

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated financial statements
Together with
Independent auditors' report
As of December 31, 2003 and 2004

Address: No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, ROC

Telephone: 886-2-2708-7698

Index to financial statements

	<u>Page</u>
Independent auditors' report	3
Consolidated balance sheets as of December 31, 2003 and 2004	4
Consolidated statements of income for the years ended December 31, 2003 and 2004	5
Consolidated statements of changes in stockholders' equity for the years ended December 31, 2003 and 2004	6
Consolidated statements of cash flows for the years ended December 31, 2003 and 2004	7-8
Notes to financial statements	9-96

English Translation of Report Originally Issued in Chinese

Independent auditors' report

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

We have audited the accompanying consolidated balance sheet of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2004 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the Company as of and for the year ended December 31, 2003. For that year, the Company was audited by other auditors which provided a modified unqualified opinion.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of December 31, 2004 and the results of its operations and its cash flows for the year ended December 31, 2004 in conformity with generally accepted accounting principles in the Republic of China, "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies."

Diwan, Ernst & Young
Taipei, Taiwan
The Republic of China
January 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 practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of December 31, 2003 and 2004

(Expressed in thousands of dollars)

Assets	Notes	2003		2004	
		NT \$	US \$	NT \$	US \$
Current assets					
Cash and cash equivalents	2, 4	\$124,703,821	\$3,668,839	\$227,694,422	\$7,173,737
Due from Central Bank and call loans to banks		54,304,374	1,597,657	55,597,382	1,751,650
Short-term investments	2, 5	576,557,763	16,962,570	536,243,039	16,894,866
Receivables	2	90,745,853	2,669,781	101,561,714	3,199,802
Deferred income tax assets-current	2	73,495	2,162	198,506	6,254
Prepayments		1,528,031	44,956	1,322,453	41,665
Net		847,913,337	24,945,965	922,617,516	29,067,974
Exchange bills negotiated discounted and loans	2, 6	986,713,769	29,029,531	1,032,935,426	32,543,649
Long-term investments in stock, bonds and real estate	2, 7				
Long-term investments in stocks					
Long-term investments under equity method		8,939,203	262,995	10,314,140	324,957
Long-term investments under cost method		50,736,114	1,492,678	16,189,091	510,053
Allowance for valuation loss on long-term investments in stocks		(136,202)	(4,007)	(110,435)	(3,479)
Long-term investments in bonds	2, 8	269,635,361	7,932,785	450,545,469	14,194,879
Investments in real estate	2, 9	94,484,088	2,779,761	101,449,738	3,196,274
Other long-term investments		400,000	11,768	400,000	12,603
Subtotal		424,058,564	12,475,980	578,788,003	18,235,287
Property and equipment	2				
Land		20,353,251	598,801	19,023,094	599,341
Buildings and construction		20,492,579	602,900	20,273,128	638,725
Furniture and fixtures		3,611,753	106,259	3,662,698	115,397
Transportation and communication equipment		243,261	7,157	192,629	6,069
Other equipment		7,946,350	233,785	8,747,721	275,606
Subtotal		52,647,194	1,548,902	51,899,270	1,635,138
Less: Accumulated depreciation		(12,229,512)	(359,797)	(12,936,630)	(407,581)
Construction in progress		1,157,555	34,056	793,201	24,990
Net		41,575,237	1,223,161	39,755,841	1,252,547
Intangible assets	2	7,261	214	83,941	2,645
Other assets					
Net non-operating assets		3,704,121	108,977	2,714,309	85,517
Miscellaneous assets		18,365,164	540,311	34,237,607	1,078,690
Deferred income tax assets -noncurrent	2	4,291,581	126,260	940,001	29,616
Deferred charges		781,638	22,996	606,112	19,096
Investment-linked products assets		14,285,128	420,274	37,399,668	1,178,313
Subtotal		41,427,632	1,218,818	75,897,697	2,391,232
Total assets		<u>2,341,695,800</u>	<u>\$68,893,669</u>	<u>\$2,650,078,424</u>	<u>\$83,493,334</u>
Liabilities & stockholders' equity					
Current liabilities					
Due to Central Bank and commercial banks		80,992,693	2,382,839	\$80,179,515	\$2,526,134
Payables		24,811,113	729,954	26,600,461	838,074
Deferred income tax liabilities-current	2	1,125,244	33,105	442,800	13,951
Accounts collected in advance		843,904	24,828	392,214	12,357
Subtotal		107,772,954	3,170,726	107,614,990	3,390,516
Deposits and remittances	10	670,210,790	19,717,882	757,637,840	23,870,127
Bankers acceptances and funds borrowec		1,753,524	51,589	1,414,687	44,571
Long-term liabilities					
Bonds payable	2, 11	25,135,091	739,485	23,774,560	749,041
Reserve for land revaluation increment tax		37,845	1,113	37,846	1,192
Accrued pension liabilities		744,651	21,908	1,446,767	45,582
Subtotal		25,917,587	762,506	25,259,173	795,815
Other liabilities					
Reserve for operations and liabilities	2, 12	1,349,881,160	39,714,068	1,490,717,276	46,966,518
Miscellaneous liabilities		30,064,877	884,521	54,685,553	1,722,922
Investment-linked products liabilities		14,285,128	420,274	37,399,668	1,178,314
Subtotal		1,394,231,165	41,018,863	1,582,802,497	49,867,754
Total liabilities		<u>2,199,886,020</u>	<u>64,721,566</u>	<u>2,474,729,187</u>	<u>77,968,783</u>
Stockholders' Equity					
Capital stock					
Common stock	13	83,074,891	2,444,098	83,167,130	2,620,262
Capital surplus	14				
Additional paid-in capital		53,101,717	1,562,275	53,524,308	1,686,336
Treasury stock transactions		-	-	4,852,742	152,891
Others		549,329	16,161	581,647	18,325
Retained earnings	15				
Legal reserve		1,335,046	39,278	3,026,715	95,360
Special reserve		1,833,255	53,935	122,653	3,864
Unappropriated retained earnings		16,916,694	497,696	30,640,997	965,375
Equity adjustments					
Unrealized valuation losses on long-term equity investments		(136,202)	(4,007)	(110,435)	(3,479)
Cumulative conversion adjustments		176,537	5,194	(96,005)	(3,025)
Net loss not yet recognized as net pension cost		(1,971)	(58)	(5,560)	(175)
Treasury stock	2, 16	(15,039,516)	(442,469)	(354,955)	(11,183)
Total stockholders' equity		<u>141,809,780</u>	<u>4,172,103</u>	<u>175,349,237</u>	<u>5,524,551</u>
Total liabilities and stockholders' equity		<u>2,341,695,800</u>	<u>\$68,893,669</u>	<u>\$2,650,078,424</u>	<u>\$83,493,334</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

	Notes	2003		2004	
		NT \$	US \$	NT \$	US \$
Operating revenues	2				
Interest income		\$79,585,908	\$2,341,451	\$84,082,332	\$2,649,097
Premiums income		267,200,820	7,861,160	289,831,277	9,131,420
Reinsurance commission earned		407,646	11,993	469,354	14,787
Claims recovered from reinsures		1,166,449	34,317	1,369,061	43,134
Recovered premiums reserve		131,830,534	3,878,509	145,377,625	4,580,265
Recovered special reserve		157,197	4,625	263,301	8,296
Recovered claims reserve		314,691	9,258	374,404	11,796
Commission and handling fee earned		5,022,542	147,765	7,715,740	243,092
Investment-linked products revenues		17,094,832	502,937	29,866,689	940,980
Gain on disposal of investments		13,120,447	386,009	20,072,740	632,411
Gain on long-term equity investments		494,366	14,545	496,823	15,653
Gain on investments-real estate		4,267,767	125,560	4,396,629	138,520
Other operating income		5,233,677	153,977	1,558,890	49,114
Subtotal		<u>525,896,876</u>	<u>15,472,106</u>	<u>585,874,865</u>	<u>18,458,565</u>
Operating costs	2				
Interest expenses		(9,848,890)	(289,759)	(8,849,029)	(278,797)
Insurance expenses		(2,798,398)	(82,330)	(3,599,161)	(113,395)
Brokerage expenses		(23,818,122)	(700,739)	(24,333,563)	(766,653)
Commissions expenses		(448,127)	(13,184)	(791,369)	(24,933)
Insurance claims payment		(137,334,589)	(4,040,441)	(165,275,069)	(5,207,154)
Provision for premiums reserve		(268,859,214)	(7,909,950)	(282,467,467)	(8,899,416)
Provision for special reserve		(2,606,949)	(76,698)	(3,923,117)	(123,602)
Contribution to the stabilization funds		(273,243)	(8,039)	(297,199)	(9,364)
Provision for claims reserve		(374,404)	(11,015)	(399,975)	(12,602)
Handling fee paid		(2,343,935)	(68,960)	(1,882,690)	(59,316)
Investment-linked products expenses		(17,094,832)	(502,937)	(29,866,689)	(940,979)
Provision for possible losses		(14,736,594)	(433,557)	(2,555,113)	(80,501)
Agency expenses		(2,488)	(73)	-	-
Other operating cost		(1,622,825)	(47,744)	(5,223,077)	(164,558)
Subtotal		<u>(482,162,610)</u>	<u>(14,185,426)</u>	<u>(529,463,518)</u>	<u>(16,681,270)</u>
Operating gross profit		<u>43,734,266</u>	<u>1,286,680</u>	<u>56,411,347</u>	<u>1,777,295</u>
Operating expenses		<u>(22,537,288)</u>	<u>(663,056)</u>	<u>(24,071,595)</u>	<u>(758,399)</u>
Operating income		<u>21,196,978</u>	<u>623,624</u>	<u>32,339,752</u>	<u>1,018,896</u>
Non-operating revenues		<u>2,194,089</u>	<u>64,551</u>	<u>4,082,072</u>	<u>128,610</u>
Non-operating expenses		<u>(179,914)</u>	<u>(5,293)</u>	<u>(2,932,285)</u>	<u>(92,385)</u>
Income from continuing operations before income taxes		<u>23,211,153</u>	<u>682,882</u>	<u>33,489,539</u>	<u>1,055,121</u>
Income taxes	2, 18	<u>(2,622,390)</u>	<u>(77,152)</u>	<u>(3,662,384)</u>	<u>(115,387)</u>
Consolidated net income		<u>\$20,588,763</u>	<u>\$605,730</u>	<u>\$29,827,155</u>	<u>\$939,734</u>
Earnings per share(expressed in dollars)	19				
Primary earnings per share:					
Income from continuing operations before income taxes		<u>\$3.04</u>	<u>\$0.09</u>	<u>\$4.15</u>	<u>\$0.13</u>
Consolidated net income		<u>\$2.69</u>	<u>\$0.08</u>	<u>\$3.70</u>	<u>\$0.12</u>
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		<u>\$2.98</u>	<u>\$0.09</u>	<u>\$4.02</u>	<u>\$0.13</u>
Consolidated net income		<u>\$2.63</u>	<u>\$0.08</u>	<u>\$3.57</u>	<u>\$0.11</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
For the years ended December 31, 2003 and 2004
(Expressed in thousands of dollars)

Summary	Retained earnings										Equity adjustments						Total			
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		Treasury sock		Total	
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
Balance on January 1, 2003	\$84,531,631	\$2,486,956	\$56,807,974	\$1,671,314	\$13,713	\$404	\$-	\$-	\$13,085,153	\$384,971	\$(1,032,426)	\$(30,374)	\$199,570	\$5,871	\$-	\$-	\$(42,706,265)	\$(1,256,436)	\$110,899,350	\$3,262,706
Disposal of property and equipment retransfer to unappropriated retained earnings			(185,853)	(5,468)					185,853	5,468									-	-
Appropriations and distributions for 2002																				
Legal reserve					1,321,332	38,874			(1,321,332)	(38,874)									-	-
Special reserve							1,833,255	53,935	(1,833,255)	(53,935)									-	-
Cash dividends			(1,649,407)	(48,526)					(10,053,091)	(295,766)									(11,702,498)	(344,292)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(137)									(5,400)	(159)
Bonus paid to employees			(165)	(5)					(1,006)	(30)									(1,171)	(35)
Retired treasury stock	(1,456,740)	(42,858)	(978,976)	(28,802)					(3,687,982)	(108,502)							6,123,698	180,162	-	-
Cash dividends to subsidiaries			549,329	16,162															549,329	16,162
Capital surplus			(772,940)	(22,740)															(772,940)	(22,740)
Cumulative conversion adjustments													(23,033)	(677)					(23,033)	(677)
Unrealized valuation losses on long-term equity investments											896,224	26,367							896,224	26,367
Disposal of treasury stock			(558,274)	(16,425)													4,221,829	124,208	3,663,555	107,783
Treasury stock			440,119	12,948					(41,770)	(1,229)							17,321,223	509,597	17,719,572	521,316
Consolidated net income for the year ended December 31, 2003									20,588,763	605,730									20,588,763	605,730
Net loss not yet recognized as net pension cost															(1,971)	(58)			(1,971)	(58)
Rounding					1	-											(1)		-	-
Balance on December 31, 2003	83,074,891	2,617,356	53,651,046	1,690,329	1,335,046	42,062	1,833,255	57,759	16,916,694	532,977	(136,202)	(4,291)	176,537	5,562	(1,971)	(62)	(15,039,516)	(473,835)	141,809,780	4,467,857
Appropriations and distributions for 2003																				
Legal reserve					1,691,669	53,298			(1,691,669)	(53,298)									-	-
Special reserve							(1,710,602)	(53,895)	1,710,602	53,895									-	-
Cash dividends									(16,105,155)	(507,409)									(16,105,155)	(507,409)
Remuneration paid to directors and supervisors									(5,700)	(179)									(5,700)	(179)
Bonus paid to employees									(1,611)	(51)									(1,611)	(51)
Convertible notes converted into common stock	92,239	2,906	422,591	13,314															514,830	16,220
Cash dividends to subsidiaries			22,194	699															22,194	699
Capital surplus			10,124	319															10,124	319
Cumulative conversion adjustments													(272,542)	(8,587)					(272,542)	(8,587)
Unrealized valuation losses on long-term equity investments											25,767	812							25,767	812
Disposal of treasury stock			4,737,927	149,273													11,450,763	360,768	16,188,690	510,041
Treasury stock			114,815	3,618					(9,319)	(294)							3,233,798	101,884	3,339,294	105,208
Consolidated net income for the year ended December 31, 2004									29,827,155	939,734									29,827,155	939,734
Net loss not yet recognized as net pension cost															(3,589)	(113)			(3,589)	(113)
Balance on December 31, 2004	\$83,167,130	\$2,620,262	\$58,958,697	\$1,857,552	\$3,026,715	\$95,360	\$122,653	\$3,864	\$30,640,997	\$965,375	\$(110,435)	\$(3,479)	\$(96,005)	\$(3,025)	\$(5,560)	\$(175)	\$(354,955)	\$(11,183)	\$175,349,237	\$5,524,551

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2003 and 2004

(Expressed in thousands of dollars)

	2003		2004	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$20,588,763	\$605,730	\$29,827,155	\$939,734
Adjustments:				
Loss (recovered) on bad debt	4,975,385	146,378	(106,611)	(3,359)
Amortizations and depreciation expenses	1,778,890	52,336	3,338,809	105,192
Provision for reserve for operations	282,796,611	8,319,994	147,062,967	4,633,364
Recovered reserve for operations	(132,302,421)	(3,892,393)	(3,732,626)	(117,600)
Realized loss on long-term equity investments	198,077	5,828	-	-
Gain on disposal of long-term investments	(4,426,503)	(130,230)	(500,877)	(15,781)
Gain on disposal of property and equipment	(68,637)	(2,019)	(1,156,896)	(36,449)
Amortization long-term investments in bonds	86,644	2,549	71,868	2,264
Cash dividends received from investee companies	(384,027)	(11,298)	(192,793)	(6,074)
Increase in bonds payable redemption premium	825,612	24,290	716,399	22,571
Effects of exchange rate changes	29,019	854	624,751	19,683
Decrease (increase) in short-term investments	(67,500,943)	(1,985,906)	19,198,858	604,879
Decrease (increase) in receivables	(34,896,550)	(1,026,671)	6,764,452	213,121
Decrease in prepayments	70,836	2,084	416,999	13,138
Decrease (increase) in deferred income tax assets	430,519	12,666	(50,774)	(1,600)
Decrease in overdue receivables	1,073,452	31,581	335,507	10,571
Decrease (increase) in other assets	5,633,748	165,747	(9,885,320)	(311,447)
Increase in payables	8,628,794	253,863	1,580,929	49,809
Increase (decrease) in accounts collected in advance	752,477	22,138	(873,104)	(27,508)
Increase (decrease) in deferred income tax liabilities-current	46,550	1,370	(682,444)	(21,501)
Increase in claims reserve	-	-	41,477	1,307
Increase in deferred income tax liabilities-noncurrent	-	-	49,794	1,569
Increase in other liabilities	277,616	8,168	24,778,383	780,667
Net cash provided by operating activities	88,613,912	2,607,059	217,626,903	6,856,550
Cash flows from investing activities				
Increase in short-term investment for non-trading purposes	(54,426,742)	(1,601,257)	(65,412,515)	(2,060,886)
Decrease (increase) in exchange bills negotiated, discounted and loans	26,428,198	777,529	(52,022,314)	(1,639,014)
Acquisition of long-term investments in stocks	(131,878,221)	(3,879,912)	(52,602,829)	(1,657,304)
Disposal of long-term investments in stocks	32,566,718	958,126	10,042,564	316,401
Deposal of investment in real estate	149,572	4,400	1,837,250	57,884
Acquisition of investment in real estate	(1,116,034)	(32,834)	(9,713,882)	(306,045)
Increase in long-term investments in bonds	(1,555,944)	(45,777)	(19,226,217)	(605,741)
Disposal of property and equipment	48,880	1,438	1,793,526	56,507
Acquisition of property and equipment	(2,170,028)	(63,843)	(1,838,024)	(57,909)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2003 and 2004

(Expressed in thousands of dollars)

	2003		2004	
	NT \$	US \$	NT \$	US \$
Increase in deferred charges	(195,870)	(5,763)	(181,232)	(5,710)
Acquisition of intangible assets	(5,370)	(158)	(87,509)	(2,757)
Decrease in non-operation assets	632,064	18,596	1,885,380	59,401
Decrease (increase) in guarantee deposits paid	2,717,762	79,958	(110,757)	(3,490)
Decrease (increase) in due form Central Bank and call loans to banks	20,032,192	589,355	(1,293,008)	(40,737)
Net cash used in investing activities	(108,772,823)	(3,200,142)	(186,929,567)	(5,889,400)
Cash flows from financing activities				
Increase (decrease) in due to Central Bank and commercial banks	35,073,839	1,031,887	(813,178)	(25,620)
Increase (decrease) in deposits and remittances payables	(13,086,831)	(385,020)	72,630,920	2,288,309
Increase (decrease) in banker's acceptances and funds borrowed	(618,080)	(18,184)	(338,838)	(10,675)
Increase in bonds payable	(707,000)	(20,800)	(1,562,099)	(49,216)
Increase in guarantee reserve	-	-	1,708	54
Increase (decrease) in guarantee deposits received	58,573	1,723	201,528	6,349
Paid other payable for acquisition of property and equipment in former period	(16,480)	(485)	-	-
Increase (decrease) in funds held for reinsures	(410)	(12)	-	-
Remuneration paid to directors and supervisors	(5,400)	(159)	(5,700)	(180)
Bonus paid to employees	(4,926)	(145)	(227,707)	(7,174)
Cash dividends	(11,225,282)	(330,253)	(16,082,961)	(506,710)
Disposal of treasury stock	7,922,682	233,089	19,212,336	605,304
Net cash provided by financing activities	17,390,685	511,641	73,016,009	2,300,441
Effects of exchange rate changes	(34,841)	(1,025)	(722,744)	(22,771)
Increase (decrease) in cash and cash equivalents	(2,803,067)	(82,467)	102,990,601	3,244,820
Cash and cash equivalents at the beginning of year	127,506,888	3,751,306	124,703,821	3,928,917
Cash and cash equivalents at the end of year	\$124,703,821	\$3,668,839	\$227,694,422	7,173,737
Supplemental disclosure of cash flows information				
Interest paid during the year	\$6,473,292	\$190,447	\$8,004,269	\$252,182
Interest paid (excluding capitalized interest)	\$6,473,292	\$190,447	\$8,004,269	\$252,182
Income tax paid	\$4,407,036	\$129,657	\$1,361,444	\$42,894
Investing and financing activities with no cash flow effects				
Current non-cash assets due to investee upon the settlement of liquidation	\$147,266	\$4,333	\$-	\$-
Conversion of convertible notes into common stock	\$-	\$-	\$514,830	\$16,220

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally issued in Chinese

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

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

1. Organization and business scope

(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 May 12, 2004 the Company build-in a wholly owned subsidiary Cathay Securities Corporation (“Cathay Securities”). On July 29, 2003 and November 9, 2004, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities.

As of December 31, 2003 and 2004, the total numbers of employees were 40 and 59, 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 December 31, 2003 and 2004, the total numbers of employees were 28,977 and 26,555, respectively.

English Translation of Financial Statements Originally issued in Chinese

B. Cathay United Bank (merged) was formerly UWCCB and was enfranchised by the ROC government in January 1975, and started its operations on May 20, 1975. It engages in the following operations:

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

On October 27, 2003, UWCCB merged with former Cathay United Bank which dissolved after the merger. As of December 31, 2003 and 2004, the total numbers of employees were 3,854 and 4,050, respectively.

C. 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 December 31, 2003 and 2004, the total numbers of employees were 789 and 880, respectively.

D. 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 December 31, 2004, the total number of employees was 96.

E. 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 December 31, 2003 and 2004, the total number of employees was 2.

English Translation of Financial Statements Originally issued in Chinese

F. 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 61.67% of the common stock. As of December 31, 2003 and 2004, there was only one employee.

G. 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 December 31, 2004, there was only one employee.

H. 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 December 31, 2003 and 2004, the total numbers of employees were 1 and 9, 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.

English Translation of Financial Statements Originally issued in Chinese

The consolidated financial statements of the Company as of and for the year ended December 31, 2003 included the Company and its subsidiaries, which include Cathay Life, Cathay Century and Cathay United Bank (merged). As of and for the year ended December 31, 2004, the consolidated financial statements included the Company, Cathay Life, Cathay United Bank (merged), Cathay Century and Cathay Securities. The consolidated financial statements of the Company as of and for the years ended December 31, 2003 and 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 and operating revenues 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 accompanying 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

A. 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.

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

English Translation of Financial Statements Originally issued in Chinese

- C. 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.
- D. Overseas investment trust funds are investments in foreign securities made through financial institutions with pre-determined purposes. The trust funds are recorded at the amount originally remitted and stated at the lower of cost or market value at each balance date. Realized interest, dividends and disposal gain which are remitted back are recognized at the amount received in the current period. Realized gain or loss which are not remitted back are recognized based on the net equity as reported by the trustee each month. The trust funds are translated into NT dollars using the spot rate at each balance sheet date. Any exchange difference is charged to income statement accounts.
- E. 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.
- F. 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.

- G. Investment in bonds with resale agreements / Bonds sold under repurchase agreements are recorded at the amount of cash received or paid at the transaction. The difference between the recorded cost and the amount which was reacquired or resold as specified in the respective agreements, is accrued as interest expense or revenue.

English Translation of Financial Statements Originally issued in Chinese

H. Securities purchased for resale by the dealing department are accounted for as “operating securities-dealing”, and consist of bonds, stock warrants, listed stocks, and over-the-counter (OTC) stocks.

Operating securities are valued at the lower of cost or market value. Cost is determined using the weighted-average method. Market value is the closing market price on the balance sheet date.

(6) Allowance for bad and doubtful debts

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

For Cathay United Bank (merged), allowance for doubtful accounts on receivables, bills and loans are provided based on the review of the collectibility of accounts balances and the guidelines issued by the 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).

(7) Foreclosed properties

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

(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.

English Translation of Financial Statements Originally issued in Chinese

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.

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) 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.

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.

(10) 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.

(11) 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”.

(12) Convertible notes

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

The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible notes 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.

(13)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.

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\$252,554) from the “Special Reserve for the Loss Movement” as of December 31, 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.

C. Cathay United Bank (merged) and Cathay Securities

Pursuant to the MOF regulations, a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT\$200 million (US\$6.3 million). The reserve cannot be used for other purposes except to offsetting trading losses.

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.

Pursuant to the MOF regulations, a reserve for possible losses is provided based on 0.0028% of the amount of total stock brokerage transactions each month until such reserve has reached the amount of NT\$200 million (US\$6.3 million).

English Translation of Financial Statements Originally issued in Chinese

(14) Structured notes transactions

The structured notes transactions of Cathay Securities can be divided into principal guaranteed notes and equity-linked notes based on the terms of the contracts. Principal guaranteed notes transactions consist of receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as “Liabilities for principal guaranteed notes – fixed-income products” and “Liabilities for principal guaranteed notes – options”. The former amortizes its interest expense over the contract period using the straight line method with the amount recognized as “Losses on principal guaranteed notes”. The latter is valued at fair value with any resulting gains or losses recognized as “Gains / Losses on valuation for principal guaranteed notes”. To the extent the losses do not exceed the unrealized gains of the hedging position based on market prices, the total amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss in the current period.

(15) 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.

English Translation of Financial Statements Originally issued in Chinese

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.

(16) 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.

(17) 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 when 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 based on past experience.

(18) Contribution to the stabilization funds

For Cathay Life, according to the regulations established by the ROC Ministry of Finance (the "MOF"), the Company created a "stabilization fund" and an offsetting account "stabilization fund reserve". These two accounts are not listed in the financial statements due to their offsetting nature. From 1993 to December 31, 2004, an aggregate of NT\$2,286,910 (US\$72,051) was appropriated to this fund.

English Translation of Financial Statements Originally issued in Chinese

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.

(19)Futures transaction

Cathay Securities assists in futures transactions and collects commissions from futures agencies. Commissions are recognized as “brokerage commissions for introducing futures contracts” in the statement of income.

(20)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.

(21)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.

English Translation of Financial Statements Originally issued in Chinese

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.

(22)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.

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.

English Translation of Financial Statements Originally issued in Chinese

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.

(23)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.

(24)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.
- B. There is no physical exchange of notional principal amounts for interest rate swaps. Instead, memo entries are made on the trade date. For interest rate swap transactions undertaken for trading purposes, mark-to-market value is calculated based on the discounted present value of all future cash flows using the current market rate at each balance sheet date. Any difference between the carrying amount and mark-to-market value is recognized as gain or loss. For swaps entered into for hedging purposes, interest income or expense is recognized upon settlement.

English Translation of Financial Statements Originally issued in Chinese

- C. 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 interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, on each settlement date is recorded as revenue or expense.
- D. Only memo entries for notional principal amounts are made on the contract date for forward rate agreements. The differences between the market rate and the contracted rate in the present value of interest revenue or expense on the balance sheet date are reported as gains or losses.
- E. 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.
- F. Deposits of futures are stated at costs. Upon disposal, the cost of futures are determined on the FIFO basis. Unrealized gains or losses of futures entered into trading market for hedge purposes are recognized as current income or losses or deferred as an adjustment of the hedge items, depending on whether the hedge is fair value hedge or a cash flow hedge.
- G. For option contracts, only memo entries of notional principal amounts are made on the contract date. Premiums paid or received are recorded as assets or liabilities. As of the balance sheet date, outstanding option contracts are marked-to-market and the gains and losses are recognized in the current statement of income. Gains or losses on the exercise of options are recognized in current statement of income.
- H. 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.
- I. 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.

(25) 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.

(26) 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.

(27) Convenience conversion into US dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 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\$33.99 and NT\$31.74 to US\$1.00 on December 31, 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. Accounting changes:

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\$140 (US\$4) in net income for the period from January 1 to December 31, 2004.

English Translation of Financial Statements Originally issued in Chinese

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, Cathay United Bank (merged) 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

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Petty cash and cash on hand	\$7,909,642	\$232,705	\$8,418,213	\$265,224
Cash in banks	307,393	9,044	15,139,324	476,979
Time deposits	59,928,143	1,763,111	120,725,629	3,803,580
Cash equivalents	45,347,811	1,334,151	73,584,401	2,318,349
Checks for clearance	3,948,364	116,163	4,611,189	145,280
Due from commercial banks	7,262,468	213,665	5,215,666	164,325
Total	<u>\$124,703,821</u>	<u>\$3,668,839</u>	<u>\$227,694,422</u>	<u>\$7,173,737</u>

5. Short-term investments

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Common stock	\$67,441,386	\$1,984,154	\$70,495,911	\$2,221,043
Beneficiary certificates	73,680,007	2,167,697	35,136,436	1,107,008
Government bonds and corporate bonds	84,977,257	2,500,066	73,262,117	2,308,195
Oversea investments	172,352,211	5,070,674	115,955,643	3,653,297
Designated purpose trust fund	46,605,218	1,371,145	32,953,427	1,038,230
Financial debentures	15,203,473	447,292	34,517,082	1,087,495
Certificates of deposit	111,259,739	3,273,308	150,390,335	4,738,196
Short-term notes	5,218,396	153,527	15,829,846	498,735
Securities purchased under agreements to resell	360,010	10,592	7,522,036	236,989
Operating securities	-	-	296,047	9,328
Subtotal	<u>577,097,697</u>	<u>16,978,455</u>	<u>536,358,880</u>	<u>16,898,516</u>
Less: Allowance for valuation loss	<u>(539,934)</u>	<u>(15,885)</u>	<u>(115,841)</u>	<u>(3,650)</u>
Total	<u>\$576,557,763</u>	<u>\$16,962,570</u>	<u>\$536,243,039</u>	<u>\$16,894,866</u>

For Cathay United Bank (merged) as of December 31, 2003 and 2004, bond repurchase agreements in the notional amount of NT\$23,723,600 (US\$697,958) and NT\$38,039,900 (US\$1,198,485) were entered into in connection with NT\$26,076,561 (US\$767,183) and NT\$40,360,354 (US\$1,271,593) of the above government and corporate bonds, respectively. Such repurchase agreements were recorded under other liability account. Cathay United Bank (merged) is required to repurchase at a price of NT\$26,126,256 (US\$823,133) and NT\$40,411,884 (US\$1,273,216) before June 28, 2004 and June 29, 2005, respectively.

English Translation of Financial Statements Originally issued in Chinese

6. Exchange bills negotiated discounted and loans, net

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Exchange bills negotiated discounted	\$1,063,075	\$31,276	\$1,193,966	\$37,617
Short-term loans and overdrafts	223,282,443	6,569,063	207,818,327	6,547,521
Short-term secured loans and overdrafts	114,277,421	3,362,089	95,328,330	3,003,413
Medium-term secured loans	174,473,628	5,133,087	225,830,792	7,115,022
Long-term secured loans	480,555,170	14,138,134	508,604,558	16,024,088
Subtotal	993,651,737	29,233,649	1,038,775,973	32,727,661
Less: Allowance for bad debts	(6,937,968)	(204,118)	(5,840,547)	(184,012)
Total	\$986,713,769	\$29,029,531	\$1,032,935,426	\$32,543,649

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\$5,743,474 (US\$168,975) and NT\$6,306,697 (US\$198,699) as of December 31, 2003 and 2004, respectively. The unrecognized interest on the non-accrual accounts amounted to NT\$263,639 (US\$7,756) and NT\$95,596 (US\$3,012) for the years ended December 31, 2003 and 2004, respectively.

7. Long-term investments in stocks

Investee	December 31,			
	2003(NT\$) Carrying value	2003(US\$) Carrying value	2004(NT\$) Carrying value	2004(US\$) Carrying value
A. Under the equity method:				
Cathay Pacific Venture Capital Co., Ltd.	\$592,879	\$17,443	\$583,715	\$18,390
Cathay Venture Capital Co., Ltd.	545,395	16,046	514,555	16,212
Cathay II Venture Capital Co., Ltd.	-	-	586,314	18,472
Cathay Capital Management Inc.	-	-	19,445	613
WK Technology Fund VI Co., Ltd.	375,440	11,046	377,149	11,882
Vista Technology Venture Capital Corp.	95,453	2,808	68,776	2,167
Omnitek Venture Capital Corp.	150,572	4,430	152,081	4,791
Wa Tech Venture Capital Co., Ltd.	179,871	5,292	178,895	5,636
Lin Yuan Property Management Co., Ltd.	15,129	445	34,124	1,075
Cathay Securities Investment Co., Ltd.	15,477	455	25,662	809

English Translation of Financial Statements Originally issued in Chinese

Cathay Life Insurance Ltd. (Shanghai)	-	-	1,526,654	48,099
IBT Venture Capital Corp.	565,288	16,631	502,290	15,825
Cathay Insurance (Bermuda) Co., Ltd.	56,954	1,676	59,635	1,879
Symphox Information Co., Ltd.	258,625	7,609	265,822	8,375
Cathay Securities Investment Trust Co., Ltd.	207,601	6,108	222,741	7,018
Seaward Card Co., Ltd.	43,079	1,267	70,031	2,206
Seaward Leasing Ltd.	2,269,460	66,768	2,247,640	70,814
Cathay Futures Corp. (the former Seaward Futures Corp.)	1,671,212	49,168	722,812	22,773
Indovina Bank	437,211	12,863	500,047	15,754
Seaward Property Insurance Agent Corp.	51,987	1,529	-	-
Taiwan Real-estate Management Corp.	54,162	1,593	51,947	1,637
Taiwan Finance Corp.	1,214,596	35,734	1,353,601	42,647
Cathay Bank Property Agency of Association	7,204	212	10,676	336
Cathay Bank Life Insurance Agency of Association	27,257	802	160,941	5,071
Subtotal	8,834,852	259,925	10,235,553	322,481
Less: Unrealized gain from intercompany transactions	(31,851)	(937)	(31,848)	(1,003)
Long-term investment under the equity method	8,803,001	258,988	10,203,705	321,478
B. Long-term investment under the cost method	50,736,114	1,492,678	16,189,091	510,053
Net	\$59,539,115	\$1,751,666	\$26,392,796	\$831,531

8. Long-term investments in bonds

Long-term investments in bonds consist mainly of the government bonds and oversea bonds. As of December 31, 2003 and 2004, long-term investments in bonds amounted to NT\$269,635,361 (US\$7,932,785) and NT\$450,545,469 (US\$14,194,879), respectively.

9. Investment in real estate

Item	December 31, 2003								
	Cost		Revaluation surplus		Accumulated depreciation		Net value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Investments in									
real estate	\$94,700,707	\$2,786,134	\$4,851	\$143	\$(11,688,521)	\$(343,881)	\$83,017,037	\$2,442,396	
Construction	11,466,637	337,353	-	-	-	-	11,466,637	337,353	
Prepayments for buildings and land	414	12	-	-	-	-	414	12	
Total	\$106,167,758	\$3,123,499	\$4,851	\$143	\$(11,688,521)	\$(343,881)	\$94,484,088	\$2,779,761	

English Translation of Financial Statements Originally issued in Chinese

December 31, 2004								
Item	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in								
real estate	\$110,896,032	\$3,493,889	\$4,566	\$144	\$(13,078,641)	\$(412,056)	\$97,821,957	\$3,081,977
Construction	3,627,781	114,297	-	-	-	-	3,627,781	114,297
Total	<u>\$114,523,813</u>	<u>\$3,608,186</u>	<u>\$4,566</u>	<u>\$144</u>	<u>\$(13,078,641)</u>	<u>\$(412,056)</u>	<u>\$101,449,738</u>	<u>\$3,196,274</u>

(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

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Check deposits	\$11,140,180	\$327,749	\$11,171,200	\$351,960
Demand deposits	106,032,495	3,119,520	120,994,141	3,812,040
Demand savings deposits	392,854,740	11,557,951	451,837,992	14,235,601
Time deposits	134,887,665	3,968,452	124,644,039	3,927,033
Remittances	245,710	7,229	440,468	13,877
Financial debentures payable	25,050,000	736,981	48,550,000	1,529,616
Total	<u>\$670,210,790</u>	<u>\$19,717,882</u>	<u>\$757,637,840</u>	<u>\$23,870,127</u>

Financial debentures payable as follows:

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Financial debenture	\$12,700,000	\$373,639	\$36,200,000	\$1,140,517
Subordinate financial debenture	12,350,000	363,342	12,350,000	389,099
Total	<u>\$25,050,000</u>	<u>\$736,981</u>	<u>\$48,550,000</u>	<u>\$1,529,616</u>

English Translation of Financial Statements Originally issued in Chinese

On May 23, 2002, Cathay United Bank (merged) issued five-year subordinated financial debentures amounting to NT\$5,000,000 (US\$157,530) 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\$157,530) 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 or annually.

On April 28, 2003, Cathay United Bank (formerly) issued five-year subordinated financial debentures amounting to NT\$2,350,000 (US\$74,039) 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\$157,530) with anti-floating interest rate. 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\$100,819), NT\$2,700,000 (US\$85,066) and NT\$1,800,000 (US\$56,711), respectively, with floating interest rates; thereafter, six-year financial debentures amounting to NT\$2,000,000 (US\$63,012) 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\$31,506), NT\$3,500,000 (US\$110,271), NT\$2,000,000 (US\$63,012) and NT\$1,000,000 (US\$31,506), respectively, with anti-floating interest rates or biconditional rate. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004, Cathay United Bank (merged) issued five-year to seven-year financial debentures amounting to NT\$2,500,000 (US\$78,765), NT\$1,500,000 (US\$47,259), NT\$1,500,000 (US\$47,259), NT\$2,500,000 (US\$78,765), NT\$1,500,000 (US\$47,259), NT\$2,500,000 (US\$78,765), NT\$1,000,000 (US\$31,506) and NT\$1,000,000 (US\$31,506), respectively, with a stated interest rate. These financial debentures are repayable at maturity, and the interest rate is payable quarterly.

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.

English Translation of Financial Statements Originally issued in Chinese

11. Bonds payable

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Zero coupon convertible notes	\$23,793,000	\$700,000	\$21,759,548	\$685,556
Redemption premium payable	1,342,091	39,485	2,015,012	63,485
Total	<u>\$25,135,091</u>	<u>\$739,485</u>	<u>\$23,774,560</u>	<u>\$749,041</u>

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

12. Reserve for operations and liabilities

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Unearned premium reserve	\$13,072,573	\$384,601	\$13,517,802	\$425,892
Reserve for life insurance	1,320,057,659	38,836,648	1,456,702,273	45,894,842
Special reserve	15,642,759	460,216	19,302,572	608,146
Claims reserve	915,159	26,924	982,207	30,945
Reserves for losses on guarantees	28,821	848	28,573	900
Reserves for losses on stock brokerage transactions	39,447	1,161	1,585	50
Reserves for losses on trading securities	124,742	3,670	132,470	4,174
Deferred income tax liabilities	-	-	49,794	1,569
Total	<u>\$1,349,881,160</u>	<u>\$39,714,068</u>	<u>\$1,490,717,276</u>	<u>\$46,966,518</u>

13. Common stock

As of December 31, 2003 and 2004, the numbers of issued shares, par value of NT10 dollars (US0.3 dollars), per share, were 8,307,489 thousand shares and 8,316,713 thousand shares, respectively.

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 and November 9, 2004, the Company listed a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depositary Shares (GDSs).

14. Capital surplus

- (1) The capital surplus of the Company consists of premium of stock conversion from consolidation, equity method adjustments from investee companies, and transactions of treasury stocks. Capital surplus was NT\$53,651,046 (US\$1,578,436) and NT\$58,958,697 (US\$1,857,552) as of December 31, 2003 and 2004. Before conversion into a financial holding company, NT\$267,215 (US\$8,419) constituted retained earnings of certain subsidiaries of the Company.
- (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.

English Translation of Financial Statements Originally issued in Chinese

- 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\$648,669) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$27,960) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,817), 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.
- 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\$384,971), its subsidiaries' capital surplus belongs to unappropriated retained earnings before stock conversion of NT\$1,917,548 (US\$56,415) and its disposal of fixed assets retransfer as unappropriated retained earnings of NT\$128,170 (US\$3,771). 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 thousand 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 December 31, 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 ROC 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.

English Translation of Financial Statements Originally issued in Chinese

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.

- I. In 2004, pursuant to SFC, the information regarding the appropriation of employees, directors and supervisors, and estimate earnings per share will be available on the website of "Market Observation Post System" immediately after the meeting of directors.

In accordance with SFC regulations, the Company should assume that the dividends of year 2003 would be appropriated to the employees, directors and supervisors, and pro forma earnings per share for the current year.

Name of Investee	For the year ended December 31,	
	2003(NT\$)	2003(US\$)
a. Distributions		
Bonus paid to employees-cash	\$1,611	\$47
Bonus paid to employees-stock	-	-
Remuneration paid to directors and supervisors	5,700	168
b. After income taxes earnings per share:		
(expressed in dollars)	\$2.69	\$0.08
Pro forma earnings per share:		
(expressed in dollars)	\$2.69	\$0.08

$$\text{Pro forma earnings per share} = \frac{\text{Net income-Bonus paid to employees-Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

English Translation of Financial Statements Originally issued in Chinese

16. Treasury stock

(1) The following is a summary of the movement of treasury stock for the year ended December 31, 2004.

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2004			December 31, 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	31, 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	-	\$-	\$-	\$-	\$-	\$-	\$-
The Company that the subsidiaries held were treated as treasury stock										
Subsidiaries' stocks held by the Company after conversion which are treated as treasury stock	11,705	-	4,808	6,897	354,955	11,183	51.47	1.62	63.00	1.98
Total	<u>318,167</u>	<u>-</u>	<u>311,270</u>	<u>6,897</u>	<u>\$354,955</u>	<u>\$11,183</u>				

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

(Unit: in thousands of shares)

Name	Holding share	Amount (NT\$)	Amount (US\$)	Cause	About retained earnings limit	Legal time limit	Pro forma way determined by the board of directors determine
Cathay United Bank (merged)	3,500	\$210,810	\$6,642	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay Century	3,397	214,007	6,742	"	None	Within three years	None
Total	<u>6,897</u>	<u>\$424,817</u>	<u>\$13,384</u>				

English Translation of Financial Statements Originally issued in Chinese

(3) Cathay Life

A. Cathay Life's treasury stock information for the year ended December 31, 2004 is as follows:

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2004	Increase	Decrease	December 31,
				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\$231,061).

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\$1.85 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 year ended December 31,2003 (NT\$)			For the year ended December 31,2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$58,760	\$58,760	\$-	\$77,383	\$77,383
Labor & health insurance expenses	-	2,051	2,051	-	3,008	3,008
Pension expenses	-	1,169	1,169	-	3,687	3,687
Other expenses	-	44,599	44,599	-	46,525	46,525
Depreciation	-	855	855	-	1,055	1,055
Depletion	-	-	-	-	-	-
Amortizations	-	145,367	145,367	-	146,688	146,688

English Translation of Financial Statements Originally issued in Chinese

Item	For the year ended December 31, 2003 (US\$)			For the year ended December 31, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$1,729	\$1,729	\$-	\$2,438	\$2,438
Labor & health insurance expenses	-	60	60	-	95	95
Pension expenses	-	34	34	-	116	116
Other expenses	-	1,312	1,312	-	1,466	1,466
Depreciation	-	25	25	-	33	33
Depletion	-	-	-	-	-	-
Amortizations	-	4,277	4,277	-	4,622	4,622

(2) Cathay Life

Item	For the year ended December 31, 2003 (NT\$)			For the year ended December 31, 2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$20,403,545	\$2,693,679	\$23,097,224	\$21,235,911	\$2,564,381	\$23,800,292
Labor & health insurance expenses	1,243,291	186,483	1,429,774	1,131,378	208,604	1,339,982
Pension expenses	958,877	143,823	1,102,700	837,119	154,349	991,468
Other expenses	1,127,502	213,231	1,340,733	1,036,315	270,178	1,306,493
Depreciation	-	1,953,497	1,953,497	-	2,003,629	2,003,629
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	5,745	5,745

Item	For the year ended December 31, 2003 (US\$)			For the year ended December 31, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$600,281	\$79,249	\$679,530	\$669,059	\$80,793	\$749,852
Labor & health insurance expenses	36,578	5,487	42,065	35,645	6,572	42,217
Pension expenses	28,211	4,231	32,442	26,374	4,863	31,237
Other expenses	33,172	6,273	39,445	32,650	8,512	41,162
Depreciation	-	57,473	57,473	-	63,126	63,126
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	181	181

English Translation of Financial Statements Originally issued in Chinese

(3) Cathay United Bank (merged)

Item	For the year ended December 31, 2003 (NT\$)			For the year ended December 31, 2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$3,174,897	\$3,174,897	\$-	\$4,005,658	\$4,005,658
Labor & health insurance expenses	-	303,534	303,534	-	427,061	427,061
Pension expenses	-	335,362	335,362	-	357,549	357,549
Other expenses	-	572,590	572,590	-	945,113	945,113
Depreciation	-	642,753	642,753	-	941,928	941,928
Depletion	-	-	-	-	-	-
Amortizations	-	90,083	90,083	-	211,572	211,572

Item	For the year ended December 31, 2004 (US\$)			For the year ended December 31, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$93,407	\$93,407	\$-	\$126,202	\$126,202
Labor & health insurance expenses	-	8,930	8,930	-	13,455	13,455
Pension expenses	-	9,867	9,867	-	11,265	11,265
Other expenses	-	16,846	16,846	-	29,777	29,777
Depreciation	-	18,910	18,910	-	29,676	29,676
Depletion	-	-	-	-	-	-
Amortizations	-	2,650	2,650	-	6,666	6,666

(4) Cathay Century

Item	For the year ended December 31, 2003 (NT\$)			For the year ended December 31, 2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$503,152	\$503,152	\$-	\$483,043	\$483,043
Labor & health insurance expenses	-	34,491	34,491	-	32,174	32,174
Pension expenses	-	30,304	30,304	-	34,887	34,887
Other expenses	-	192,597	192,597	-	201,230	201,230
Depreciation	-	24,532	24,532	-	20,949	20,949
Depletion	-	-	-	-	-	-
Amortization	-	4,252	4,252	-	5,083	5,083

English Translation of Financial Statements Originally issued in Chinese

Item	For the year ended December 31, 2003 (US\$)			For the year ended December 31, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$14,803	\$14,803	\$-	\$15,219	\$15,219
Labor & health insurance expenses	-	1,015	1,015	-	1,014	1,014
Pension expenses	-	892	892	-	1,099	1,099
Other expenses	-	5,666	5,666	-	6,340	6,340
Depreciation	-	722	722	-	660	660
Depletion	-	-	-	-	-	-
Amortization	-	125	125	-	160	160

(5) Cathay Securities

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

English Translation of Financial Statements Originally issued in Chinese

18. Estimated income taxes

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Expected income tax expense	\$2,594,010	\$76,317	\$1,285,596	\$40,504
Plus: Interest income of tax on a separate basis	263,972	7,766	288,383	9,086
Deferred income tax (benefits) expenses	(67,314)	(1,981)	2,170,346	68,379
Extra 10% income tax on undistributed retained earnings	142,861	4,203	338,048	10,650
Less: Adjustment of income tax	(119,497)	(3,515)	1,713	54
Income tax credit	(48,781)	(1,435)	(73,320)	(2,310)
Refundable tax from prior holder	-	-	(10,344)	(326)
Tax effects under integrated income tax systems	(142,861)	(4,203)	(338,038)	(10,650)
Total income tax expenses	<u>\$2,622,390</u>	<u>\$77,152</u>	<u>\$3,662,384</u>	<u>\$115,387</u>

The Company, in accordance with the Financial Holding Company Act, elected to be the payer of the consolidated income tax and the 10% additional undistributed earnings tax filing the consolidated income tax return which includes all subsidiaries that 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. Cathay Life's income tax returns through 2000 had been and assessed by the Tax Authorities.
- C. Cathay Century's income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2002.

English Translation of Financial Statements Originally issued in Chinese

- D. Cathay United Bank’s (merged) income tax returns for the years from 1994 to 1998 and 2000 to 2001 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 returns of 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, the original determination of the Tax Authority was cancelled and appropriate accounting treatments were applied in this case. 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 1999.
- 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:

A. The Company

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$1,435,439	\$42,231	\$362,239	\$11,413
		For the year ended December 31, 2003 (Actual)	For the year ended December 31, 2004 (Estimate)	
Imputation credit account ratio		19.17%	1.66%	

English Translation of Financial Statements Originally issued in Chinese

B. Cathay Life

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$1,418,513	\$41,733	\$1,257,227	\$39,610

	For the year ended December 31, 2003 (Actual)	For the year ended December 31, 2004 (Estimate)
	Imputation credit account ratio	8.34%

C. Cathay United Bank (merged)

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$184,273	\$5,421	\$93,564	\$2,948

	For the year ended December 31, 2003 (Actual)	For the year ended December 31, 2004 (Estimate)
	Imputation credit account ratio	10.94%

D. Cathay Century

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$176,703	\$5,199	\$9,468	\$298

	For the year ended December 31, 2003 (Actual)	For the year ended December 31, 2004 (Estimate)
	Imputation credit account ratio	29.73%

E. Cathay Securities

	December 31,	
	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$1,136	\$36

	For the year ended December 31, 2004
	Imputation credit account ratio

English Translation of Financial Statements Originally issued in Chinese

(4) Information relating of undistributed earnings:

Year	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Prior to 1997	\$267,215	\$7,862	\$267,215	\$8,419
After 1998	16,916,694	497,696	30,640,997	965,375
Total	\$17,183,909	\$505,558	\$30,908,212	\$973,794

The undistributed earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

19. Earnings per share

	For the year ended December 31, 2003								
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
	Consolidated net income	\$23,211,153	\$682,882	\$20,588,763	\$605,730				
Primary earnings per share									
Net income for common stock holder	\$23,211,153	\$682,882	\$20,588,763	\$605,730	7,642,463	\$3.04	\$0.09	\$2.69	\$0.08
Effect of potentially dilutive common stock									
Convertible bonds payable	825,612	24,290	619,209	18,217	431,864				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$24,036,765	\$707,172	\$21,207,972	\$623,947	8,074,327	\$2.98	\$0.09	\$2.63	\$0.08

English Translation of Financial Statements Originally issued in Chinese

For the year ended December 31, 2003											
	Amount (Numerator)				Shares	EPS					
					(in thousands	Before income tax		After income tax			
					of shares)	EPS (in dollars)		EPS (in dollars)			
					(denominator)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Before income taxes		After income taxes									
(NT\$)		(US\$)		(NT\$)		(US\$)		(NT\$)		(US\$)	
Consolidated net income	\$33,489,539	\$1,055,121	\$29,827,155	\$939,734							
Primary earnings per share											
Net income for common stock holder	\$33,489,539	\$1,055,121	\$29,827,155	\$939,734	8,064,662	\$4.15	\$0.13	\$3.70	\$0.12		
Effect of potentially dilutive common stock											
Convertible bonds payable	716,398	22,571	537,299	16,928	446,119						
Fully-diluted earnings per share											
Net income for common stock holder & effect of potentially common stock	\$34,205,937	\$1,077,692	\$30,364,454	\$956,662	8,510,781	\$4.02	\$0.13	\$3.57	\$0.11		

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

English Translation of Financial Statements Originally issued in Chinese

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
Cathay Life Insurance Ltd.	The investee is accounted for using the equity method
Cathay Futures Co., Ltd. (formerly Seaward Futures Co., Ltd.)	The investee is accounted for using the equity method
Cathay General Hospital	Their chairman is also the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
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
Seaward Property Insurance Agent Corp. (liquidated in October 2003)	The investee is accounted for using the equity method
Huong Yee Co., Ltd. (liquidated in July 2003)	The investee is accounted for using the equity method
Taiwan Real-Estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee is accounted for using the equity method
Seaward Card Co., Ltd.	The investee is accounted for using the equity method
Indovina Bank	The investee is accounted for using the equity method
Vista Technology Venture Capital 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 Co., Ltd.	Investee company of Cathay United Bank (merged)
Gemfor Tech Co., Ltd.	Their chairman of the board is the president of Cathay United Bank (merged) (resigned on April, 2004)
Taipei Smart Card Corp.	Investee company of Cathay United Bank (merged)
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Cathay Life Charity Foundation	Their chairman is an immediate family member of the Company's chairman
KG Telecommunication Ltd.	Cathay Life appointed a supervisor for KG Telecommunication Ltd. (resigned on January 19, 2004)
Wu Ming-Yang	Senior manager of Cathay Century

English Translation of Financial Statements Originally issued in Chinese

(2) *Significant transactions with related parties:*

A. Loans

As of and for the year ended December 31, 2004				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Indovina Bank	\$1,087,680	\$558,763	1.44%~2.90%	\$12,063

As of and for the year ended December 31, 2004				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Indovina Bank	\$34,268	\$17,604	1.44%~2.90%	\$380

B. Beneficiary certificates

Name	Item	December 31,			
		2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Securities Investment Trust Co., Ltd.	Cost	\$4,395,410	\$129,315	\$5,567,590	\$175,412
	Market Value	\$4,393,787	\$129,267	\$5,587,952	\$176,054

C. Receivables

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Notes receivable				
Cathay General Hospital	\$16,404	\$483	\$-	\$-
Symphox Information Co., Ltd.	1,388	41	-	-
Cathay Securities Investment Co., Ltd.	76	2	-	-
Cathay Real Estate Development Co., Ltd.	475	14	-	-
Lin Yuan Property Management Co., Ltd.	9	-	-	-
Subtotal	18,352	540	-	-
Accounts receivable				
Symphox Information Co., Ltd.	-	-	501	16
Cathay Real Estate Development Co., Ltd.	-	-	287	9
Cathay Securities Investment Co., Ltd.	-	-	70	2
Cathay Futures Corp.	-	-	149	5
Cathay Insurance (Bermuda) Co., Ltd.	13,476	396	16,044	505
Subtotal	13,476	396	17,051	537
Total	\$31,828	\$936	\$17,051	\$537

English Translation of Financial Statements Originally issued in Chinese

D. Prepayments

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	\$21,758	\$640	\$8,159	\$257

E. Regular secured loans

As of and for the year ended December 31, 2003

Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$1,173,912	\$1,173,181	3.50%~4.25%	\$44,911
Wu Ming-Yang	3,189	2,374	3.50%	92
Total		<u>\$1,175,555</u>		<u>\$45,003</u>

As of and for the year ended December 31, 2004

Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,192,866	\$2,192,411	2.60%~3.50%	\$50,795
Wu Ming-Yang	2,374	1,651	2.60%	48
Total		<u>\$2,194,062</u>		<u>\$50,843</u>

As of and for the year ended December 31, 2003

Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$34,537	\$34,515	3.50%~4.25%	\$1,321
Wu Ming-Yang	94	70	3.50%	3
Total		<u>\$34,585</u>		<u>\$1,324</u>

As of and for the year ended December 31, 2004

Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$69,088	\$69,074	2.60%~3.50%	\$1,600
Wu Ming-Yang	75	52	2.60%	2
Total		<u>\$69,126</u>		<u>\$1,602</u>

English Translation of Financial Statements Originally issued in Chinese

F. Loans and deposits

December 31,										
2003						2004				
Account	(NT\$)	(US\$)	% of account	Interest Revenue (Expense)		(NT\$)	(US\$)	% of account	Interest Revenue (Expense)	
				(NT\$)	(US\$)				(NT\$)	(US\$)
Bills and loans	<u>\$4,488,895</u>	<u>\$132,065</u>	0.45%	<u>\$78,159</u>	<u>\$2,299</u>	<u>\$1,997,390</u>	<u>\$62,930</u>	0.19%	<u>\$32,619</u>	<u>\$1,028</u>
Deposits	<u>13,108,832</u>	<u>385,667</u>	1.96%	<u>(148,483)</u>	<u>(4,368)</u>	<u>3,339,191</u>	<u>105,205</u>	0.44%	<u>(251,452)</u>	<u>(7,922)</u>

G. 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 year ended December 31, 2003	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$6,888	\$203
	Tainmu Jung Cheng-B	6,973	205
	Hsinyi District Base-D	721,116	21,215
	Cathay Information Building	22,122	651
	Tucheng Office Building	41,029	1,207
	Ban Ciao Building	146,108	4,298
	Hsinyi District Base-E	23,874	702
	Min Sheng Building	19,104	562
	Sheraton Taipei Building	80,884	2,380
	Taitung Building	2,776	82
	Yong Kang Building	125	4
	Cathay General Hospital of Hsinchu	189	6
	Other	13,051	384
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	3,749	110
	Tucheng Office Building	1,330	39
	Ban Ciao Building	2,357	69
	Hsinyi District Base-E	442	13
	Total	<u>\$1,092,117</u>	<u>\$32,130</u>

English Translation of Financial Statements Originally issued in Chinese

Name	Item	For the year ended December 31, 2004	
		(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Hsinyi Oistrict Base-E	\$18,766	\$591
	Tainmu Jung Cheng-A	4,272	135
	Tainmu Jung Cheng-B	4,315	136
	Hsinyi District Base-D	20,338	641
	Ban Ciao Building	254,236	8,010
	Sheraton Taipei Hotel	57,234	1,803
	Cathay General Hospital	8,585	271
	Sainyang Building	30,033	946
	Cosmos Building	7,020	221
	Cathay Golden & Sliver Bldg	27,276	859
	Xi-Men Bldg	16,490	520
	Tainmu Shopping Mall-B	9,441	297
	Taipei Financial Center Building	5,528	174
	Li-Yuan Bldg	52,309	1,648
	Lin Yuan Bldg	510	16
	Tainmu Base-A	1,242	39
	Cathay Information Building	11,567	364
	Cathay Life Insurance Building	1,757	55
	Tucheng office Building	98,430	3,101
	Jhunan Building	11,192	353
	Keelung Second Building	6,777	214
	Taitung Siwei Building	685	22
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	3,340	105
	Hsinyi District Base-D	332	10
	Tucheng Office Building	116	4
Symphox Information Co., Ltd.	Hsinyi District Base-E	27,000	851
	Total	<u>\$678,791</u>	<u>\$21,386</u>

(a) The total amount of contracted projects for real estate as of December 31, 2003 and 2004 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$10,361,754 (US\$304,847) and NT\$9,873,635 (US\$311,079), respectively.

English Translation of Financial Statements Originally issued in Chinese

(b) Cathay United Bank (merged) paid project and construction management fees to Taiwan Real-Estate Management Corp. in the amounts of NT\$3,908 (US\$115) and NT\$217 (US\$7) during the years ended December 31, 2003 and 2004, respectively.

(c) Cathay United Bank (merged) paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$10,865 (US\$342) during the year of 2004.

(d) Cathay United Bank (merged) purchased automated systems for the 24-hour self-service banking center from Sanching engineering Corp. in the amount of NT\$3,020 (US\$89) and NT\$88,575 (US\$2,791) during the year of 2003 and 2004, respectively.

b. Cathay Life acquisition of property and equipment information:

Name	Item	For the years ended December 31,			
		2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	Communication and transportation equipment	\$1,560	\$46	\$-	\$-

c. Cathay Life disposal of property and equipment information:

Cathay Life did not sell any real estate to its related parties for the year ended December 31, 2003.

Name	Item	For the year ended December 31, 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	\$47,889	\$(8,390)	\$(264)

English Translation of Financial Statements Originally issued in Chinese

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

Name	Rental income			
	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$28,092	\$826	\$21,568	\$680
Cathay General Hospital	166,271	4,892	134,315	4,232
San Ching Engineering Co., Ltd.	18,336	539	12,906	407
Symphox Information Co., Ltd.	29,008	853	24,390	768
Lin Yuan Investment Co., Ltd.	136	4	68	2
Cathay Securities Investment Trust Co., Ltd.	8,854	261	8,830	278
Cathay Securities Investments Co., Ltd.	4,140	122	4,136	130
Lin Yuan Property Management Co., Ltd.	437	13	434	14
KG Telecommunication Co., Ltd.	11,719	345	-	-
Cathay Capital Management Inc.	-	-	160	5
Seaward Leasing Ltd.	1,996	59	1,482	47
Taipei Smart Card Corp.	6,874	202	5,707	180
Culture and Charity Foundation of Cathay United Bank	250	7	1,000	31
Total	\$276,113	\$8,123	\$214,996	\$6,774

Name	Guarantee deposits received			
	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,386	\$364	\$4,286	\$135
Cathay General Hospital	2,339	69	2,354	74
San Ching Engineering Co., Ltd.	7,079	208	1,895	60
Symphox Information Co., Ltd.	1,421	42	1,394	44
Cathay Securities Investment Trust Co., Ltd.	2,144	63	2,738	86
Lin Yuan Property Management Co., Ltd.	49	1	49	1
KG Telecommunication Co., Ltd.	8,383	247	-	-
Lin Yuan Investment Co., Ltd.	16	1	16	1
Cathay Securities Investment Co., Ltd.	-	-	877	28
Cathay Capital Management Inc.	-	-	479	15
Total	\$33,817	\$995	\$14,088	\$444

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

English Translation of Financial Statements Originally issued in Chinese

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

Name	Rental expense			
	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$30,300	\$891	\$43,466	\$1,369
Lin Yuan Investment Co., Ltd.	5,016	148	6,680	211
Symphox Information Co., Ltd.	-	-	56	2
Seaward Leasing Ltd.	-	-	108	3
Total	\$35,316	\$1,039	\$50,310	\$1,585

Name	Guarantee deposits paid			
	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Real Estate Development Co., Ltd.	\$9,352	\$275	\$12,565	\$396
Lin Yuan Investment Co., Ltd.	1,650	48	1,650	52
Seaward Leasing Ltd.	42,000	1,236	42,000	1,323
Total	\$53,002	\$1,559	\$56,215	\$1,771

According to the contracts, terms of lease with third parties were 3 years in general, and rentals are paid monthly. Yet Cathay United Bank (merged) used its refundable deposits interest to offset against rental expense payable to Seaward Leasing Ltd.

f. The Company and Cathay Securities acquisition other equipment

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Lin Yuan Property Management Co., Ltd.	\$-	\$-	\$152	\$5
Symphox Information Co., Ltd.	-	-	8,000	252
Total	\$-	\$-	\$8,152	\$257

H. Refundable Deposit

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Futures Corp.	\$-	\$-	\$4,072	\$128

English Translation of Financial Statements Originally issued in Chinese

I. Bonds sold under repurchase agreements

Name	December 31, 2004	From May 12 to December 31, 2004
	Ending balance (NT\$)	Interest expense (NT\$)
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$78,816	\$250

Name	December 31, 2004	From May 12 to December 31, 2004
	Ending balance (US\$)	Interest expense (US\$)
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$2,483	\$8

J. Payable

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Pacific Venture Capital Co., Ltd.	\$-	\$-	\$5,906	\$186
San Ching Engineering Co., Ltd.	189,660	5,580	42,028	1,324
Symphox Information Co., Ltd.	16,698	491	20,453	644
Lin Yuan Property Management Co., Ltd.	-	-	1	-
Cathay Real Estate Development Co., Ltd.	1,141	34	909	29
Seaward Card Co., Ltd.	46,866	1,379	92,394	2,911
Total	\$254,365	\$7,484	\$161,691	\$5,094

K. Accounts collected in advance

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay General Hospital	\$53	\$2	\$53	\$2
Others	-	-	42	1
Total	\$53	\$2	\$95	\$3

English Translation of Financial Statements Originally issued in Chinese

L. Premium revenues

Name	As of and for the year ended December 31, 2003			
	Direct written premiums		Premiums receivable	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures Co., Ltd.	\$1,835	\$54	\$-	\$-
Cathay Real Estate Development Co., Ltd.	1,271	37	22	1
Cathay General Hospital	5,702	168	522	15
Seaward Leasing Ltd.	1,616	48	540	16
Others	4,383	129	236	7
Total	\$14,807	\$436	\$1,320	\$39

Name	As of and for the year ended December 31, 2004			
	Direct written premiums		Premiums receivable	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures Co., Ltd.	\$2,214	\$70	\$-	\$-
Cathay Real Estate Development Co., Ltd.	1,147	36	13	-
Cathay General Hospital	5,248	165	291	9
Seaward Leasing Ltd.	2,601	82	60	2
Others	1,389	44	278	9
Total	\$12,599	\$397	\$642	\$20

M. Reinsurance income

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$90,584	\$2,665	\$95,492	\$3,009

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.

N. Brokerage commissions

Name	From May 12 to December 31, 2004	
	(NT\$)	(US\$)
Cathay II Venture Capital Co., Ltd.	\$23	\$1
Cathay Pacific Venture Capital Co., Ltd.	1	-
Total	\$24	\$1

English Translation of Financial Statements Originally issued in Chinese

O. Handling fee Income

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Futures Co., Ltd.	\$3,104	\$91	\$2,146	\$68

P. Brokerage commissions for introducing futures contracts

Name	From May 12 to December 31, 2004	
	(NT\$)	(US\$)
Cathay Futures Co., Ltd.	\$862	\$27

Q. Miscellaneous income

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$7,617	\$240
Cathay Futures Co., Ltd.	-	-	299	9
Total	\$-	\$-	\$7,916	\$249

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

R. Commissions expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life Insurance Agent Co., Ltd.	\$119,060	\$3,503	\$287,969	\$9,073

S. Reinsurance commissions expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$21,481	\$632	\$18,243	\$575

T. Reinsurance claims payment

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$34,161	\$1,005	\$22,143	\$698

English Translation of Financial Statements Originally issued in Chinese

U. Credit card processing charges

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Seaward Card Co., Ltd.	\$351,892	\$10,353	\$739,744	\$23,306

V. Reinsurance handling fee expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$6,490	\$191	\$7,665	\$241

W. Operating expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Lin Yuan Property Management Co., Ltd.	\$736,739	\$21,675	\$736,344	\$23,199
Cathay Real Estate Development Co., Ltd.	11,090	326	7,790	246
Cathay Securities Investment Co., Ltd.	39,375	1,159	52,500	1,654
San Ching Engineering Co., Ltd.	14,750	434	7,589	239
Symphox Information Co., Ltd.	424,457	12,488	255,314	8,044
Seaward Leasing Ltd.	-	-	204	6
Seaward Card Co., Ltd.	-	-	853	27
Total	\$1,226,411	\$36,082	\$1,060,594	\$33,415

21. Pledged assets

A. Cathay Life

As of December 31, 2003 and 2004, Cathay Life provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and 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.

Item	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Long-term investment in bonds	\$7,937,998	\$233,539	\$8,090,599	\$254,902
Time deposits	878,750	25,853	338,907	10,678
Total	\$8,816,748	\$259,392	\$8,429,506	\$265,580

English Translation of Financial Statements Originally issued in Chinese

B. Cathay United Bank (merged)

(a) NT\$15,501,378 (US\$456,057) and NT\$16,001,506 (US\$504,143) of the securities purchased under agreements to resell on December 31, 2003 and 2004, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(b) Long-term investments in government bonds of NT\$205,439 (US\$6,473) on December 31, 2004 were pledged to other parties as collateral for business reserves and guarantees.

C. Cathay Century

Item	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Securities serving as deposits paid-government bonds	<u>\$360,284</u>	<u>\$10,600</u>	<u>\$359,937</u>	<u>\$11,340</u>

According to Article 141 of the ROC 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 disclosed at net carrying values.

D. Cathay Securities

Item	December 31, 2004	
	(NT\$)	(US\$)
Restricted assets-time deposit	<u>\$500,000</u>	<u>\$15,753</u>

As of December 31, 2004, Cathay Securities pledged its restricted assets-time deposits to Cathay United Bank (merged) as collateral for the over-loaning of settlement account.

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

22. Other important matters and contingent liabilities

(1) Cathay Life

Letters of credit issued by Cathay Life for the retrocede business amounted to US\$0 and US\$1,250 as of December 31, 2003 and 2004, respectively.

(2) Cathay United Bank (merged)

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

	<u>(NT\$)</u>	<u>(US\$)</u>
A. Entrusted items and guarantees:		
Trust and security held for safe keeping	\$644,797,470	\$20,314,980
Travelers checks for sale	691,260	21,779
Bills for collection	58,836,321	1,853,696
Guarantees on duties and contracts	17,028,500	536,500
Unused commercial letters of credit	3,792,093	119,474
Loan commitments	29,325,137	923,917
Credit card lines	279,345,149	8,801,044
Stamp tax, securities and memorial currency consignments	1,888	59

B. As of December 31, 2004, Cathay United Bank (merged) had various lawsuits, claims and proceedings. The most significant ones are described below:

- a. In 1997, Cathay United Bank (merged), as requested by Polaris International Securities Investment Trust Co., Ltd., issued a check payable to Chung Shing Bank in an amount of NT\$600,000 (US\$18,904) 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.

English Translation of Financial Statements Originally issued in Chinese

- 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\$756) 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\$1,897) and NT\$17,900 (US\$564), 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 Cathay United Bank (merged) 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.
 - e. On December 25, 2004, embezzlement acts in the amount of NT\$24,971 (US\$787) made by Cathay United Bank's (merged) employee has been examined by Jurisdiction of Taipei District Prosecutors Office.
- C. As of December 31, 2004, Cathay United Bank (merged) had entered into certain contracts to purchase premises and equipment totaling NT\$848,399 (US\$26,730) with prepayments of NT\$596,560 (US\$18,795).

(3) Cathay Century

The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in both years 2001 and 2002 tax returns, amounting to NT\$2,474 (US\$78) and NT\$1,658 (US\$52), respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century disputed the above tax assessments and had filed for reinvestigation.

23. Serious damages: None.

English Translation of Financial Statements Originally issued in Chinese

24. Subsequent events:

On January 26, 2005, Cathay Life acquired the five-year series A Preferred 100,000,000 shares of Stock of Chi Mei Corporation, which is subject to a three-year unnegotiable restriction, at a price of NT\$100 per share.

25. Other important events

(1) Pension related information

A. The Company

According to the ROC SFAS No.18 “Accounting for Pensions”, the actuarial report disclosure of pension information for the years ended December 31, 2003 and 2004 was as follows:

a. Pension fund status

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
(a) Vested benefit obligation	\$ (1,698)	\$ (50)	\$ (3,668)	\$ (116)
(b) Non-vested benefit obligation	(1,878)	(55)	(4,785)	(151)
(c) Accumulated benefit obligation	(3,576)	(105)	(8,453)	(267)
(d) Additions benefits based on future salaries	(1,636)	(48)	(4,548)	(143)
(e) Projected benefit obligation	(5,212)	(153)	(13,001)	(410)
(f) Fair value of plan assets	-	-	416	13
(g) Vested benefit	3,152	93	9,173	289
(h) Funded status=(e)+(f)	(5,212)	(153)	(12,585)	(397)
(i) Unrecognized transitional net benefit obligation (net assets)	-	-	-	-
(j) Unrecognized prior service cost	-	-	-	-
(k) Unrecognized pension gain and loss	3,607	106	10,108	319
(l) Additional accrued pension liability	(1,971)	(58)	(5,560)	(175)
(m)(Accrued pension liability)/prepaid pension cost=(h)+(i)+(j)+(k)+(l)	<u>\$ (3,576)</u>	<u>\$ (105)</u>	<u>\$ (8,037)</u>	<u>\$ (253)</u>

English Translation of Financial Statements Originally issued in Chinese

b. Actuarial Assumptions

	For the years ended December 31,	
	2003	2004
(a) Discount rate	3.5%	3.0%
(b) Expected rate of increase in salaries	3.0%	3.0%
(c) Expected long-term rate of return on plan assets	3.5%	3.0%

B. Cathay Life

a. With respect to the accounting for pensions, Cathay Life calculated the pension amount based on minimum pension liability and net periodic pension cost. As of December 31, 2003 and 2004, Cathay Life has contributed NT\$293,280 (US\$8,628) and NT\$296,249 (US\$9,334) to the pension fund, respectively.

b. Pension funded status:

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
(a) Vested benefit obligation	\$(5,406,316)	\$(159,056)	\$(5,712,528)	\$(179,979)
(b) Non-vested benefit obligation	(3,898,071)	(114,683)	(3,073,193)	(96,824)
(c) Accumulated benefit obligation	(9,304,387)	(273,739)	(8,785,721)	(276,803)
(d) Additional benefits based on future salaries	(2,163,173)	(63,641)	(2,059,182)	(64,877)
(e) Projected benefit obligation	(11,467,560)	(337,380)	(10,844,903)	(341,680)
(f) Vested benefit	(7,902,437)	(232,493)	(7,980,112)	(251,421)
(g) Fair value of plan assets	10,092,972	296,939	12,042,436	379,409
(h) Funded status = (e) + (g)	(1,374,588)	(40,441)	1,197,533	37,729
(i) Unrecognized transitional net benefit obligation (net assets)	(2,650,892)	(77,990)	(2,272,193)	(71,588)
(j) Unrecognized prior service cost	413,867	12,176	362,134	11,409
(k) Unrecognized pension gain and loss	2,879,122	84,705	(715,184)	(22,532)
(l) Additional accrued pension liability	-	-	-	-
(m) Accrued pension liability / prepaid pension cost = (h)+(i)+(j)+(k)+(l)	\$(732,491)	\$(21,550)	\$(1,427,710)	\$(44,982)

c. Actuarial assumptions

	For the years ended December 31,	
	2003	2004
(a) Discount rate	3.50%	3.00%
(b) Rate of increase in future salaries	3.00%	3.00%
(c) Expected return on pension plan Assets	3.50%	3.00%

English Translation of Financial Statements Originally issued in Chinese

C. Cathay United Bank (merged)

- a. Cathay United Bank (merged) has adopted the SFAS No.18 “Accounting for pensions”, which requires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expenses for 2003 and 2004:

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Service cost	\$282,553	\$8,313	\$305,810	\$9,635
Interest cost	117,215	3,449	110,822	3,492
Expected return on plan assets	(89,071)	(2,621)	(92,480)	(2,914)
Net amortization	50,212	1,477	32,498	1,024
Less: the recognition from the merged				
Bank	(26,649)	(784)	-	-
Net pension expenses	<u>\$334,260</u>	<u>\$9,834</u>	<u>\$356,650</u>	<u>\$11,237</u>

The following is reconciliation between the funded status and amounts recognized on balance sheets:

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Pension benefit obligation				
Vested	\$(1,768,323)	\$(52,025)	\$(1,433,581)	\$(45,167)
Non-vested	(277,529)	(8,165)	(68,439)	(2,156)
Accumulated benefit obligation	(2,045,852)	(60,190)	(1,502,020)	(47,323)
Value of future salary projections	(1,120,494)	(32,965)	(1,531,928)	(48,265)
Projected benefit obligation	(3,166,346)	(93,155)	(3,033,948)	(95,588)
Fair value of plan assets	2,642,288	77,737	2,887,610	90,977
Projected benefit obligation in excess of plan assets	(524,058)	(15,418)	(146,338)	(4,611)
Unrecognized net obligation at transition	215,822	6,350	183,324	5,776
Unrecognized net loss (gain)	308,236	9,068	(36,986)	(1,165)
Prepaid pension cost	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

English Translation of Financial Statements Originally issued in Chinese

The actuarial assumptions used are:

	For the years ended December 31,	
	2003	2004
Discount rate	3.5%	3.5%
Growth rate in compensation levels	3.5%	4.0%
Expected long-term rate of return on plan assets	3.5%	3.5%

As of December 31, 2003 and 2004, the vested benefit, based on the Cathay United Bank's (merged) pension plan, amounted to NT\$1,768,323 (US\$52,025) and NT\$1,433,581 (US\$45,166), respectively.

D. Cathay Century

a. Pension funded status:

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
(a) Vested benefit obligation	\$(32,199)	\$(948)	\$(38,680)	\$(1,219)
(b) Non-vested benefit obligation	(106,402)	(3,130)	(131,823)	(4,153)
(c) Accumulated benefit obligation	(138,601)	(4,078)	(170,503)	(5,372)
(d) Additional benefits based on future salaries	(72,036)	(2,119)	(87,443)	(2,755)
(e) Projected benefit obligation	(210,637)	(6,197)	(257,946)	(8,127)
(f) Fair value of plan assets	132,542	3,899	164,201	5,173
(g) Vested benefit	80,957	2,382	142,586	4,492
(h) Funded status=(e)+(f)	(78,095)	(2,298)	(93,745)	(2,954)
(i) Unrecognized transitional net benefit obligation (net assets)	8,703	256	8,123	256
(j) Unrecognized prior service cost	-	-	-	-
(k) Unrecognized pension gain and loss	69,392	2,042	85,622	2,698
(l) Additional accrued pension liability	(6,059)	(178)	(6,302)	(199)
(m) Accrued pension liability / prepaid pension cost= (h) + (i) + (j) + (k) + (l)	\$(6,059)	\$(178)	\$(6,302)	\$(199)

English Translation of Financial Statements Originally issued in Chinese

b. Net periodic pension cost:

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
(a) Service cost	\$26,405	\$777	\$30,015	\$946
(b) Interest cost	6,544	193	7,373	232
(c) Projected return on plan assets	(4,805)	(141)	(5,182)	(163)
(d) Amortization of unrealized transit on obligation (asset)	580	17	580	18
(e) Amortization of prior service cost	-	-	-	-
(f) Amortization of gain or loss	1,580	46	2,101	66
(g) Net periodic pension cost	<u>\$30,304</u>	<u>\$892</u>	<u>\$34,887</u>	<u>\$1,099</u>

c. Actuarial assumptions

	For the years ended December 31,	
	2003	2004
(a) Discount rate	3.70%	3.70%
(b) Rate of increase in future salaries	1.08%~8.69%	1.08%~8.69%
(c) Expected return on pension plan assets	3.70%	3.70%

E. Cathay Securities

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

a. Reconciliation between pension funding status and accrued pension liability was as follows:

	December 31,	
	2004 (NT\$)	2004 (US\$)
Benefit obligation		
Vested benefit obligation	\$163	\$5
Non-vested benefit obligation	1,517	48
Accumulated benefit obligation	<u>1,680</u>	<u>53</u>
Additional benefits based on future salaries	1,355	43
Projected benefit obligation	3,035	96
Fair value of pension fund assets	-	-
Funding status	<u>\$3,035</u>	<u>96</u>
Unrecognized prior year service cost	<u>\$-</u>	<u>\$-</u>
Unrecognized transitional net assets	<u>\$(3,035)</u>	<u>\$(96)</u>
Additional accrued pension liability	<u>\$1,680</u>	<u>53</u>
Accrued pension liability to Central Trust of China	130	4
Accrued pension liability	<u>\$1,810</u>	<u>\$57</u>

English Translation of Financial Statements Originally issued in Chinese

b. Actuarial assumptions

	<u>From May 12 to December 31, 2004</u>
Discount rate	3%
Rate of increase in future salaries	3%
Expected return on pension assets	3%

(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 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.

English Translation of Financial Statements Originally issued in Chinese

(b) As of December 31, 2004, the maturity dates of IRS ranged from May 20, 2002 to May 20, 2007.

As of December 31, 2003:

<u>Counterpart</u>	<u>Effective</u>	<u>Contract amount</u>	<u>Contract value</u>
Goldman Sachs International	2002.5.20	<u>USD700,000</u>	<u>USD700,000</u>

As of December 31, 2004:

<u>Counterpart</u>	<u>Effective</u>	<u>Contract amount</u>	<u>Contract value</u>
Goldman Sachs International	2002.5.20	<u>USD700,000</u>	<u>USD700,000</u>

e. Foreign currency options

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

As of December 31, 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	2002.5.20; 2007.5.20	<u>USD594,000</u>	<u>USD594,000</u>

Up to December 31, 2004, the option contracts mentioned above of the Company have been terminated.

B. Cathay Life

a. Purpose

As of December 31, 2004, Cathay Life held the following derivative financial instruments: futures contracts, forward foreign exchange contracts and interest rate swaps. 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; interest rate swaps contracts are entered into to hedge against risk of interest rate fluctuations. None of them was for trading purposes.

English Translation of Financial Statements Originally issued in Chinese

b. Credit and market risks

The counterparties for all of Cathay Life's futures contracts, forward foreign exchange contracts, and interest rate swaps are international financial organizations with 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. Product type and condition

(a) Futures

All futures transaction had offset on December 31, 2003.

			December 31, 2004			
			Contract amount		Net gain (loss) of fair value estimated	
Item	Transaction type	Lot	(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas stock futures	Selling out	310	\$1,063,432	\$33,504	\$(42,841)	\$(1,350)
Overseas bonds futures	Selling out	1,120	3,908,581	123,144	(6,837)	(215)
Taiwan weighted stock index futures	Selling out	100	\$118,998	3,749	(4,762)	(150)

(b) Forward and CCS contracts

English Translation of Financial Statements Originally issued in Chinese

- 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 December 31, 2003 and 2004, Cathay Life had forward foreign exchange contracts of approximately US\$12,376,800 and US\$15,036,800, respectively, in notional value.

The forward foreign exchange contracts as of December 31, 2003 were due between January 3, 2003 and January 2, 2004. In addition, the forward exchange contracts as of December 31, 2004 were due between January 5, 2005 and December 13, 2005.

		December 31, 2003			
		Fair value		Due value	
Item	Contract amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$12,376,800	\$420,160,422	\$12,361,295	\$422,574,293	\$12,432,312

		December 31, 2004			
		Fair value		Due value	
Item	Contract amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$15,036,800	\$480,851,885	\$15,149,713	\$497,959,345	\$15,688,700

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

		December 31,	
Net assets		2003	2004
Short-term investment		US\$12,376,800	US\$15,036,800

Losses on the forward foreign exchange and currency swap contracts were NT\$966,356 (US\$28,431) and NT\$1,111,561 (US\$35,021), respectively, for the years ended December 31, 2003 and 2004.

English Translation of Financial Statements Originally issued in Chinese

(c) Interest rate swap agreement (IRS)

The IRS agreements of Cathay Life as of December 31, 2004 are set forth below:

Category	Currency	Period	Amount	
			(NT\$)	(US\$)
IRS	NTD	2002.09.03~2014.11.29	\$48,284,212	\$1,521,242

(d) Option

No option transactions were outstanding on December 31, 2003.

			December 31, 2004			
			Contract amount		Net loss of fair value estimated	
Item	Transaction type	Lot	(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan weighted stock index futures	Call option & Put option	4,268	\$1,263,225	\$39,799	\$(13,436)	\$(423)

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)

Derivative financial instruments	December 31, 2003		
	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	\$2,035,038	\$136,448	\$(7,975)
For non-trading purpose			
Interest rate swap contracts	736,352	5,166	7,579
Cross-currency swap contracts	294,222	5,011	7,613

English Translation of Financial Statements Originally issued in Chinese

Derivative financial instruments	December 31, 2004		
	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	\$4,851,586	\$84,465	\$356,599
For trading purpose			
Interest rate swap contracts	337,934	3,170	(45)
Option contracts	109,409	779	396
For non-trading purpose			
Interest rate swap contracts	1,505,642	12,426	37,242
Cross-currency swap contracts	573,171	11,182	15,355

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 represent agreements to exchange designated currencies at a specified date at a predetermined price. Cathay United Bank's (merged) enter into forward foreign exchange contracts with Cathay United Bank (merged) to hedge their trading currency exposure. All clients are required to have approved credit limits in place prior to entering a transaction. The limit approval process is under the similar 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 December 31, 2004, the maturities of Cathay United Bank's (merged) outstanding interest rate swaps ranged from two months to five years and seven months. Those interest rate swap contracts represent 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.

English Translation of Financial Statements Originally issued in Chinese

As of December 31, 2004, Cathay United Bank's (merged) outstanding cross-currency swaps had remaining maturities from one month to six years and seven 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 designed to match Cathay United Bank's (merged) structured deposit business or other commercial needs. The option counterparties 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 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 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	December 31,	
	2003	2004
Interest rate risk exposures	\$283,955	\$451,984
Foreign exchange risk exposures	310,941	92,093

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

The liquidity of forward foreign exchange contracts, which are entered into by Cathay United Bank (merged) with customers, could be low. When Cathay United Bank (merged) provides these financial instruments to its customers as hedging instruments, it requires customers to provide supporting documents to process the trades. Since deals are based on real demand and both parties will commit to the terms of forward contracts, the liquidity risk of forward foreign exchange contracts should be minimal. 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 markets are very liquid. Liquidity risk of interest rate swap contracts and cross-currency swap contracts should be limited to a less extent because most of the trades are dealt for the purpose of holding 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 (merged)'s funding or hedging investment purposes. They did not involve any degree of high leverage.

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.

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

Foreign currency-denominated assets and liabilities derived from trading related to forward foreign exchange contracts are recorded by the contracted forward rate on the trade date. Upon settlement, the realized gain or loss will be recognized as current gain or loss. At each financial reporting date, for all outstanding forward deals, the Bank will adjust the forward rate according to its remaining term and recognize the mark-to-market differences as gains or losses in the current income statement. On the balance sheet date, the carrying amount of the receivables and payables from forward contracts are netted, and the difference is reported as an asset or liability.

There is no physical exchange of notional principal amounts for interest rate swaps. Instead, memo entries are made on the trade date. For interest rate swap transactions undertaken for trading purposes, mark-to-market value is calculated based on the discounted present value of all future cash flows using the current market rate at each balance sheet date. Any difference between the carrying amount and mark-to-market value is recognized as gain or loss. For swaps entered into for hedging purposes, interest income or expense is recognized upon settlement.

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 interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, on each settlement date is recorded as revenue or expense.

For option contracts, only memo entries of notional principal amounts are made on the contract date. Premiums paid or received are recorded as assets or liabilities. As of the balance sheet date, outstanding option contracts are marked-to-market and the gains and losses are recognized in the current statement of income. Gains or losses on the exercise of options are recognized in current statement of income.

Only memo entries for notional principal amounts are made on the contract date for forward rate agreements. The differences between the market rate and the contracted rate in the present value of interest revenue or expense on the balance sheet date are reported as gains or losses.

Margin deposits paid by the Bank 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.

English Translation of Financial Statements Originally issued in Chinese

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

		For the year ended	
		December 31,	
Account		2003	2004
<u>For Trading Purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest revenue	\$7,135	\$10,046
-Realized	Interest expense	3,063	7,400
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	-	711
-Unrealized	"	-	(46)
Option contracts			
-Realized	"	9	230
-Unrealized	"	1	16
Forward rate agreements			
-Realized	"	(24)	-
Futures contracts			
-Realized	"	-	118
<u>For Non-trading Purpose</u>			
Interest rate swap contracts			
-Realized	Interest revenue	22,120	30,662
-Realized	Interest expense	4,788	12,324
Cross-currency swap contracts			
-Realized	Interest revenue	2,193	12,500
-Realized	Interest expense	788	7,572

e. Off-balance sheet credit risk

Cathay United Bank (merged) entered 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 were 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.

English Translation of Financial Statements Originally issued in Chinese

- 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	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Securities purchase under agreements to resell	\$486,480	\$14,312	\$(Note)	\$(Note)
Securities sold under agreements to repurchase	29,749,447	875,241	-(Note)	-(Note)
Loan commitments	19,647,927	578,050	29,325,137	923,917
Credit card lines	218,487,571	6,427,996	279,345,149	8,801,044
Guaranty and Commercial letters of credit	18,894,451	555,883	20,820,593	655,973

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

a. Purpose

As of December 31, 2004, Cathay Century enters into forward foreign exchange contracts and futures contracts. The former were to hedge against risks of foreign currency and net assets exchange rate fluctuations while the latter were mainly to hedge against the volatile risks of stock quotes decline. For the purpose of hedging the maximum market risks, Cathay Century adopted those financial derivative instruments highly relevant to the hedged items and assessed its strategies on a regular basis.

English Translation of Financial Statements Originally issued in Chinese

b. Credit and market risk

Cathay Century enters into forward foreign exchange contracts with financial institutions with 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.

On a discretionary basis, Fuh Hwa Securities Investment Trust conducts transactions with Taiwan Futures Exchange for Cathay Century. The credit risks of those transactions are not substantial to the point of causing loss; on the other hand, the market risks of stock quotes volatility which might cause loss is offset by the gains/losses from hedging instruments of electronic sector stocks.

c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward and futures 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	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Forward exchange contracts receivable	\$1,831,560	\$53,885	\$2,317,142	\$73,004
Discount on forward exchange contracts	10,671	314	12,392	390
Payables on forward exchange purchased	(1,834,812)	(53,981)	(2,266,107)	(71,396)
Net-other receivable (Payable)	\$7,419	\$218	\$63,427	\$1,998

- (b) As of December 31, 2003 and 2004, Cathay Century has forward exchange contracts of approximately US\$54,000 and US\$71,000, respectively, in notional value. The forward foreign exchange contracts as of December 31, 2003 were due between July 14, 2004 and December 29, 2004. In addition, the forward contracts as of December 31, 2004 were due between February 25, 2005 and October 19, 2005.

English Translation of Financial Statements Originally issued in Chinese

		December 31, 2003			
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	US\$54,000	\$1,834,812	\$53,981	\$1,831,560	\$53,885

		December 31, 2004			
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	US\$71,000	\$2,266,107	\$71,396	\$2,317,142	\$73,004

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	December 31,	
	2003	2004
Long-term investments in bonds	US\$54,000	US\$71,000

Futures Contract:

a Cathay Century recognizes NT\$80 (US\$3) offsets before December 31, 2004, as futures trading loss (NT\$75 (US\$2) unrealized future contract loss included).

b

		December 31, 2004					
Type	Buy/Sell	Open Interest		Contract amount		Fair value	
		Position	NT\$	US\$	NT\$	US\$	
Taiwan Stock Exchange							
Electronic Sector Index	Sell	2	\$1,772	\$56	\$1,847	\$58	

The Futures contract mentioned above is to hedge the volatility.

		December 31, 2004			
Net Asset		Carrying amount		Fair Value	
		NT\$	US\$	NT\$	US\$
Short-term investments		\$14,081	\$444	\$13,494	\$425

English Translation of Financial Statements Originally issued in Chinese

c. 2003: None.

If financial instruments have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on financial information or other information on the balance sheet date.

E. Cathay Securities

Structured notes transactions

a. Nominal principal or contract amount and credit risk:

Financial instruments	December 31, 2004			
	Nominal principal / contract amount		Credit risk	
	(NT\$)	(US\$)	(NT\$)	(US\$)
For trading purposes				
Principal guaranteed notes				
Fixed-income products	\$225,100	\$7,092	\$-	\$-

Cathay Securities's credit risk derives from a breach of contract by a counterparty. Cathay Securities believes it is not exposed to credit risk because the contract amount was collected in advance of the principal guaranteed notes being issued.

b. Risk from market value

Cathay Securities receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. As a result, Cathay Securities believes there is no significant risk from market value to Cathay Securities.

c. Risk from liquidity, cash flow, and other uncertainties.

Cathay Securities receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities believes there are no exceptional cash requirements at the maturity date.

English Translation of Financial Statements Originally issued in Chinese

d. Types, purposes, and strategies for the financial derivatives:

Based on the contracts, Cathay Securities receives the contract amount from counterparties on the contract date and provides the counterparties with a guaranteed fixed return of a portion of principal and a return, if any, of linked assets.

e. Financial statement presentation of derivative financial instruments:

As of December 31, 2004, the disclosure of the transactions of structured notes on the balance sheet and statement of income is summarized as follows:

Balance sheet	December 31, 2004	
	Derivative financial instrument assets – Gre Tai (over-the-counter)	Liabilities for derivative financial instruments – Gre Tai
	(NT\$)	(NT\$)
Principal guaranteed notes	\$-	\$226,285

Statement of income	From May 12 to December 31, 2004	
	Revenue from derivative financial instruments – Gre Tai (over-the-counter)	Comments
	(NT\$)	(NT\$)
Principal guaranteed notes	\$132	Market value method

Balance sheet	December 31, 2004	
	Derivative financial instrument assets – Gre Tai (over-the-counter)	Liabilities for derivative financial instruments – Gre Tai
	(US\$)	(US\$)
Principal guaranteed notes	\$-	\$7,129

Statement of income	From May 12, to December 31, 2004	
	Revenue from derivative financial instruments – Gre Tai (over-the-counter)	Comments
	(US\$)	(US\$)
Principal guaranteed notes	\$4	Market value method

English Translation of Financial Statements Originally issued in Chinese

(3) Non-derivative financial instruments related information

A. The Company

Item	December 31, 2003			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$6,322,799	\$6,322,799	\$186,019	\$186,019
Short-term investments	2,147,421	2,147,421	63,178	63,178
Other receivable	58,452	58,452	1,720	1,720
Long-term investments in stocks	158,050,702	158,050,702	4,649,918	4,649,918
Deferred charges	231,582	231,582	6,813	6,813
Liabilities				
Other payable	\$695,999	\$695,999	\$20,477	\$20,477
Bonds payable	25,135,091	25,135,091	739,485	739,485
Item	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$20,472,483	\$20,472,483	\$645,006	\$645,006
Other receivable	584,594	584,594	18,418	18,418
Long-term investment in stocks	178,504,731	178,504,731	5,623,968	5,623,968
Deferred charges	66,627	66,627	2,099	2,099
Liabilities				
Other payable	987,900	987,900	31,125	31,125
Bonds payable	23,774,560	23,774,560	749,041	749,041

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

English Translation of Financial Statements Originally issued in Chinese

- 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

Item	December 31, 2003			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$110,832,510	\$110,832,510	\$3,260,739	\$3,260,739
Receivables	15,303,963	15,303,963	450,249	450,249
Short-term investments	394,517,196	403,809,617	11,606,861	11,880,248
Long-term investments in stocks	46,503,798	48,299,920	1,368,161	1,421,004
Guarantee deposits paid	1,176,827	1,176,827	34,623	34,623
Securities serving as deposits				
paid-bonds	7,937,998	7,937,998	233,539	233,539
Liabilities				
Payables	211,344	211,344	6,218	6,218
Guarantee deposits revived	1,327,385	1,327,385	39,052	39,052

Item	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$219,409,605	\$219,409,605	\$6,912,716	\$6,912,716
Receivables	12,440,233	12,440,233	391,942	391,942
Short-term investments	308,494,073	320,778,412	9,719,410	10,106,440
Long-term investments in stocks	14,242,385	14,220,032	448,721	448,016
Guarantee deposits paid	1,221,763	1,221,763	38,493	38,493
Securities serving as deposits				
paid-bonds	8,090,599	8,090,599	254,902	254,902
Liabilities				
Payables	87,250	87,250	2,749	2,749
Guarantee deposits revived	1,647,431	1,647,431	51,904	51,904

English Translation of Financial Statements Originally issued in Chinese

The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

- a. The fair value of Cathay Life's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.
- b. The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- c. The fair value of Cathay Life's short-term investments and long-term investments is based on market prices at the reporting date if market prices are available. The fair value of the Company's long-term investments is based on relevant financial or any other information if market prices are not available.

C. Cathay United Bank (merged)

- a. Fair value of the non-derivative financial instruments

As of December 31, 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	December 31,							
	2003				2004			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Securities purchased	\$178,434,377	\$5,249,614	\$178,753,205	\$5,258,994	\$240,083,384	\$7,564,064	\$240,859,150	\$7,588,505
Long-term Investments	26,841,388	789,685	26,932,513	792,366	37,399,221	1,178,299	37,471,333	1,180,571

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.

English Translation of Financial Statements Originally issued in Chinese

b. Others

(a) Information on concentrations of credit risk

Concentrations of credit risk exist when the counter party 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:

Item	December 31,			
	2003		2004	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$512,062,640	\$15,065,097	\$574,862,475	\$18,111,609
South East Asia	10,354,093	304,622	11,954,704	376,645
North East Asia	259,898	7,646	34,178	1,077
North America	6,894,411	202,836	9,751,533	307,232
Others	5,909,366	173,856	12,612,691	397,375
Total	<u>\$535,480,408</u>	<u>\$15,754,057</u>	<u>\$609,215,581</u>	<u>\$19,193,938</u>
Industry type				
Manufacturing	\$65,664,461	\$1,931,876	\$73,569,084	\$2,317,867
Financial institutions and insurance	28,320,639	833,205	75,014,571	2,363,408
Leasing and real estate	70,914,517	2,086,334	22,540,469	710,160
Individuals	258,982,514	7,619,374	322,070,197	10,147,139
Others	111,598,277	3,283,268	116,021,260	3,655,364
Total	<u>\$535,480,408</u>	<u>\$15,754,057</u>	<u>\$609,215,581</u>	<u>\$19,193,938</u>

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

English Translation of Financial Statements Originally issued in Chinese

D. Cathay Century

Item	December 31, 2003			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$3,589,751	\$3,589,751	\$105,612	\$105,612
Short-term investments	2,065,103	2,162,167	60,756	63,612
Receivables	739,445	739,445	21,755	21,755
Claims recoverable from reinsurers	209,135	209,135	6,153	6,153
Due from reinsurers and ceding companies	91,880	91,880	2,703	2,703
Secured loans	761,767	761,767	22,411	22,411
Long-term investment in stocks	434,272	434,272	12,777	12,777
Guarantee deposits paid	16,821	16,821	495	495
Securities serving as deposits paid-bonds	360,284	360,284	10,600	10,600
Liabilities				
Claims outstanding	4,736	4,736	139	139
Due to reinsurers and ceding companies	73,494	73,494	2,162	2,162
Reserve for operations and liabilities	6,449,091	6,449,091	189,735	189,735
Item	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$3,783,245	\$3,783,245	\$119,195	\$119,195
Short-term investments	2,434,295	2,461,424	76,695	77,550
Receivables	1,099,503	1,099,503	34,641	34,641
Claims recoverable from reinsurers	252,969	252,969	7,970	7,970
Due from reinsurers and ceding companies	18,266	18,266	575	575
Secured loans	788,350	788,350	24,838	24,838
Long-term investment in stocks	302,235	322,430	9,522	10,158
Guarantee deposits paid	16,470	16,470	519	519
Securities serving as deposits paid-bonds	359,937	359,937	11,340	11,340
Liabilities				
Claims outstanding	632	632	20	20
Due to reinsurers and ceding companies	237,938	237,938	7,497	7,497
Reserve for operations and liabilities	7,235,831	7,235,831	227,972	227,972

English Translation of Financial Statements Originally issued in Chinese

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

- a. Short-term financial instruments estimate their fair value 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 amount 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/to reinsurers and ceding companies, secured loans, claims outstanding and reserve for operations and liabilities.
- b. The amounts are expected to receive guarantee deposits paid and securities serving as deposits paid-bonds are closed to the fair value; accordingly their fair value is equal to their carrying amount.
- 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 will be estimated based on other financial information or their carrying amount on the balance sheet date.

E. Cathay Securities

Item	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$1,857,623	\$1,857,623	\$58,526	\$58,526
Short-term investments – net	650,000	650,000	20,479	20,479
Investments in bonds with resale agreements	672,686	672,686	21,194	21,194
Operating securities – net	295,166	295,166	9,299	9,299
Receivable amount for margin loans	189,445	189,445	5,969	5,969
Securities refinancing margin deposits	687	687	22	22
Accounts receivable – net	8,982	8,982	283	283
Other receivables – net	12,796	12,796	403	403
Restricted assets – current	500,000	500,000	15,753	15,753
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,729	4,729
Settlement and clearance funds	65,109	65,109	2,051	2,051
Guarantee deposits paid	19,929	19,929	628	628

English Translation of Financial Statements Originally issued in Chinese

Liabilities				
Bonds sold under repurchase agreements	776,327	776,327	24,459	24,459
Securities financing guarantee deposits-in	744	744	23	23
Deposit payable for securities financing	822	822	26	26
Payables	11,865	11,865	374	374

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 these instruments is very close to the balance sheet date, it is reasonable that their book values are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, investments in bonds with resale agreements, receivable amount for margin loans, securities refinancing margin deposits, accounts receivables, other receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements, securities financing guarantee deposits-in, deposit payable for securities financing, and payables.
- b. The fair value of short-term investments, operating securities and long-term investments in stocks are estimated based on market prices or net asset values, if available. If the investment is not traded on the open market, the book value on the balance sheet date is used to estimate the fair value.

(4) Discretionary account management

A. Cathay Life

Item	December 31, 2003			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,213,351	\$65,118	\$2,247,032	\$66,109
Repurchase bonds	6,197,247	182,326	6,198,381	182,359
Short-term securities	250,024	7,356	250,081	7,357
Convertible bonds	497,528	14,638	533,182	15,686
Bonds	1,890,603	55,622	1,885,500	55,473
Cash in banks	295,962	8,707	295,962	8,707
Net other assets less liabilities	(163,411)	(4,808)	(163,411)	(4,808)
Total	\$11,181,304	\$328,959	\$11,246,727	\$330,883

English Translation of Financial Statements Originally issued in Chinese

Item	December 31, 2004			
	Carring value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,835,044	\$57,815	\$1,865,982	\$58,789
Repurchase bonds	4,927,808	155,255	4,928,799	155,287
Convertible bonds	190,292	5,995	172,244	5,427
Convertible bonds	3,640,806	114,707	3,706,615	116,780
Cash in bank	339,800	10,706	339,800	10,706
Net other assets less liabilities	(34,318)	(1,081)	(34,318)	(1,081)
Total	\$10,899,432	\$343,397	\$10,979,122	\$345,908

As of December 31, 2003 and 2004, Cathay Life had discretionary account management contracts in the amount of NT\$10,300,000 (US\$303,030) and NT\$10,050,000 (US\$316,635), respectively.

B. Cathay Century

Item	December 31, 2003			
	Carring value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$19,616	\$577	\$18,829	\$554
Cash in banks	32,124	945	32,124	945
Net other assets less liabilities	(64)	(2)	(64)	(2)
Total	\$51,676	\$1,520	\$50,889	\$1,497

Item	December 31, 2004			
	Carring value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$85,713	\$2,700	\$85,265	\$2,686
Short-term notes	28,034	883	28,034	883
Cash in banks	34,238	1,079	34,238	1,079
Net other assets less liabilities	(103)	(3)	(103)	(3)
Total	\$147,882	\$4,659	\$147,434	\$4,645

As of December 31, 2003 and 2004, Cathay Century had discretionary account management contracts in the amount of NT\$50,000 (US\$1,471) and NT\$150,000 (US\$4,726), respectively.

English Translation of Financial Statements Originally issued in Chinese

(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 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.

English Translation of Financial Statements Originally issued in Chinese

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 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.

English Translation of Financial Statements Originally issued in Chinese

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.

Status quo:

Up to December 31, 2004, the Company has converted US\$ 14,444 convertible notes at conversion price of NT\$ 54.15 (US\$1.71) per share, into 9,224 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$ 422,591 (US\$13,314), and are recognized as capital surplus.

English Translation of Financial Statements Originally issued in Chinese

(6) Capital adequacy ratio on a consolidated basis

As of December 31, 2003 and 2004 the consolidated capital adequacy ratios were 120.71% and 153.89%, respectively.

(7) Material contract: None.

(8) Others

Based on the resolution of the board of directors on April 23, 2004, the securities department and the securities agent (Taipei branch) of Cathay United Bank, along with its business, assets and liabilities, were assigned to Cathay Securities through a business assignment, which amounted to NT\$414,930 (US\$13,073). The Xin-yi and Bo-ai branch offices were established at the same locations as at the assignment. The assignment date was August 13, 2004, the application date for the assignment was June 15, 2004 and the authorities approved it on June 28, 2004.

(9) Presentation of financial statements:

Certain accounts in the financial statements for the year ended December 31, 2003 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 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 named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life Insurance Ltd. (Shanghai) acquired a business license of an enterprise as legal person on December 29, 2004. As of December 31, 2004, Cathay Life's remittances to this new company totaled approximately US\$48,330.

English Translation of Financial Statements Originally issued in Chinese

27. Segment information:

	For the year ended December 31, 2003					
	Holding division (NT\$)	Insurance division (NT\$)	Bank division (NT\$)	Securities division (NT\$)	Offset and adjustment (NT\$)	Total (NT\$)
Operating revenues from external customers	\$406,811	\$485,474,364	\$39,521,335	\$-	\$-	\$525,402,510
Operating revenues from other segments of the company	22,657	1,711,851	178,627	-	(1,913,135)	-
Total operating revenue	\$429,468	\$487,186,215	\$39,699,962	\$-	\$(1,913,135)	\$525,402,510
Segment profits	\$(833,818)	\$19,097,008	\$1,900,066	\$-	\$539,356	\$20,702,612
Gain on long-term equity investments						494,366
General revenues						2,014,175
Income from continuing operations before income taxes						\$23,211,153
Identifiable assets	\$9,043,039	\$1,462,673,108	\$876,640,020	\$-	\$(15,463,368)	2,332,892,799
Long-term investments						8,803,001
Total assets						\$2,341,695,800
Amortizations and depreciation expenses	\$146,222	\$1,982,281	\$1,260,805	\$-		
Capital expenditures	\$3,224	\$744,847	\$1,421,957	\$-		
	For the year ended December 31, 2004					
	Holding division (NT\$)	Insurance division (NT\$)	Bank division (NT\$)	Securities division (NT\$)	Offset and adjustment (NT\$)	Total (NT\$)
Operating revenues from external customers	\$258,894	\$544,080,850	\$40,971,974	\$66,324	\$-	\$585,378,042
Operating revenues from other segments of the company	6,252	1,038,461	115,432	10,197	(1,170,342)	-
Total operating revenue	\$265,146	\$545,119,311	\$41,087,406	\$76,521	\$(1,170,342)	\$585,378,042
Segment profits	\$(882,330)	\$16,660,005	\$15,764,798	\$(49,107)	\$349,563	\$31,842,929
Gain on long-term equity investments						496,823
General revenues						1,149,787
Income from continuing operations before income taxes						\$33,489,539
Identifiable assets	\$21,967,843	\$1,632,559,640	\$1,019,241,295	\$4,480,306	\$(38,374,365)	2,639,874,719
Long-term investments						10,203,705
Total assets						\$2,650,078,424
Amortizations and depreciation expenses	\$147,743	\$2,035,406	\$1,153,500	\$2,160		
Capital expenditures	\$1,206	\$575,504	\$1,223,598	\$37,716		

English Translation of Financial Statements Originally issued in Chinese

	For the year ended December 31, 2003					
	Holding division (US\$)	Insurance division (US\$)	Bank division (US\$)	Securities division (US\$)	Offset and adjustment (US\$)	Total (US\$)
Operating revenues from external customers	\$11,968	\$14,282,859	\$1,162,734	\$-	\$-	\$15,457,561
Operating revenues from other segments of the company	667	50,363	5,255	-	(56,285)	-
Total operating revenue	<u>\$12,635</u>	<u>\$14,333,222</u>	<u>\$1,167,989</u>	<u>\$-</u>	<u>\$(56,285)</u>	<u>\$15,457,561</u>
Segment profits	<u>\$(24,531)</u>	<u>\$561,841</u>	<u>\$55,901</u>	<u>\$-</u>	<u>\$15,868</u>	<u>\$609,079</u>
Gain on long-term equity investments						14,545
General revenues						59,258
Income from continuing operations before income taxes						<u>\$682,882</u>
Identifiable assets	<u>\$266,050</u>	<u>\$43,032,454</u>	<u>\$25,791,116</u>	<u>\$-</u>	<u>\$(454,939)</u>	<u>68,634,681</u>
Long-term investments						258,988
Total assets						<u>\$68,893,669</u>
Amortizations and depreciation expenses	<u>\$4,302</u>	<u>\$58,320</u>	<u>\$37,093</u>	<u>\$-</u>		
Capital expenditures	<u>\$95</u>	<u>\$21,914</u>	<u>\$41,835</u>	<u>\$-</u>		
	For the year ended December 31, 2004					
	Holding division (US\$)	Insurance division (US\$)	Bank division (US\$)	Securities division (US\$)	Offset and adjustment (US\$)	Total (US\$)
Operating revenues from external customers	\$8,157	\$17,141,803	\$1,290,862	\$2,090	\$-	\$18,442,912
Operating revenues from other segments of the company	197	32,718	3,637	321	(36,873)	-
Total operating revenue	<u>\$8,354</u>	<u>\$17,174,521</u>	<u>\$1,294,499</u>	<u>\$2,411</u>	<u>\$(36,873)</u>	<u>\$18,442,912</u>
Segment profits	<u>\$(27,799)</u>	<u>\$524,890</u>	<u>\$496,686</u>	<u>\$(1,547)</u>	<u>\$11,013</u>	<u>\$1,003,243</u>
Gain on long-term equity investments						15,653
General revenues						36,225
Income from continuing operations before income taxes						<u>\$1,055,121</u>
Identifiable assets	<u>\$692,119</u>	<u>\$51,435,401</u>	<u>\$32,112,202</u>	<u>\$141,156</u>	<u>\$(1,209,022)</u>	<u>83,171,856</u>
Long-term investments						321,478
Total assets						<u>\$83,493,334</u>
Amortizations and depreciation expenses	<u>\$4,655</u>	<u>\$64,127</u>	<u>\$36,342</u>	<u>\$68</u>		
Capital expenditures	<u>\$38</u>	<u>\$18,132</u>	<u>\$38,551</u>	<u>\$1,188</u>		

English Translation of Financial Statements Originally issued in Chinese

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

(1) Concise balance sheets:

Items/Period	Cathay Life				Cathay United Bank (merged)				Cathay Century				Cathay Securities	
	December 31, 2003		December 31, 2004		December 31, 2003		December 31, 2004		December 31, 2003		December 31, 2004		December 31, 2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$538,378,543	\$15,839,322	\$571,371,303	\$18,001,616	\$309,843,530	\$9,115,726	\$371,856,922	\$11,715,719	\$6,772,966	\$199,263	\$7,725,799	\$243,409	\$4,199,265	\$132,302
Exchange bills negotiated, discounted, and loans	478,362,995	14,073,639	450,828,752	14,203,804	511,762,416	15,056,264	585,618,279	18,450,481	761,767	22,411	788,350	24,838	-	-
Funds and long-term investments	394,179,994	11,596,940	537,449,975	16,932,892	26,841,388	789,685	37,399,221	1,178,300	2,270,550	66,801	2,579,776	81,278	18	1
Fixed assets	15,465,945	455,015	14,855,948	468,051	26,049,117	766,376	24,794,199	781,166	55,506	1,633	65,002	2,048	35,871	1,130
Other assets (including intangible assets)	28,337,778	833,709	50,215,565	1,582,091	7,930,653	233,323	4,696,134	147,956	436,349	12,838	500,402	15,766	245,152	7,723
Current liabilities	8,301,670	244,239	8,191,707	258,088	786,840,025	23,149,162	893,869,496	28,162,240	749,488	22,050	1,201,945	37,869	1,018,191	32,079
Long-term liabilities	736,217	21,660	1,431,436	45,099	-	-	-	-	8,584	253	9,209	290	-	-
Other liabilities	1,359,454,027	39,995,705	1,524,526,580	48,031,713	27,002,873	794,436	50,135,101	1,579,556	6,466,208	190,238	7,268,050	228,987	3,681	116
Capital stocks	50,686,158	1,491,208	50,686,158	1,596,917	43,182,407	1,270,445	43,182,407	1,360,504	2,317,006	68,167	2,317,006	73,000	3,500,000	110,271
Capital surplus	5,200	153	12,591	397	13,461,820	396,052	13,463,074	424,168	430	13	1,909	60	-	-
Retained earnings	38,590,027	1,135,335	39,956,516	1,258,869	11,886,259	349,699	23,830,886	750,815	754,135	22,187	861,358	27,138	(41,566)	(1,310)
Equity adjustments	(15,078)	(444)	(83,445)	(2,629)	53,720	1,580	(116,209)	(3,661)	1,287	38	(148)	(5)	-	-
Treasury stocks	(3,032,966)	(89,231)	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$1,454,725,255	\$42,798,625	\$1,624,721,543	\$51,188,454	\$882,427,104	\$25,961,374	\$1,024,364,755	\$32,273,622	\$10,297,138	\$302,946	\$11,659,329	\$367,339	\$4,480,306	\$141,156
Total liabilities	\$1,368,491,914	\$40,261,604	\$1,534,149,723	\$48,334,900	\$813,842,898	\$23,943,598	\$944,004,597	\$29,741,796	\$7,224,280	\$212,541	\$8,479,204	\$267,146	\$1,021,872	\$32,195
Total stockholders' equity	\$86,233,341	\$2,537,021	\$90,571,820	\$2,853,554	\$68,584,206	\$2,017,776	\$80,360,158	\$2,531,826	\$3,072,858	\$90,405	\$3,180,125	\$100,193	\$3,458,434	\$108,961

English Translation of Financial Statements Originally issued in Chinese

(2) Concise statements of income:

Items/Period	Cathay Life				Cathay United Bank (merged)				Cathay Century				Cathay Securities		Former Cathay United Bank	
	For the year ended Dec. 31,2003		For the year ended Dec. 31,2004		For the year ended Dec. 31,2003		For the year ended Dec. 31,2004		For the year ended Dec. 31,2003		For the year ended Dec. 31,2004		5.12.2004-12.31.2004		1.1.2003-10.26.2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$474,956,405	\$13,973,416	\$531,305,391	\$16,739,300	\$30,350,469	\$892,924	\$41,851,027	\$1,318,558	\$12,254,223	\$360,524	\$13,892,595	\$437,700	\$76,521	\$2,411	\$10,076,237	\$296,447
Operating costs & expenses	(457,215,568)	(13,451,474)	(515,392,739)	(16,237,956)	(27,697,691)	(814,878)	(25,322,607)	(797,814)	(11,566,764)	(340,299)	(13,083,064)	(412,195)	(125,734)	(3,961)	(9,786,111)	(287,911)
Operating income	17,740,837	521,942	15,912,652	501,344	2,652,778	78,046	16,528,420	520,744	687,459	20,225	809,531	25,505	(49,213)	(1,550)	290,126	8,536
Non-operating revenues	2,072,947	60,987	2,106,927	66,381	74,340	2,187	1,287,486	40,563	14,214	418	37,466	1,180	-	-	60,615	1,783
Non-operating expenses	(43,485)	(1,279)	(2,757,105)	(86,866)	(106,717)	(3,140)	(147,659)	(4,652)	(8,103)	(238)	(27,414)	(864)	-	-	(29,714)	(874)
Operating income before taxes	19,770,299	581,650	15,262,474	480,859	2,620,401	77,093	17,668,247	556,655	693,570	20,405	819,583	25,821	(49,213)	(1,550)	321,027	9,445
Net income	17,830,597	524,583	15,618,806	492,086	2,706,059	79,613	13,879,247	437,279	592,660	17,436	640,617	20,183	(41,566)	(1,310)	(62,795)	(1,847)
Earning per share before taxes (in dollars)	\$4.01	\$0.12	\$3.02	\$0.10	\$0.65	\$0.02	\$4.09	\$0.13	\$2.99	\$0.09	\$3.54	\$0.11	\$(0.14)	\$-	\$0.03	\$-
Earning per share (in dollars)	\$3.61	\$0.11	\$3.09	\$0.10	\$0.67	\$0.02	\$3.21	\$0.10	\$2.56	\$0.08	\$2.76	\$0.09	\$(0.12)	\$-	\$(0.01)	\$-

Annotation 1: On April 11, 2002 former 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\$59,692). According to Article 15 of the ROC Financial Institution Merger Act, the losses on the transaction are being amortized over five years from April 2002. According to general accepted accounting principles in the ROC, the losses are recognized as current expenses on the transaction date. Therefore, the above accounting treatment results in decreased the provision for credit losses and increased the net income before tax of its subsidiary by NT\$316,092 (US\$9,300), and the net income after tax of its subsidiary increased by NT\$237,069 (US\$6,975) from January 1 to October 16, 2003. From Jan. 1 to Oct. 26, 2003, provision for credit losses of its subsidiary decreased by NT\$316,092 (US\$9,300), the net income before tax of its subsidiary increased by NT\$316,092 (US\$9,300), and the net income after tax of its subsidiary increased by NT\$237,069 (US\$6,975).

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

English Translation of Financial Statements Originally issued in Chinese

29. Elimination of reciprocal accounts

		As of and for the years ended December 31			
		2003		2004	
Transactions	Account Item	(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	\$96,185,570	\$2,829,820	\$99,685,570	\$3,140,692
	Capital surplus	13,467,451	369,218	13,477,575	424,624
	Legal reserve	23,836,057	701,267	26,503,328	835,013
	Special reserve	6,249,135	183,852	8,016,080	252,555
	Undistributed retained earnings	315,777	9,290	9,319	294
	Cumulative conversion adjustments	176,131	5,182	95,149	2,998
	Unrealized valuation losses on long-term equity investments	136,202	4,007	104,653	3,297
	Allowance for valuation loss on long-term investments in stock	136,202	4,007	104,653	3,297
	Treasury stock	3,032,965	89,231	-	-
	Short-term investments	728,987	21,447	16,415,226	517,178
	Allowance for valuation loss on short-term investments	122,653	3,609	14,579	459
	Long-term investments in stock	157,420,273	4,631,370	177,250,372	5,584,448
	Gain on long-term investments	20,653,866	607,645	29,700,136	935,732
	Provisions expenses	1,610,418	47,379	-	-
	Operating expenses	51,043	1,502	232,543	7,326
	Miscellaneous revenues	8,100	238	8,100	255
	Gain on disposal of investments	838,081	24,657	156,325	4,925
	Income taxes benefit	402,605	11,845	-	-

English Translation of Financial Statements Originally issued in Chinese

		As of and for the years ended December 31			
Transactions	Account Item	2003		2004	
		(NT\$)	(US\$)	(NT\$)	(US\$)
	Deposits and				
	remittances	\$14,796,129	\$435,308	\$36,200,726	\$1,140,540
	Cash and cash				
	equivalents	14,796,129	435,308	35,688,726	1,124,409
	Short-term Investment	-	-	500,000	15,753
	Due to Banks	-	-	12,000	378
	Prepayments	2,450	72	2,801	88
	Accounts collected in				
	advance	2,450	72	2,801	88
	Payables	34,412	1,012	84,432	2,660
	Receivables	34,412	1,012	84,432	2,660
	Other accounts				
	receivable	-	-	1,568,759	49,425
	Other accounts payable	-	-	1,566,190	49,344
	Interest income	91,167	2,682	222,282	7,003
	Interest expenses	91,167	2,682	222,282	7,003
	Premiums income	219,400	6,455	427,975	13,484
	Insurance expenses	219,400	6,455	427,975	13,484
	Rental income	245,366	7,219	321,683	10,135
	Rental expenses	245,366	7,219	321,683	10,135
	Guarantee deposits				
	received	24,042	707	92,830	2,925
	Guarantee deposits				
	paid	24,042	707	92,830	2,925
	Handling fee earned	5,603	165	-	-
	Handling fee paid	5,603	165	-	-
	Other revenues	304,237	8,951	722,665	22,768
	Other expenses	304,237	8,951	722,665	22,768
	Indemnity income	27,342	804	15,767	497
	Insurance Claims				
	payment	27,342	804	15,767	497