 30, 2004		September 30, 2003		September 30, 2004		September 30, 2003		September 30, 2004		September 30, 2003			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Operating revenues	\$339,456,443	\$10,049,036	\$380,352,566	\$11,190,131	\$22,211,238	\$657,526	\$30,613,857	\$900,673	\$10,027,547	\$296,849	\$11,108,419	\$326,814	\$9,158,285	\$271,116	\$29,614	\$871
Operating costs & expenses	(325,945,356)	(9,649,064)	(366,387,870)	(10,779,284)	(14,884,851)	(440,641)	(17,041,212)	(501,360)	(9,414,753)	(278,708)	(10,361,500)	(304,839)	(7,412,996)	(219,449)	(46,235)	(1,360)
Operating income	13,511,087	399,972	13,964,696	410,847	7,326,387	216,885	13,572,645	399,313	612,794	18,141	746,919	21,975	1,745,289	51,667	(16,621)	(489)
Non-operating revenues	1,000,227	29,611	1,536,591	45,208	46,405	1,374	1,270,796	37,387	2,339	69	28,411	837	59,496	1,761	-	-
Non-operating expenses	(8,644)	(256)	(1,648,432)	(48,498)	(58,985)	(1,746)	(115,008)	(3,383)	(4,445)	(132)	(17,576)	(518)	(28,770)	(852)	-	-
Operating income before taxes	14,502,670	429,327	13,852,855	407,557	7,313,807	216,513	14,728,443	433,317	610,688	18,078	757,754	22,294	1,776,015	52,576	(16,621)	(489)
Net income	13,346,847	395,111	14,047,478	413,283	6,201,807	183,594	11,637,433	342,378	498,060	14,744	598,174	17,599	1,407,002	41,652	(14,049)	(413)
Earning per share before taxes (in dollars)	\$2.95	\$0.09	\$2.74	\$0.08	\$1.84	\$0.05	\$3.41	\$0.10	\$2.64	\$0.08	\$3.27	\$0.10	\$1.44	\$0.04	\$ (0.05)	\$-
Earning per share (in dollars)	\$2.72	\$0.08	\$2.78	\$0.08	\$1.56	\$0.05	\$2.69	\$0.08	\$2.15	\$0.06	\$2.58	\$0.08	\$1.14	\$0.03	\$ (0.04)	\$-

Annotation1: On April 11, 2002, Cathay United Bank transferred certain non-performing loans to the Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609 (US\$56,087). According to Article 15 of the ROC Financial Institution Merger Act, the losses on the transaction are being amortized over five year from April 2002. The amortized loss amounted to NT\$284,149 (US\$8,412), for the nine-month period ended September 30, 2003. As of September 30, 2003, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,325,895 (US\$39,251). According to general accepted accounting principles in the ROC, the losses are recognized as current expenses on the transaction date. Thus on September 30, 2003, other assets of former Cathay United Bank decreased by NT\$994,421 (US\$29,438), and retained earnings of former Cathay United Bank decreased by NT\$994,421 (US\$29,438). In the nine-month period ended September 30, 2003, provision for credit losses of former Cathay United Bank decreased by NT\$284,149 (US\$8,412), the net income before tax of former Cathay United Bank increased by NT\$284,149 (US\$8,412) and the net income after tax of former Cathay United Bank increased by NT\$213,112 (US\$6,309).

Cathay Financial Holding Co., Ltd. and Subsidiaries
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(Expressed in thousands of dollars except
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29. Elimination of reciprocal accounts

According to the SFC regulations, the consolidated statements are required to disclose the following:

Transactions	Account Item	As of and for the nine-month periods ended September 30			
		2003		2004	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves are eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Common stock	\$105,064,872	\$3,110,269	\$99,685,570	\$2,932,791
	Capital surplus	4,267,954	126,346	13,477,575	396,516
	Legal reserve	24,022,054	711,132	26,503,328	779,739
	Special reserve	6,683,126	197,843	8,016,080	235,836
	Undistributed retained earnings	57,683	1,708	9,319	274
	Cumulative conversion adjustments	118,113	3,497	175,460	5,162
	Unrealized valuation losses on long-term equity investments	201,350	5,961	114,845	3,379
	Allowance for valuation loss on long-term investments in stock	201,350	5,961	114,845	3,379
	Treasury stock	7,333,863	217,107	-	-
	Short-term investments	728,987	21,580	692,362	20,370
	Allowance for valuation loss on short-term investments	216,671	6,414	15,700	462
	Long-term investments in stock	152,613,806	4,517,875	173,441,068	5,102,709
	Deferred tax assets	331,474	9,813	-	-
	Other assets	1,325,895	39,251	90,467	2,662
	Gain on long-term investments	20,701,581	612,835	25,896,116	761,875
	Provisions expenses	284,523	8,423	-	-
	Operating expenses	51,043	1,511	232,543	6,842
	Miscellaneous revenues	8,100	240	8,100	238
	Gain on disposal of investments	680,909	20,157	129,147	3,800
	Income taxes benefit	71,131	2,106	-	-

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (Continued)
(Expressed in thousands of dollars except
for share and per share data and unless otherwise stated)
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Transactions	Account Item	As of and for the nine-month periods ended September 30			
		2003		2004	
		(NT\$)	(US\$)	(NT\$)	(US\$)
	Deposits and remittances payables	\$18,724,708	\$554,313	\$38,286,162	\$1,126,395
	Cash and cash equivalents	18,724,708	554,313	37,786,162	1,111,685
	Short-term Investment	-	-	500,000	14,710
	Due to Banks	1,013,371	29,999	-	-
	Due from Banks	1,013,371	29,999	-	-
	Prepayments	3,006	89	2,455	72
	Accounts collected in advance	3,006	89	2,455	72
	Payables	1,704,255	50,452	51,287	1,509
	Receivables	1,704,255	50,452	51,287	1,509
	Dividends payable	4,669,406	138,230	4,500,243	132,399
	Other receivables	4,669,406	138,230	4,500,243	132,399
	Other accounts receivable	-	-	732,432	21,548
	Other accounts payable	-	-	732,432	21,548
	Interest income	143,579	4,250	225,523	6,635
	Interest expenses	143,579	4,250	225,523	6,635
	Premiums income	281,313	8,328	341,044	10,034
	Insurance expenses	281,313	8,328	341,044	10,034
	Rental income	178,360	5,280	234,945	6,912
	Rental expenses	178,360	5,280	234,945	6,912
	Guarantee deposits received	65,312	1,933	90,467	2,662
	Guarantee deposits paid	65,312	1,933	90,467	2,662
	Commission earned	3,093	92	-	-
	Handing fee earned	106,174	3,143	-	-
	Handing fee paid	109,268	3,235	-	-
	Other revenues	191,753	5,677	543,225	15,982
	Other expenses	191,753	5,677	543,225	15,982
	Indemnity income	16,734	495	14,880	438
	Insurance Claims payment	16,734	495	14,880	438