

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Unaudited consolidated financial statements**  
**Together with**  
**Independent auditors' review report**  
**March 31, 2004 and 2005**

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## **English Translation of Review Report Originally Issued in Chinese**

### Independent auditors' review report

To: Board of Directors

Cathay Financial Holding Co., Ltd.

We have reviewed the accompanying consolidated balance sheet of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of March 31, 2005 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three-month period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review. The consolidated financial statements of the Company and its subsidiaries as of and for the three-month period ended March 31, 2004 were reviewed by other auditors whose report, dated April 16, 2004, expressed a modified unqualified review report due to the fact that certain investees were reviewed by other auditors.

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

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements as of and for the three-month period ended March 31, 2005 in order for them to be in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies" and generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young  
Taipei, Taiwan  
The Republic of China  
April 20, 2005

#### Notice to readers

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

**Unaudited consolidated balance sheets**

**March 31, 2004 and 2005**

**(Expressed in thousands of dollars)**

	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	2, 4	\$159,168,906	\$4,823,300	\$181,794,300	\$5,778,586
Due from Central Bank and call loans to banks		71,182,900	2,157,058	56,963,093	1,810,651
Short-term investments	2, 5	586,415,584	17,770,169	564,959,664	17,958,031
Receivables	2	98,659,419	2,989,679	84,679,271	2,691,649
Deferred income tax assets-current	2	77,952	2,362	242,080	7,695
Inventories		-	-	2,462,949	78,288
Other financial assets-current		-	-	10,902,963	346,566
Prepayments		1,450,931	43,968	1,523,823	48,437
Subtotal		916,955,692	27,786,536	903,528,143	28,719,903
<b>Bills and loans-net</b>	2, 6	1,002,211,266	30,370,038	1,042,124,573	33,125,384
<b>Long-term investments in stock, bonds and real estate</b>	2, 7				
Long-term investments in stocks					
Long-term investments under equity method		8,088,030	245,092	3,284,752	104,410
Long-term investments under cost method		50,067,084	1,517,184	27,878,585	886,160
Allowance for valuation loss on long-term investments in stocks		(113,254)	(3,432)	(142,447)	(4,528)
Long-term investments in bonds	2, 8	280,287,350	8,493,556	502,247,500	15,964,638
Investments in real estate	2, 9	100,761,068	3,053,366	101,447,675	3,224,656
Other long-term investments		1,101,014	33,364	400,000	12,714
Less: Accumulated impairment		-	-	(211,630)	(6,727)
Subtotal		440,191,292	13,339,130	634,904,435	20,181,323
<b>Property and equipment</b>	2				
Land		20,072,044	608,244	20,083,419	638,380
Buildings and construction		20,500,357	621,223	21,961,241	698,069
Furniture and fixtures		3,685,834	111,692	3,831,259	121,782
Transportation and communication equipment		231,236	7,007	209,725	6,666
Other equipment		7,983,175	241,914	9,275,701	294,841
Subtotal		52,472,646	1,590,080	55,361,345	1,759,738
Less: Accumulated depreciation		(12,380,863)	(375,178)	(13,669,614)	(434,508)
Less: Accumulated impairment		-	-	(479,250)	(15,233)
Construction in progress		969,140	29,368	748,790	23,801
Net		41,060,923	1,244,270	41,961,271	1,333,798
<b>Intangible assets</b>	2	9,582	291	116,666	3,708
<b>Other assets</b>					
Non-operating assets-net		3,098,226	93,886	3,114,232	98,990
Miscellaneous assets		30,943,945	937,695	39,775,272	1,264,312
Deferred income tax assets-noncurrent	2	3,361,018	101,849	901,010	28,640
Deferred charges		688,868	20,875	542,618	17,248
Investment-linked products assets		19,432,998	588,879	43,676,385	1,388,315
Subtotal		57,525,055	1,743,184	88,009,517	2,797,505
<b>Total assets</b>		<b>\$2,457,953,810</b>	<b>\$74,483,449</b>	<b>\$2,710,644,605</b>	<b>\$86,161,621</b>
<b>Liabilities &amp; stockholders' equity</b>					
<b>Current liabilities</b>					
Short-term debts		\$-	\$-	\$2,499,300	\$79,444
Due to Central Bank and commercial banks		77,624,168	2,352,247	80,444,271	2,557,033
Payables		22,602,469	684,923	22,213,893	706,100
Deferred income tax liabilities-current	2	1,075,917	32,604	164,896	5,241
Accounts collected in advance		460,575	13,957	1,358,864	43,193
Subtotal		101,763,129	3,083,731	106,681,224	3,391,011
<b>Deposits and remittances</b>	10	733,508,243	22,227,523	773,954,966	24,601,239
<b>Bankers acceptances and funds borrowed</b>		2,027,403	61,436	1,223,276	38,884
<b>Long-term liabilities</b>					
Bonds payable	2, 11	24,609,818	745,752	15,257,124	484,969
Reserve for land revaluation increment tax		37,845	1,147	37,845	1,203
Accrued pension liabilities		921,459	27,923	1,525,558	48,492
Other long-term liabilities		-	-	11,398	362
Subtotal		25,569,122	774,822	16,831,925	535,026
<b>Other liabilities</b>					
Reserve for operations and liabilities	2, 12	1,389,193,082	42,096,760	1,526,981,682	48,537,244
Miscellaneous liabilities		29,620,380	897,587	50,362,971	1,600,857
Investment-linked products liabilities		19,432,998	588,879	43,676,385	1,388,315
Subtotal		1,438,246,460	43,583,226	1,621,021,038	51,526,416
<b>Total liabilities</b>		<b>2,301,114,357</b>	<b>69,730,738</b>	<b>2,519,712,429</b>	<b>80,092,576</b>
<b>Stockholders' Equity</b>					
<b>Capital stock</b>					
Common stock	13	83,074,891	2,517,421	84,741,672	2,693,632
Capital surplus	14				
Additional paid-in capital		53,101,530	1,609,137	60,416,134	1,920,411
Treasury stock transactions		549,329	16,647	5,424,266	172,418
Others		-	-	10,909	347
<b>Retained earnings</b>	15				
Legal reserve		1,335,046	40,456	3,026,715	96,208
Special reserve		1,833,255	55,553	122,653	3,899
Unappropriated retained earnings		28,947,370	877,193	35,435,374	1,126,363
<b>Equity adjustments</b>					
Unrealized valuation losses on long-term equity investments		(113,254)	(3,432)	(142,447)	(4,528)
Cumulative conversion adjustments		119,807	3,631	(96,426)	(3,065)
Net loss not yet recognized as net pension cost		(1,971)	(60)	(5,560)	(177)
Treasury stock	2, 16	(12,006,550)	(363,835)	(354,955)	(11,283)
Minority interests		-	-	2,353,841	74,820
<b>Total stockholders' equity</b>		<b>156,839,453</b>	<b>4,752,711</b>	<b>190,932,176</b>	<b>6,069,045</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$2,457,953,810</b>	<b>\$74,483,449</b>	<b>\$2,710,644,605</b>	<b>\$86,161,621</b>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NTS\$33.00 and NTS\$31.46 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**  
**Unaudited consolidated statements of income**  
**For the three-month periods ended March 31, 2004 and 2005**  
**(Expressed in thousands of dollars, except earning per share)**

	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
<b>Operating revenues</b>	2				
Interest income		\$20,779,623	\$629,685	\$22,119,703	\$703,106
Premiums income		61,721,410	1,870,346	63,026,396	2,003,382
Reinsurance commission earned		96,031	2,910	126,168	4,010
Claims recovered from reinsurers		346,561	10,502	278,052	8,838
Recovered premiums reserve		27,436,133	831,398	26,949,394	856,624
Recovered special reserve		18,187	551	450,885	14,332
Recovered claims reserve		10,173	308	24,596	782
Commission and handling fee earned		1,600,457	48,499	2,162,066	68,724
Investment-linked products revenues		6,086,012	184,425	9,219,656	293,060
Gain on disposal of investments		10,784,551	326,805	3,724,906	118,401
Gain on long-term equity investments		109,743	3,325	31,558	1,003
Gain on investments-real estate		1,012,481	30,681	1,244,933	39,572
Other operating income		1,758,336	53,283	1,230,994	39,129
Subtotal		<u>131,759,698</u>	<u>3,992,718</u>	<u>130,589,307</u>	<u>4,150,963</u>
<b>Operating costs</b>	2				
Interest expenses		(2,020,702)	(61,233)	(2,912,010)	(92,562)
Insurance expenses		(741,736)	(22,477)	(924,998)	(29,402)
Brokerage expenses		(4,724,613)	(143,170)	(6,043,665)	(192,106)
Commissions expenses		(137,636)	(4,171)	(171,406)	(5,448)
Insurance claims payment		(30,459,604)	(923,018)	(30,931,154)	(983,190)
Provision for premiums reserve		(63,960,855)	(1,938,208)	(63,403,434)	(2,015,367)
Provision for special reserve		(2,751,411)	(83,376)	(282,309)	(8,974)
Contribution to the stabilization funds		(63,635)	(1,928)	(65,028)	(2,067)
Provision for claims reserve		(23,476)	(711)	(14,027)	(446)
Handling fee paid		(484,002)	(14,667)	(529,726)	(16,838)
Investment-linked products expenses		(6,086,012)	(184,425)	(9,219,656)	(293,060)
Provision for possible losses		(2,392,255)	(72,493)	(12,334)	(392)
Other operating cost		(912,268)	(27,644)	(2,489,870)	(79,144)
Subtotal		<u>(114,758,205)</u>	<u>(3,477,521)</u>	<u>(116,999,617)</u>	<u>(3,718,996)</u>
<b>Operating gross profit</b>		<u>17,001,493</u>	<u>515,197</u>	<u>13,589,690</u>	<u>431,967</u>
<b>Operating expenses</b>		<u>(6,031,333)</u>	<u>(182,768)</u>	<u>(6,475,260)</u>	<u>(205,825)</u>
<b>Operating income</b>		<u>10,970,160</u>	<u>332,429</u>	<u>7,114,430</u>	<u>226,142</u>
<b>Non-operating revenues</b>		<u>2,165,733</u>	<u>65,628</u>	<u>421,555</u>	<u>13,400</u>
<b>Non-operating expenses</b>		<u>(74,388)</u>	<u>(2,254)</u>	<u>(1,836,836)</u>	<u>(58,386)</u>
<b>Income from continuing operations before income taxes</b>		<u>13,061,505</u>	<u>395,803</u>	<u>5,699,149</u>	<u>181,156</u>
<b>Income taxes</b>	2, 18	<u>(1,021,510)</u>	<u>(30,955)</u>	<u>(876,783)</u>	<u>(27,870)</u>
<b>Minority interest income</b>		<u>-</u>	<u>-</u>	<u>(27,989)</u>	<u>(890)</u>
<b>Consolidated net income</b>		<u>\$12,039,995</u>	<u>\$364,848</u>	<u>\$4,794,377</u>	<u>\$152,396</u>
<b>Earnings per share (expressed in dollars)</b>	19				
Primary earnings per share:					
Income from continuing operations before income taxes		<u>\$1.63</u>	<u>\$0.05</u>	<u>\$0.68</u>	<u>\$0.02</u>
Consolidated net income		<u>\$1.51</u>	<u>\$0.05</u>	<u>\$0.57</u>	<u>\$0.02</u>
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		<u>\$1.57</u>	<u>\$0.05</u>	<u>\$0.67</u>	<u>\$0.02</u>
Consolidated net income		<u>\$1.44</u>	<u>\$0.04</u>	<u>\$0.56</u>	<u>\$0.02</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 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**  
**Unaudited consolidated statements of changes in stockholders' equity**  
**For the three-month periods ended March 31, 2004 and 2005**  
**(Expressed in thousands of dollars)**

Summary	Retained earnings										Equity adjustments													
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		Treasury stock		Minority interests		Total			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$		
<b>Balance on January 1, 2004</b>	\$83,074,891	\$2,517,421	\$53,651,046	\$1,625,789	\$1,335,046	\$40,456	\$1,833,255	\$55,553	\$16,916,694	\$512,627	\$(136,202)	\$(4,127)	\$176,537	\$5,350	\$(1,971)	\$(60)	\$(15,039,516)	\$(455,743)	\$-	\$-	\$141,809,780	\$4,297,266		
Capital surplus			(187)	(5)																		(187)	(5)	
Cumulative conversion adjustments													(56,730)	(1,719)								(56,730)	(1,719)	
Unrealized valuation losses on long-term equity investments											22,948	695										22,948	695	
Treasury stock								(9,319)	(282)							3,032,966	91,908					3,023,647	91,626	
Consolidated net income for the three-month period ended March 31, 2004									12,039,995	364,848												12,039,995	364,848	
<b>Balance on March 31, 2004</b>	<u>\$83,074,891</u>	<u>\$2,517,421</u>	<u>\$53,650,859</u>	<u>\$1,625,784</u>	<u>\$1,335,046</u>	<u>\$40,456</u>	<u>\$1,833,255</u>	<u>\$55,553</u>	<u>\$28,947,370</u>	<u>\$877,193</u>	<u>\$(113,254)</u>	<u>\$(3,432)</u>	<u>\$119,807</u>	<u>\$3,631</u>	<u>\$(1,971)</u>	<u>\$(60)</u>	<u>\$(12,006,550)</u>	<u>\$(363,835)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$156,839,453</u>	<u>\$4,752,711</u>		
<b>Balance on January 1, 2005</b>	\$83,167,130	\$2,643,583	\$58,958,697	\$1,874,085	\$3,026,715	\$96,208	\$122,653	\$3,899	\$30,640,997	\$973,967	\$(110,435)	\$(3,510)	\$(96,005)	\$(3,052)	\$(5,560)	\$(177)	\$(354,955)	\$(11,283)	\$-	\$-	\$175,349,237	\$5,573,720		
Convertible notes converted into common stock	1,574,542	50,049	6,891,826	219,066																		8,466,368	269,115	
Capital surplus			786	25																		786	25	
Cumulative conversion adjustments													(421)	(13)								(421)	(13)	
Unrealized valuation losses on long-term equity investments											(32,012)	(1,018)										(32,012)	(1,018)	
Consolidated net income for the three-month period ended March 31, 2005									4,794,377	152,396												4,794,377	152,396	
Minority interests																					2,353,841	74,820	2,353,841	74,820
<b>Balance on March 31, 2005</b>	<u>\$84,741,672</u>	<u>\$2,693,632</u>	<u>\$65,851,309</u>	<u>\$2,093,176</u>	<u>\$3,026,715</u>	<u>\$96,208</u>	<u>\$122,653</u>	<u>\$3,899</u>	<u>\$35,435,374</u>	<u>\$1,126,363</u>	<u>\$(142,447)</u>	<u>\$(4,528)</u>	<u>\$(96,426)</u>	<u>\$(3,065)</u>	<u>\$(5,560)</u>	<u>\$(177)</u>	<u>\$(354,955)</u>	<u>\$(11,283)</u>	<u>\$2,353,841</u>	<u>\$74,820</u>	<u>\$190,932,176</u>	<u>\$6,069,045</u>		

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NTS33.00 and NTS31.46 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**  
**Unaudited consolidated statements of cash flows**  
**For the three-month periods ended March 31, 2004 and 2005**  
**(Expressed in thousands of dollars)**

	2004		2005	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated net income	\$12,039,995	\$364,848	\$4,794,377	\$152,396
Adjustments:				
Minority interest income	-	-	27,989	890
Recovered on bad debt	(15,313)	(464)	(102,418)	(3,256)
Amortizations and depreciation expenses	874,056	26,487	933,309	29,666
Provision for reserve for operations	69,108,145	2,094,186	42,380,998	1,347,139
Recovered reserve for operations	(26,429,372)	(800,890)	(4,070,988)	(129,402)
Realized loss on long-term equity investments	(1,035,121)	(31,367)	-	-
Gain on disposal of long-term investments	(59,811)	(1,812)	(44,261)	(1,407)
Gain on disposal of property and equipment	(1,133,295)	(34,342)	(27,471)	(873)
Impairment loss	-	-	690,880	21,961
Amortization long-term investments in bonds	15,125	458	53,198	1,691
Investment income recognized by equity method excess of cash dividends received	(109,743)	(3,326)	(29,776)	(946)
Increase in bonds payable redemption premium	167,727	5,083	156,531	4,976
Effects of exchange rate changes	247,310	7,494	37,330	1,187
Increase in short-term investments	(11,175,291)	(338,645)	(52,971,606)	(1,683,776)
(Increase) decrease in receivables	(721,417)	(21,861)	5,450,772	173,260
Increase in inventories	-	-	(98,591)	(3,134)
Decrease (increase) in prepayments	97,281	2,948	(72,508)	(2,305)
Decrease (increase) in deferred income tax assets	97,532	2,955	(116,857)	(3,714)
Decrease in overdue receivables	33,414	1,013	65,022	2,067
Decrease in other assets	945,899	28,664	1,320,219	41,965
Decrease in payables	(2,152,781)	(65,236)	(4,359,182)	(138,563)
Decrease in accounts collected in advance	(832,422)	(25,225)	(30,371)	(965)
Decrease in deferred income tax liabilities-current	-	-	(277,904)	(8,834)
Increase in claims reserve	32,351	980	7,435	236
Decrease in deferred income tax liabilities-noncurrent	(49,326)	(1,495)	(27,467)	(873)
Increase (decrease) in other liabilities	121,340	3,677	(4,242,782)	(134,863)
<b>Net cash provided by (used in) operating activities</b>	<b>40,066,283</b>	<b>1,214,130</b>	<b>(10,554,122)</b>	<b>(335,477)</b>
<b>Cash flows from investing activities</b>				
Increase in short-term investment for non-trading purposes	(7,811,002)	(236,697)	(5,112,527)	(162,509)
Increase in bills and loans	(13,387,060)	(405,668)	(4,938,733)	(156,984)
Acquisition of long-term investments in stocks	(9,062,133)	(274,610)	(11,728,565)	(372,809)
Disposal of long-term investments in stocks	4,495,143	136,216	1,184,382	37,647
Disposal of investment in real estate	1,764,438	53,468	4,290	136
Acquisition of investment in real estate	(8,327,440)	(252,347)	(422,096)	(13,417)
Increase in long-term investments in bonds	(5,210,279)	(157,887)	(4,548,651)	(144,585)
Disposal of property and equipment	1,489,105	45,124	200,412	6,370
Acquisition of property and equipment	(336,400)	(10,194)	(595,374)	(18,925)

**English Translation of Financial Statements Originally Issued in Chinese**

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

**Unaudited consolidated statements of cash flows**

**For the three-month periods ended March 31, 2004 and 2005**

**(Expressed in thousands of dollars)**

	2004		2005	
	NT \$	US \$	NT \$	US \$
Decrease (increase) in deferred charges	1,122	34	(30,384)	(966)
Acquisition of intangible assets	(3,321)	(101)	(25,953)	(825)
Decrease in non-operation assets	605,260	18,341	220,210	7,000
Increase in guarantee deposits paid	(233,953)	(7,089)	(21,521,707)	(684,097)
Decrease miscellaneous assets	-	-	9,597	305
Increase in due form Central Bank and call loans to banks	(16,878,526)	(511,470)	(1,019,025)	(32,391)
<b>Net cash used in investing activities</b>	<b>(52,895,046)</b>	<b>(1,602,880)</b>	<b>(48,324,124)</b>	<b>(1,536,050)</b>
<b>Cash flows from financing activities</b>				
Decrease in short-term debts	-	-	(1,500,000)	(47,680)
Increase in commercial papers payable	-	-	50,404	1,602
Decrease in due to Central Bank and commercial banks	(3,368,525)	(102,076)	(847,628)	(26,943)
Increase in deposits and remittances payables	48,501,324	1,469,737	11,524,272	366,315
Increase (decrease) in banker's acceptances and funds borrowed	273,879	8,299	(191,411)	(6,084)
Decrease in bonds payable	(693,000)	(21,000)	(207,598)	(6,599)
Increase in guarantee reserve	-	-	1,063	34
Increase in other long-term liabilities	-	-	110	4
Decrease in reserve for life insurance liability	-	-	(17)	(1)
Decrease in funds held for reinsures	(99)	(3)	-	-
Decrease in guarantee deposits received	(151,917)	(4,604)	(49,891)	(1,586)
Disposal of treasury stock	3,023,647	91,626	-	-
<b>Net cash provided by financing activities</b>	<b>47,585,309</b>	<b>1,441,979</b>	<b>8,779,304</b>	<b>279,062</b>
<b>Effects of exchange rate changes</b>	<b>(291,461)</b>	<b>(8,832)</b>	<b>(9,229)</b>	<b>(293)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>34,465,085</b>	<b>1,044,397</b>	<b>(50,108,171)</b>	<b>(1,592,758)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>124,703,821</b>	<b>3,778,903</b>	<b>227,694,422</b>	<b>7,237,585</b>
<b>Cash and cash equivalents at the beginning of period - first consolidated subsidiaries</b>	<b>-</b>	<b>-</b>	<b>4,208,049</b>	<b>133,759</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$159,168,906</b>	<b>\$4,823,300</b>	<b>\$181,794,300</b>	<b>5,778,586</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$1,821,116	\$55,185	\$2,540,574	\$80,756
Interest paid (excluding capitalized interest)	\$1,821,116	\$55,185	\$2,540,574	\$80,756
Income tax paid	\$121,377	\$3,678	\$268,094	\$8,522
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$-	\$-	\$8,466,368	\$269,115

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 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 unaudited consolidated financial statements**  
**(Expressed in thousands of dollars except**  
**for share and per share data and unless otherwise stated)**  
**March 31, 2004 and 2005**

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated 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 consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated 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 March 31, 2004 and 2005, the total numbers of employees were 53 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 March 31, 2004 and 2005, the total numbers of employees were 28,332 and 26,370, respectively.

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

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

On October 27, 2003, UWCCB merged with former Cathay United Bank which dissolved after the merger. As of March 31, 2004 and 2005, the total numbers of employees were 3,558 and 4,016, 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 March 31, 2004 and 2005, the total numbers of employees were 832 and 870, respectively.

D. 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 March 31, 2005, the total number of employees was 122.

E. Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”) was incorporated in Taiwan on April 16, 2003, under the provisions of the Company Law. Cathay Pacific Venture mainly engages in the business of investment. The Company’s ownership interest is 100% of the common stock. As of March 31, 2004 and 2005, the total numbers of employees were both 2.

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- F. Cathay Venture Capital Co., Ltd. (“Cathay Venture”) was incorporated in Taiwan on September 13, 2000, under the provisions of the Company Law. Cathay Venture mainly engages in the business of investment. The Company’s ownership interest is 61.67% of the common stock.
- G. Cathay II Venture Capital Co., Ltd. (“Cathay II Venture”) was incorporated in Taipei on April 12, 2004, under the provisions of the Company Law. Cathay II Venture mainly engages in the business of investment. The Company’s ownership interest is 100% of the common stock.
- H. Cathay Life Insurance Ltd. (Shanghi) (“Cathay Life (Shanghi)”) acquired an operation license of an enterprise as a juristic person on December 29, 2004. Cathay Life (Shanghi) mainly engages in the business of life insurance, health insurance, accident insurance and reinsurance. Cathay Life and China Eastern Airlines Corporation Limited ownership interest are 50% of the common stock, respectively. As of March 31, 2005, the total number of employees was 198.
- I. Symphox Information Co., Ltd. (“Symphox Information”) was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Law. Symphox Information mainly engages in the business of type II telecom service, data processing service, information supply service. Cathay Life and Cathay Venture’s ownership interest are 60.12% and 39.41% of the common stock, respectively. As of March 31, 2004 and 2005, the total numbers of employees were 84 and 98, respectively.
- J. Lin Yuan Property Management Co., Ltd. (“Lin Yuan Property Management”) was incorporated in Taiwan on July 1, 1990, under the provisions of the Company Law. On May 22, 2002, it changed its name from “San Ching Property Management Co., Ltd.” to “Lin Yuan Property Management Co., Ltd.” Lin Yuan Property Management mainly engages in the business of property management services. As of March 31, 2004 and 2005, the total numbers of employees were 260 and 2,531, respectively.
- K. Cathay Futures Corp. (“Cathay Futures”) was incorporated in Taiwan on December 29, 1993 under the provisions of the Company Law. Cathay Futures originally named Seaward Futures Agency Co., Ltd. was renamed to Seaward Futures Corp. on March 6, 1998 due to business expansion. Moreover, it was further changed its name to Cathay Futures Corp. on December 24, 2003. Cathay Futures mainly engages in the business of time-bargain, self-support and further consulting Cathay United Bank’s (merged) ownership interest is 99.99% of the common stock. As of March 31, 2004 and 2005, the total numbers of employees were 50 and 46, respectively.

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L. Seaward Leasing Ltd. (“Seaward Leasing”) was incorporated in Taiwan on February, 1996, under the provision of the Company Law. Seaward Leasing mainly engages in the business of buying and selling, distributing and leasing for all kinds of equipments. In addition, it outsources outside construction company to build the residence, manufactory, and perform leasing out building and factoring. Cathay United Bank’s (merged) ownership interest is 100% of the common stock. As of March 31, 2004 and 2005, the total numbers of employees were 16 and 13, respectively.

M. Indovina Bank Limited (“Indovina Bank”) was incorporated in Vietnam on October 29, 1992. Indovina Bank mainly engages in the business of wholesale banking. Cathay United Bank’s (merged) ownership interest is 50% of the common stock. As of March 31, 2004 and 2005, the total numbers of employees were 174 and 195, respectively.

### **2. Summary of significant accounting policies**

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

#### *(1) Principles of consolidation*

According to the ROC’s Financial Holding Company Act, a financial holding company should prepare annual and interim consolidated financial statements. When compiling the consolidated financial statements, the financial results of bank, insurance and securities subsidiaries must be included in the consolidated financial statements, and all other subsidiaries should be reported in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7. In addition, as required by the ROC Securities and Futures Commission (the “SFC”), a financial holding company whose stock is publicly traded should prepare the annual and semi-annual consolidated financial statements. The consolidated financial statements should include the financial results of all companies that the company can exercise controlling power. The controlling power, according to Article 4 of the Financial Holding Company Act, means a) a financial holding company holds more than 25% of the voting stock or capital of a bank, an insurance or a securities company, or b) more than half of the directors of a bank, an insurance or a securities company is appointed or elected from the financial holding company.

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The consolidated financial statements of the Company as of and for the three-month period ended March 31, 2004 include the Company and its subsidiaries, which include Cathay Life, Cathay Century, Cathay United Bank (merged). The consolidated financial statements of the Company as of March 31, 2004 exclude other subsidiaries, because their total assets and operating revenues were less than 10% of the total assets and operating revenues of the Company. Thus, the Company and such subsidiaries' important inter-company transactions were not eliminated and mentioned in Note 20.

Effective from January 1, 2005, the Company adopted SFAS No. 7 "Consolidated Financial Statements" which was revised on December 9, 2004. The adoption of SFAS No. 7 resulted in deleting the requirement of the assets and income which was under 10% of parent company may not prepare consolidated financial statements and unconsidering restating prior consolidated financial statements.

As of and for the three-month period ended March 31, 2005, the consolidated financial statements include the Company, Cathay Life, Cathay United Bank (merged), Cathay Century, Cathay Securities, Cathay Pacific Venture, Cathay II Venture, Cathay Venture, Cathay Life (Shanghai), Lin Yuan Property Management, Symphox Information, Cathay Futures, Seaward Leasing and Indovina Bank. The consolidated financial statements of the Company as of and for the three-month period ended March 31, 2005 excluded Cathay Capital Management Inc., Cathay Bank Life Insurance Agency of Association, Seaward Card Co., Ltd., Cathay Insurance (Bermuda) Co., Ltd., Cathay Securities Investment Co., Ltd., Cathay Pacific Partners Co., Ltd., Cathay Bank Property Agency of Association and China England Co., Ltd. because their total assets and operating revenues were insignificant 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.

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### *(3) Basis for preparation of financial statements*

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

### *(4) Cash and cash equivalents*

Cash 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.
- 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 is not remitted back is 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.

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- 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 is 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.
- 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.

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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 state 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.

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



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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, accumulated depreciation and accumulated impairment 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 is 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, accumulated depreciation and accumulated impairment 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 extends more than one year. Deferred charges are amortized over the economic useful life by the straight-line method.

*(11) Impairment of assets*

Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

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For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- (b) if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

Impairment loss (reversal) is classified as non-operating losses/(income).

### *(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.

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### *(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.

In addition, according to the ROC Ministry of Finance (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.

#### 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\$6.4 million). The reserve cannot be used for other purposes except to offsetting trading losses.

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\$6.4 million).

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.

*(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:

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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.

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 revenue and service fees*

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 premium income and expenses*

In accordance with "The General Accounting Systems for Insurance Companies" published by the Finance Ministry of the ROC, Cathay Life and Cathay Century records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

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.

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### *(18) Contribution to the stabilization funds*

For Cathay Life, according to the regulations established by 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.

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.

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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.

### **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.



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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.

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.

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### *(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.
- 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.

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- F. Deposits of futures are stated at costs. Upon disposal, the cost of futures is 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 the CS held by the Company is to hedge the risks that may result from changes in currency rates. CS transactions are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheets date are recognized in the current period. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.
- The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis in the balance sheets.
- I. The interest rate swap agreements are used for the purpose of hedging risks against interest rate fluctuations and are adjusted for interest revenue or expenses based on the interest difference as of the agreed date of settlement.

### *(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.

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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)Contingencies*

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

### *(27)The interim financial statement*

The interim financial statements are prepared according to the ROC SFAS No. 23, “Interim Financial Reporting and Disclosures”.

### *(28)Convenience conversion into US dollars*

The financial statements are stated in NT dollars. Conversion of the March 31, 2004 and 2005 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$33.00 and NT\$31.46 to US\$1.00 on March 31, 2004 and 2005, 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:**

The Company and Subsidiaries adopted the ROC Statement of Financial Accounting Standards No. 35, “Accounting for Asset Impairment” (“SFAS No.35”) to account for the impairment of its assets for its financial statements ended on and after March 31, 2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the Company and its subsidiaries’ investments in real estate, property and equipment and idle assets by NT\$211,630 (US\$6,727), NT\$145,081 (US\$4,612) and NT\$313,189 (US\$9,955) as of March 31, 2005, respectively, and therefore reduced the Company and subsidiaries’ net income by NT\$669,900 (US\$21,294) for the three-month period ended March 31, 2005. The Company considers such an effect was insignificance.

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In the first quarter of 2005, the Company and its subsidiaries adopted the amended ROC's Statement of Financial Accounting Standards No. 5, "Long-term Investment in Equity securities" ("SFAS No. 5 (r3)"). Under the SFAS No. 5(r3), a deferred equity pick-up for being unable to obtain the financial statements of equity investees is no longer allowed. No retrospective adjustments are needed. Such a change in accounting principles the Company and subsidiaries' long-term investment decreased by NT\$38,313 (US\$1,218), cumulative conversion adjustments increased by NT\$5,266 (US\$167), capital surplus decreased by NT\$674 (US\$21) and unrealized valuation losses on long-term equity investments increased by NT\$30,405 (US\$966) as of March 31, 2005 and net income by NT\$3,316 (US\$105) for the three-month period ended March 31, 2005, respectively. The Company considers such an effect was insignificant.

### 4. Cash and cash equivalents

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Petty cash and cash on hand	\$7,755,170	\$235,005	\$9,410,678	\$299,132
Cash in banks	36,011	1,091	6,773,991	215,321
Time deposits	61,430,708	1,861,537	96,758,967	3,075,619
Cash equivalents	74,510,428	2,257,892	61,056,215	1,940,757
Checks for clearance	5,780,333	175,161	4,074,242	129,505
Due from commercial banks	9,656,256	292,614	3,720,207	118,252
Total	<u>\$159,168,906</u>	<u>\$4,823,300</u>	<u>\$181,794,300</u>	<u>\$5,778,586</u>

### 5. Short-term investments

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Common stock	\$64,906,758	\$1,966,871	\$99,523,970	\$3,163,508
Beneficiary certificates	73,409,207	2,224,521	45,161,697	1,435,528
Government bonds and corporate bonds	57,986,961	1,757,181	80,504,013	2,558,932
Oversea investments	175,310,298	5,312,433	109,565,829	3,482,703
Designated purpose trust fund	51,716,548	1,567,168	24,709,927	785,439
Financial debentures	18,203,179	551,612	34,473,775	1,095,797
Certificates of deposit	128,809,249	3,903,311	161,169,280	5,122,990
Short-term notes	16,282,326	493,404	7,195,958	228,734
Securities purchased under agreements to resell	-	-	2,765,610	87,909
Operating securities	-	-	8,338	265
Options	-	-	2,005	64
Subtotal	<u>586,624,526</u>	<u>17,776,501</u>	<u>565,080,402</u>	<u>17,961,869</u>
Less: Allowance for valuation loss	<u>(208,942)</u>	<u>(6,332)</u>	<u>(120,738)</u>	<u>(3,838)</u>
Total	<u>\$586,415,584</u>	<u>\$17,770,169</u>	<u>\$564,959,664</u>	<u>\$17,958,031</u>

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For Cathay United Bank (merged) as of March 31, 2004 and 2005, bond repurchase agreements in the notional amount of NT\$24,311,100 (US\$736,700) and NT\$36,109,700 (US\$1,147,797) were entered into in connection with NT\$25,993,975 (US\$787,696) and NT\$37,790,840 (US\$1,201,235) 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\$26,041,882 (US\$789,148) and NT\$37,845,502 (US\$1,202,972) before September 24, 2004 and September 26, 2005, respectively.

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

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Exchange bills negotiated discounted	\$854,832	\$25,904	\$6,464,554	\$205,485
Short-term loans and overdrafts	229,194,081	6,945,275	207,362,220	6,591,298
Short-term secured loans and overdrafts	113,064,793	3,426,206	90,939,195	2,890,629
Medium-term secured loans	176,510,908	5,348,815	230,602,152	7,330,011
Long-term secured loans	488,211,054	14,794,274	512,353,805	16,285,881
Subtotal	1,007,835,668	30,540,474	1,047,721,926	33,303,304
Less: Allowance for bad debts	(5,624,402)	(170,436)	(5,597,353)	(177,920)
Total	<u>\$1,002,211,266</u>	<u>\$30,370,038</u>	<u>\$1,042,124,573</u>	<u>\$33,125,384</u>

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

Short-term: within one year

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

Long-term: over seven years

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

Investee	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
	Carrying value	Carrying value	Carrying value	Carrying value
A. Under the equity method:				
Cathay Pacific Venture	\$590,573	\$17,896	\$-	\$-
			(Note)	
Cathay Venture	545,911	16,543	-	-
			(Note)	
Lin Yuan Property Management	16,140	489	-	-
			(Note)	
Symphox Information	255,548	7,744	-	-
			(Note)	
Seaward Leasing	2,316,052	70,183	-	-
			(Note)	
Cathay Futures	730,065	22,123	-	-
			(Note)	
Indovina Bank	439,039	13,304	-	-
			(Note)	
Cathay Capital Management Inc.	-	-	31,151	990
WK Technology Fund VI Co., Ltd.	375,440	11,377	362,179	11,512
Vista Technology Venture Capital Corp.	95,453	2,893	55,737	1,772
Omnitek Venture Capital Corp.	150,572	4,563	152,726	4,855
Wa Tech Venture Capital Co., Ltd.	179,871	5,451	168,819	5,366
Cathay Securities Investment Co., Ltd.	18,577	563	28,014	890
IBT Venture Capital Corp.	565,288	17,130	499,458	15,876
Cathay Insurance (Bermuda) Co., Ltd.	55,359	1,677	59,253	1,883
Cathay Securities Investment Trust Co., Ltd.	213,685	6,475	232,213	7,381
Seaward Card Co., Ltd.	46,760	1,417	78,679	2,501
Taiwan Real-estate Management Corp.	54,162	1,641	21,789	693
Taiwan Finance Corp.	1,244,395	37,709	1,367,258	43,460
Cathay Bank Property Agency of Association	8,073	245	12,070	384
Cathay Bank Life Insurance Agency of Association	105,663	3,202	187,820	5,970
Subtotal	8,006,626	242,625	3,257,166	103,533
Less: Unrealized gain from intercompany transactions	(31,850)	(965)	-	-
Long-term investment under the equity method	7,974,776	241,660	3,257,166	103,533
B. Long-term investment under the cost method	50,067,084	1,517,184	27,763,724	882,509
Net	\$58,041,860	\$1,758,844	\$31,020,890	\$986,042

Note: Effective from January 1, 2005, the Company adopted SFAS No. 7 “Consolidated Financial Statements” which was revised on December 9, 2004. Therefore, the consolidated financial statements of the Company as of and for the three-month period ended March 31, 2005 include Cathay Pacific Venture Capital Co., Ltd., Cathay Venture Capital Co., Ltd., Lin Yuan Property Management Co., Ltd., Symphox Information Co., Ltd., Seaward Leasing Ltd., Cathay Futures Corp. and Indovina Bank Limited. In addition, initial adoption of this revised article was unconsidered to retrospect prior period consolidated financial statements. Thus, those carrying amount still accounted the long-term investment in stock as of March 31, 2004.

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

Long-term investments in bonds consist mainly of the government bonds and oversea bonds. As of March 31, 2004 and 2005, long-term investments in bonds amounted to NT\$280,287,350 (US\$8,493,556) and NT\$502,247,500 (US\$15,964,638), respectively.

**9. Investment in real estate**

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

Item	March 31, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$113,060,197	\$3,593,776	\$4,563	\$145	\$(13,478,703)	\$(428,439)	\$(211,630)	\$(6,727)	\$99,374,427	\$3,158,755
Construction	1,861,618	59,174	-	-	-	-	-	-	1,861,618	59,174
<b>Total</b>	<b>\$114,921,815</b>	<b>\$3,652,950</b>	<b>\$4,563</b>	<b>\$145</b>	<b>\$(13,478,703)</b>	<b>\$(428,439)</b>	<b>\$(211,630)</b>	<b>\$(6,727)</b>	<b>\$101,236,045</b>	<b>\$3,217,929</b>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral. Investments in real estate were fully insured.



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### 10. Deposits and remittances

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Check deposits	\$12,209,425	\$369,983	\$9,058,419	\$287,935
Demand deposits	98,856,404	2,995,649	88,833,316	2,823,691
Demand savings deposits	450,553,233	13,653,128	464,963,086	14,779,501
Time deposits	144,617,708	4,382,355	158,561,907	5,040,111
Remittances payable	221,473	6,711	488,238	15,519
Financial debentures payable	27,050,000	819,697	52,050,000	1,654,482
Total	<u>\$733,508,243</u>	<u>\$22,227,523</u>	<u>\$773,954,966</u>	<u>\$24,601,239</u>

Financial debentures payable as follows:

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Financial debenture	\$14,700,000	\$445,455	\$39,700,000	\$1,261,920
Subordinate financial debenture	12,350,000	374,242	12,350,000	392,562
Total	<u>\$27,050,000</u>	<u>\$819,697</u>	<u>\$52,050,000</u>	<u>\$1,654,482</u>

On May 23, 2002, Cathay United Bank (merged) issued a five-year subordinated financial debentures amounting to NT\$5,000,000 (US\$158,932) 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\$158,932) 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\$74,698) with a stated interest rate of 2%. The subordinated financial debentures is 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.

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On June 20, 2003, Cathay United Bank (merged) issued five-year and six month financial debentures amounting to NT\$5,000,000 (US\$158,932) 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\$101,716), NT\$2,700,000 (US\$85,823) and NT\$1,800,000 (US\$57,216), respectively, with floating interest rates; thereafter, six-year financial debentures amounting to NT\$2,000,000 (US\$63,573) 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\$31,786), NT\$3,500,000 (US\$111,252), NT\$2,000,000 (US\$63,573) and NT\$1,000,000 (US\$31,786), respectively, with anti-floating interest rates or bi-conditional 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 and on January 14 and February 22, 2005, Cathay United Bank (merged) issued five-year to seven-year financial debentures amounting to NT\$2,500,000 (US\$79,466), NT\$1,500,000 (US\$47,680), NT\$1,500,000 (US\$47,680), NT\$2,500,000 (US\$79,466), NT\$1,500,000 (US\$47,680), NT\$2,500,000 (US\$79,466), NT\$1,000,000 (US\$31,786) and NT\$1,000,000 (US\$31,786), NT\$2,000,000 (US\$63,573), NT\$1,500,000 (US\$47,680), 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.

### **11. Bonds payable**

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Zero coupon convertible notes	\$23,100,000	\$700,000	\$13,848,034	\$440,179
Redemption premium payable	1,509,818	45,752	1,409,090	44,790
Total	<u>\$24,609,818</u>	<u>\$745,752</u>	<u>\$15,257,124</u>	<u>\$484,969</u>

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

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### 12. Reserve for operations and liabilities

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Unearned premium reserve	\$12,684,694	\$384,385	\$13,349,473	\$424,332
Reserve for life insurance	1,356,970,260	41,120,311	1,493,324,623	47,467,407
Special reserve	18,375,982	556,848	19,133,839	608,196
Special reserve for indemnity payments	-	-	158	5
Claims reserve	960,813	29,116	979,074	31,121
Reserves for losses on guarantees	28,724	870	28,555	908
Reserves for losses on stock brokerage transactions	41,628	1,261	2,771	88
Reserves for losses on trading securities	130,981	3,969	136,800	4,348
Deferred income tax liabilities	-	-	26,389	839
Total	<u>\$1,389,193,082</u>	<u>\$42,096,760</u>	<u>\$1,526,981,682</u>	<u>\$48,537,244</u>

### 13. Common stock

As of March 31, 2004 and 2005, the numbers of issued shares, par value of NT10 dollars (US0.3 dollars), per share, were 8,307,489 thousand shares and 8,474,167 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 NT53,650,859 (US\$1,625,784) and NT\$65,851,309 (US\$2,093,176) as of March 31, 2004 and 2005. Before conversion into a financial holding company, NT\$267,215 (US\$8,494) 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.
- 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\$623,902) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$26,892) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,748), respectively. The Company declared cash dividends of NT2 dollars (US0.06 dollars) on each common share and such dividends were paid on July 9, 2004.
- C. 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 March 31, 2004, Cathay Life had transferred all such treasury shares to employees.

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D. According to the revised Tax Law of 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

E. In accordance with 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.

F. In accordance with SFC regulations, subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock as of January 1, 2002. The cost of these shares cannot be distributed as special reserve.

G. Dividends policy

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.

**16. Treasury stock**

(1) The following is a summary of the movement of treasury stock for the three-month period ended March 31, 2005.

										(Unit: in thousands of shares)			
										Per share	Per share	Per share	Per share
										Book value	Book value	Market value	Market value
Reason for	January 1,				March 31,	Book value	Book value	(in NT	(in US	(in NT	(in US		
acquisition	2005	Increase	Decrease	2005	(NT\$)	(US\$)	dollars)	dollars)	dollars)	dollars)			
The Company that													
the subsidiaries													
held were treated													
as treasury stock	6,897	-	-	6,897	\$354,955	\$11,283	\$51.47	\$1.64	\$60.54	\$1.92			

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

(Unit: in thousands of shares)

Name	Holding share	Amount	Amount	Cause	About retained earnings limit	Legal time limit	Pro forma way determined by the board of directors
		(NT\$)	(US\$)				
Cathay United Bank (merged)	3,500	\$210,810	\$6,701	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay Century	3,397	205,651	6,537	"	None	Within three years	None
<b>Total</b>	<b>6,897</b>	<b>\$416,461</b>	<b>\$13,238</b>				

**17. Personnel, depreciation, depletion and amortizations**

(1) The Company

Item	For the three-month period ended March 31,2004			For the three-month period ended March 31,2005		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$27,295	\$27,295	\$-	\$54,010	\$54,010
Labor & health insurance expenses	-	691	691	-	661	661
Pension expenses	-	922	922	-	1,834	1,834
Other expenses	-	406	406	-	475	475
Depreciation	-	245	245	-	303	303
Depletion	-	-	-	-	-	-
Amortizations	-	36,342	36,342	-	43,922	43,922

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Item	For the three-month period ended March 31, 2004			For the three-month period ended March 31, 2005		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$827	\$827	\$-	\$1,717	\$1,717
Labor & health insurance expenses	-	21	21	-	21	21
Pension expenses	-	28	28	-	58	58
Other expenses	-	12	12	-	15	15
Depreciation	-	7	7	-	10	10
Depletion	-	-	-	-	-	-
Amortizations	-	1,101	1,101	-	1,396	1,396

(2) Cathay Life

Item	For the three-month period ended March 31, 2004 (NT\$)			For the three-month period ended March 31, 2004 (US\$)		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
	Personnel expenses					
Salary and wages	\$3,966,314	\$1,285,463	\$5,251,777	\$120,191	\$38,954	\$159,145
Labor & health insurance expenses	287,653	50,050	337,703	8,717	1,516	10,233
Pension expenses	211,131	36,736	247,867	6,398	1,113	7,511
Other expenses	239,970	48,734	288,704	7,272	1,477	8,749
Depreciation	-	561,640	561,640	-	17,019	17,019
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

Item	For the three-month period ended March 31, 2005 (NT\$)			For the three-month period ended March 31, 2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel expenses					
Salary and wages	\$5,430,475	\$1,086,227	\$6,516,702	\$172,615	\$34,527	\$207,142
Labor & health insurance expenses	249,247	45,901	295,148	7,923	1,459	9,382
Pension expenses	116,340	21,425	137,765	3,698	681	4,379
Other expenses	228,053	57,912	285,965	7,249	1,841	9,090
Depreciation	-	538,710	538,710	-	17,124	17,124
Depletion	-	-	-	-	-	-
Amortizations	-	5,456	5,456	-	173	173

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(3) Cathay United Bank (merged)

Item	For the three-month period ended March 31,			For the three-month period ended March 31,		
	2004 (NT\$)			2005 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$895,766	\$895,766	\$-	\$1,093,148	\$1,093,148
Labor & health insurance expenses	-	69,411	69,411	-	113,360	113,360
Pension expenses	-	89,522	89,522	-	92,617	92,617
Other expenses	-	267,786	267,786	-	368,249	368,249
Depreciation	-	214,694	214,694	-	245,831	245,831
Depletion	-	-	-	-	-	-
Amortizations	-	55,307	55,307	-	54,853	54,853

Item	For the three-month period ended March 31,			For the three-month period ended March 31,		
	2004 (US\$)			2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$-	\$27,144	\$27,144	\$-	\$34,747	\$34,747
Labor & health insurance expenses	-	2,103	2,103	-	3,603	3,603
Pension expenses	-	2,713	2,713	-	2,944	2,944
Other expenses	-	8,115	8,115	-	11,705	11,705
Depreciation	-	6,506	6,506	-	7,814	7,814
Depletion	-	-	-	-	-	-
Amortizations	-	1,676	1,676	-	1,744	1,744



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(4) Cathay Century

Item	For the three-month period ended March 31, 2004 (NT\$)			For the three-month period ended March 31, 2005 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salaries and wages	\$-	\$115,160	\$115,160	\$-	\$133,157	\$133,157
Labor & health insurance expenses	-	8,106	8,106	-	8,517	8,517
Pension expenses	-	8,722	8,722	-	9,443	9,443
Other expenses	-	49,494	49,494	-	57,695	57,695
Depreciation	-	4,829	4,829	-	5,846	5,846
Depletion	-	-	-	-	-	-
Amortization	-	1,000	1,000	-	1,790	1,790

Item	For the three-month period ended March 31, 2004 (US\$)			For the three-month period ended March 31, 2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salaries and wages	\$-	\$3,490	\$3,490	\$-	\$4,233	\$4,233
Labor & health insurance expenses	-	246	246	-	270	270
Pension expenses	-	264	264	-	300	300
Other expenses	-	1,500	1,500	-	1,834	1,834
Depreciation	-	146	146	-	186	186
Depletion	-	-	-	-	-	-
Amortization	-	30	30	-	57	57

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(5) Cathay Securities

Item	For the three-month period March 31, 2005 (NT\$)			For the three-month period March 31, 2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel Expenses					
Salary and wages	\$-	\$33,534	\$33,534	\$-	\$1,066	\$1,066
Labor & health insurance expenses	-	1,512	1,512	-	48	48
Pension expenses	-	1,031	1,031	-	33	33
Other expenses	-	1,086	1,086	-	35	35
Depreciation	-	3,177	3,177	-	101	101
Depletion	-	-	-	-	-	-
Amortization	-	515	515	-	16	16

**18. Estimated income taxes**

(1) Income tax expenses include the following:

	For the three-month period ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Expected income tax expense	\$105,183	\$3,187	\$1,227,960	\$39,032
Plus: Interest income of tax on a separate basis	52,924	1,604	107,558	3,419
Deferred income tax expenses (benefits)	891,372	27,011	(255,754)	(8,130)
Extra 10% income tax on undistributed retained earnings	5,319	161	2,726	87
Less: Adjustment of income tax	(13,002)	(394)	3,637	116
Income tax credit	(65)	(2)	(70)	(2)
Dissimilitude on estimate tax from prior years	(4,958)	(150)	149	5
Tax effects under integrated income tax systems	(5,319)	(161)	(1,513)	(48)
Loss carry forwards	(9,944)	(301)	(207,910)	(6,609)
<b>Total income tax expenses</b>	<b>\$1,021,510</b>	<b>\$30,955</b>	<b>\$876,783</b>	<b>\$27,870</b>

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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 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) was contesting the assessment of the Tax Authority. After further examined, 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; another year 2001 in 2005.
- D. 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 income tax returns of 2002 withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors was entered into a settlement with the Tax Authority.
- E. Cathay United Bank's (merged) income tax returns for the years prior to 2000 had been assessed by the Tax Authority, except for 1999.
- F. Except for 1999, the Tax Authority has examined and assessed the former Cathay United Bank's income tax returns through 2002.

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G. Cathay Century's income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2002.

(3) Information related tax imputation:

A. Balance of imputation credit account

	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
The Company	\$2,090,022	\$63,334	\$364,246	\$11,578
Cathay Life	1,438,949	43,605	1,368,980	43,515
Cathay United Bank (merged)	292,355	8,859	112,981	3,591
Cathy Century	177,123	5,367	9,885	314
Cathay Securities	-	-	2,107	67

B Imputation credit account ratio

	For the three-month	For the three-month
	period ended March 31,	period ended March 31,
	2004 (Actual)	2005 (Estimate)
The Company	19.17%	1.66%
Cathay Life	8.34%	8.04%
Cathay United Bank (merged)	-	-
Cathy Century	29.89%	1.54%
Cathay Securities	-	-

(4) Information relating of undistributed earnings:

Year	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Prior to 1997	\$267,215	\$8,097	\$267,215	\$8,494
After 1998	16,916,694	512,627	30,640,997	973,967
Total	\$17,183,909	\$520,724	\$30,908,212	\$982,461

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.

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### 19. Earnings per share

For the three-month period ended March 31, 2004									
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS			
	Before income taxes		After income taxes			Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Consolidated net income	\$13,061,505	\$395,803	\$12,039,995	\$364,848					
<b>Primary earnings per share</b>									
Net income for common stock holder	13,061,505	395,803	12,039,995	364,848	7,998,386	\$1.63	\$0.05	\$1.51	\$0.05
<b>Effect of potentially dilative common stock</b>									
Convertible bonds payable	167,727	5,083	125,796	3,812	431,864				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	13,229,232	400,886	12,165,791	368,660	8,430,250	\$1.57	\$0.05	\$1.44	\$0.04
For the three-month period ended March 31, 2005									
	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\$)
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)
Consolidated net income	\$5,699,149	\$181,156	\$4,794,377	\$152,396					
<b>Primary earnings per share</b>									
Net income for common stock holder	5,699,149	181,156	4,794,377	152,396	8,349,828	\$0.68	\$0.02	\$0.57	\$0.02
<b>Effect of potentially dilative common stock</b>									
Convertible bonds payable	156,531	4,975	117,398	3,732	397,782				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	5,855,680	186,131	4,911,755	156,128	8,747,610	\$0.67	\$0.02	\$0.56	\$0.02

**20. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Capital Management Inc.	Subsidiary of Company
Cathay Pacific Partners 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
Cathay Securities Investment Co., Ltd.	The investee is accounted for using the equity method
Cathay Securities Investment Trust Co., Ltd.	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
Vista Technology Venture Capital Corp.	The investee is accounted for using the equity method
Cathay Bank Life Insurance Agency of Association (merged with Seaward Insurance Agent Corp. on February 5, 2004, Cathay Bank Life Insurance Agency of Association was the surviving company)	The investee is accounted for using the equity method
Cathay General Hospital	Their chairman is also the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Seaward Card Co., Ltd.	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)
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Taiwan Asset Management Corporation	Affiliate
Taipei Smart Card Corp.	Investee company of Cathay United Bank (merged)
Wu Ming-Yang	Senior manager of Cathay Century

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(2) *Significant transactions with related parties:*

A. Beneficiary certificates

Name	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.				
Cost	\$4,679,230	\$141,795	\$5,770,828	\$183,434
Market Value	\$4,765,520	\$144,410	\$5,855,529	\$186,126

B. Receivables

Name	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$1,172,390	\$35,527	\$29,415	\$935
Symphox Information	503	15	-	-
Cathay Real Estate Development Co., Ltd.	2	-	-	-
Cathay Futures	387	12	-	-
Cathay Insurance (Bermuda) Co., Ltd.	4,156	126	7,599	242
Total	\$1,177,438	\$35,680	\$37,014	\$1,177

C. Prepayments

Name	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Symphox Information	\$16,704	\$506	\$-	\$-
Cathay Real Estate Development Co., Ltd.	1,989	60	-	-
Total	\$18,693	\$566	\$-	\$-

D. Regular secured loans

Name	As of and for the three-month period ended March 31, 2004			
	Maximum	Ending balance	Rate	Interest income
	amount (NT\$)	(NT\$)		(NT\$)
Cathay General Hospital	\$1,173,181	\$1,172,992	3.50%	\$10,265
Wu Ming-Yang	2,374	1,737	2.48%	17
Total		\$1,174,729		\$10,282

Name	As of and for the three-month period ended March 31, 2004			
	Maximum	Ending balance	Rate	Interest income
	amount (US\$)	(US\$)		(US\$)
Cathay General Hospital	\$35,551	\$35,545	3.50%	\$311
Wu Ming-Yang	72	53	2.48%	1
Total		\$35,598		\$312

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As of and for the three-month period ended March 31, 2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General				
Hospital	\$2,192,411	\$2,192,213	2.60%-2.72%	\$14,714
Wu Ming-Yang	1,651	1,622	2.66%	11
Total		\$2,193,835		\$14,725

As of and for the three-month period ended March 31, 2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$69,689	\$69,682	2.60%-2.72%	\$468
Wu Ming-Yang	52	52	2.66%	-
Total		\$69,734		\$468

### E. Loans and deposits

March 31,										
2004			2005							
Account	Interest		% of account	Revenue (Expense)				% of account	Interest	
	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Bills and loans	\$5,215,715	\$158,052	0.52	\$21,198	\$642	\$1,127,787	\$35,848	0.11	\$13,791	\$438
Deposits	\$17,446,027	\$528,667	2.38	\$(68,175)	\$(2,066)	\$2,440,082	\$77,561	0.32	\$(2,592)	\$(82)

### F. Property transactions:

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



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

Name	Item	For the three-month period ended March 31, 2005	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$1,238	\$39
	Cathay Golden & Slivr	3,791	121
	Ban Ciao Building	116,411	3,700
	Sheraton Taipei Building	12,105	385
	Sainyang Bulding	4,222	134
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	589	19
	<b>Total</b>	<b>\$138,637</b>	<b>\$4,407</b>

- (a) The total amount of contracted projects for real estate as of March 31, 2004 and 2005 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$9,576,421 (US\$290,195) and NT\$7,306,738 (US\$232,255), respectively.
- (b) Cathay United Bank (merged) paid project and construction management fees to Taiwan Real-Estate Management Corp. in the amounts of NT\$56 (US\$2) during the three-month period ended March 31, 2004.
- (c) Cathay United Bank (merged) purchased automated systems for the 24-hour self-service banking center from Sanching engineering Corp. in the amount of NT\$52,625 (US\$1,595) and NT\$3,820 (US\$121) during the three-month periods ended March 31, 2004 and 2005, respectively.

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b. Cathay Life disposal of property and equipment information:

		For the three-month period ended March 31, 2004			
Name	Item	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	\$46,061	\$(8,390)	\$(254)

Cathay Life did not sell any real estate to its related parties for the three-month period ended March 31, 2005.

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

Name	Rental income			
	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$5,683	\$172	\$4,072	\$130
Cathay General Hospital	39,791	1,206	31,622	1,005
San Ching Engineering Co., Ltd.	3,603	109	1,893	60
Symphox Information	6,434	195	-	-
Cathay Securities Investment Trust Co., Ltd.	2,167	66	2,906	92
Taiwan Asset Management Corporation	-	-	3,585	114
Culture and Charity Foundation of the CUB	250	8	250	8
Taipei Smart Card Corp.	1,427	43	1,427	45
Seaward Leasing	471	14	-	-
Other	1,157	35	1,408	45
Total	\$60,983	\$1,848	\$47,163	\$1,499

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

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Name	Guarantee deposits received			
	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$5,796	\$176	\$4,286	\$136
Cathay General Hospital	2,337	71	2,354	75
San Ching Engineering Co., Ltd.	7,079	214	2,195	70
Cathay Securities Investment Trust Co., Ltd.	2,144	65	2,738	87
KG Telecommunication Corp.	8,400	255	-	-
Taiwan Asset Management Corporation	-	-	3,477	111
Other	1,459	44	1,372	43
Total	\$27,215	\$825	\$16,422	\$522

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

Name	Rental expense			
	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$7,435	\$225	\$10,868	\$346
Lin Yuan Investment Co., Ltd.	1,670	51	1,672	53
Total	\$9,105	\$276	\$12,540	\$399

Name	Guarantee deposits paid			
	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$7,168	\$217	\$12,565	\$399
Lin Yuan Investment Co., Ltd.	1,650	50	1,650	53
Seaward Leasing	42,000	1,273	-	-
Total	\$50,818	\$1,540	\$14,215	\$452

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

e. Cathay Life acquisition of property and equipment information:

Name	Item	For the three-month period ended March 31,	
		2004(NT\$)	2004(US\$)
Symphox Information	Communication and transportation equipment	\$1,560	\$47

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Cathay Life did not buy any property and equipment from related parties for the three-month period ended March 31, 2005.

G. Bonds sold under repurchase agreements

Name	March 31, 2005	For the three-month period ended March 31, 2005
	Ending balance (NT\$)	Interest expense (NT\$)
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$251,961	\$449

Name	March 31, 2005	For the three-month period ended March 31, 2005
	Ending balance (US\$)	Interest expense (US\$)
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$8,009	\$14

H. Payable

Name	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Pacific Venture Capital Co., Ltd.				
San Ching Engineering Co., Ltd.	\$-	\$-	\$20,513	\$652
Symphox Information	40,410	1,225	-	-
Lin Yuan Property Management	37,753	1,144	-	-
Cathay Real Estate Development Co., Ltd.	1,025	31	-	-
Seaward Card Co., Ltd.	35,076	1,063	82,908	2,635
Total	\$114,264	\$3,463	\$103,421	\$3,287

I. Accounts collected in advance

Name	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$425	\$13	\$446	\$14
Others	311	9	22	1
Total	\$736	\$22	\$468	\$15

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J. Premium revenues

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

Name	As of and for the three-month period ended March 31, 2005			
	Direct written premiums		Premiums receivable	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Real Estate Development Co., Ltd.	\$318	\$10	\$-	\$-
Cathay General Hospital	2,254	72	397	12
Others	235	7	85	3
Total	\$2,807	\$89	\$482	\$15

K. Reinsurance income

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$12,790	\$388	\$6,144	\$195

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.

L. Reinsurance handling fee income

Name	For the three-month periods ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$11	\$-

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M. Handling fee Income

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Futures	\$870	\$26	\$-	\$-

N. Miscellaneous income

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$1,470	\$45	\$1,343	\$43
Cathay Futures	88	2	-	-
Total	\$1,558	\$47	\$1,343	\$43

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

O. Commissions expense

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life Insurance Agent Co., Ltd.	\$57,336	\$1,737	\$50,389	\$1,602
Cathay Bank Property Agency of Association	2,933	89	6,557	208
Total	\$60,269	\$1,826	\$56,946	\$1,810

P. Reinsurance commissions expense

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$1,124	\$34	\$-	\$-

Q. Reinsurance claims payment

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$1,714	\$52	\$1,892	\$60

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R. Credit card processing charges

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Seaward Card Co., Ltd.	\$126,111	\$3,822	\$271,001	\$8,614

S. Reinsurance handling fee expense

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$1,332	\$40	\$-	\$-

T. Operating expense

Name	For the three-month periods ended March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Lin Yuan Property Management	\$162,083	\$4,912	\$-	\$-
Cathay Real Estate Development Co., Ltd.	2,250	68	1,722	55
Cathay Securities Investment Co., Ltd.	13,125	398	13,125	417
San Ching Engineering Co., Ltd.	2,250	68	1,440	46
Symphox Information	46,511	1,409	-	-
Seaward Card Co., Ltd.	-	-	142	4
Total	\$226,219	\$6,855	\$16,429	\$522

**21. Pledged assets**

A. Cathay Life

As of March 31, 2004 and 2005, 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	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Long-term investment in bonds	\$7,927,253	\$240,220	\$8,089,725	\$257,143
Time deposits	844,450	25,589	278,750	8,861
Total	\$8,771,703	\$265,809	\$8,368,475	\$266,004

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### B. Cathay United Bank (merged)

(a) NT\$16,793,507 (US\$508,894) and NT\$16,769,805 (US\$533,052) of the securities purchased under agreements to resell on March 31, 2004 and 2005, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(b) Long-term investments in government bonds of NT\$213,190 (US\$6,777) on March 31, 2005 were pledged to other parties as collateral for business reserves and guarantees.

### C. Cathay Century

Item	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Securities serving as deposits paid-government bonds	\$359,058	\$10,881	\$361,232	\$11,482

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 amount.

## **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 March 31, 2004 and 2005, respectively.

### (2) Cathay United Bank (merged)

As of March 31, 2005, Cathay United Bank (merged) had the following commitments and contingent liabilities, which are not reflected in the financial statements:



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	NT\$	US\$
A. Entrusted items and guarantees:		
Trust and security held for safe keeping	\$586,979,017	\$18,657,947
Travelers checks for sale	659,057	20,949
Bills for collection	51,871,700	1,648,814
Guarantees on duties and contracts	16,177,196	514,215
Unused commercial letters of credit	3,958,073	125,813
Loan commitments	26,857,603	853,706
Credit card lines	282,661,154	8,984,779
Stamp tax, securities and memorial currency consignments	1,757	56

B. As of March 31, 2005, Cathay United Bank (merged) had various lawsuits, claims and proceedings. The most significant ones are described below:

- a. In 1997, Cathy 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\$19,072) 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. The Taiwan High Court then reversed its previous decision but Chung Shing Bank has filed an appeal to the Supreme Court to against the result.
- 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\$763) 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\$1,914) were made by Cathay United Bank (merged) employees. Cathay United Bank (merged) has filed a motion of injunction against the employees' personal properties.

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- 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\$794) made by Cathay United Bank’s (merged) employee has been examined by Jurisdiction of Taipei District Prosecutors Office.

C. As of March 31, 2005, Cathay United Bank (merged) had entered into certain contracts to purchase premises and equipment totaling NT\$793,123 (US\$25,211) with prepayments of NT\$696,914 (US\$22,152).

### (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\$79) and NT\$1,658 (US\$53), 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.

### (4) Cathay Securities

Cathay Securities pledged the amount of NT\$1,000,000 (US\$31,786) negotiable certificates of deposit to Cathay United Bank (merged) as collateral for the over-loaning of settlement account.

### (5) Cathay Pacific Venture

Under a contract effective until 2010, Cathay Pacific Partners Co., Ltd. (CPP) manages Cathay Pacific Venture’s investment activities. For its services, CPP receives a management fee at the following percentages of the average par value of Cathay Pacific Venture’s issued stock each year: 2.5% from the first to the fourth years and 2.0% from the fifth to the seventh year. CPP also receives a performance bonus at 20.0% of the net capital gain (as defined in the contract) each year. Management fees for the period January 1 to March 31, 2004 and 2005 were both \$3,750 (US\$119).

**23. Serious damages:** None.

**24. Subsequent events:** None.

## **25. Other important events**

### (1) Pension related information

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

### (2) Derivative financial instruments related information

#### A. The Company

##### a. Purpose

As of March 31, 2005, the Company held the following derivative financial instruments: interest rate swaps, cross-currency swaps and foreign currency options. The primary objective of interest rate swaps, cross-currency swaps 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. None of them was for trading purposes.

##### b. Credit and market risks

The counterparties for all of the Company’s interest rate swaps, cross-currency swaps and foreign currency options are international financial organization with superior credit ratings. In addition, the Company worked with several other financial institutions to diversify its risks. The Company believes that the possibility of a breach of contract was quite low. Moreover, if there is a breach, the Company believes that it would not encounter major loss due to the nature of the investments. Further, the Company 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.

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### d. Interest rate swaps (IRS)

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

(b) As of March 31, 2004:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>
Goldman Sachs International	2002.5.20	2005.5.20-2007.5.20	<u>USD 700,000</u>	<u>USD 700,000</u>

As of March 31, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>
Goldman Sachs International	2002.5.20	2005.5.20-2007.5.20	<u>USD 700,000</u>	<u>USD 700,000</u>

### e. Cross-currency swaps (CCS)

(a) For CCS 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.

(b) As of March 31, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>
Goldman Sachs International	2005.3.3	2005.3.7-2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>

### f. Foreign currency options

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

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As of March 31, 2005:

<u>Counterpart</u>	<u>Effective date</u>	<u>Put date</u>	<u>Contract amount</u>	<u>Contract value</u>
Goldman Sachs	2005.3.3	2005.3.7;	<u>USD 500,000</u>	<u>USD 500,000</u>
International		2010.3.7		

### B. Cathay Life

#### a. Purpose

As of March 31, 2005, 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 are entered into to hedge against risk of interest rate fluctuations. None of them was for trading purposes.

#### b. Credit and market risks

The counterparties for all of Cathay Life's futures contracts, forward foreign exchange contracts, and interest rate swaps are international financial organization 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.

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d. Product type and condition

(a) Futures

March 31, 2004						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	3,297	\$4,154,739	\$125,901	\$(118,173)	\$(3,581)
TE	Selling out	100	100,936	3,059	(4,644)	(141)
TF	Selling out	261	249,921	7,573	(15,516)	(470)

March 31, 2005						
Item	Transaction type	Lot	Contract amount		Net income (loss) of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TF	Selling out	480	\$459,568	\$14,608	\$(4,880)	\$(155)
TX	Selling out	1,499	1,816,795	57,749	14,997	477

(b) Forward and CCS contracts

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

b As of March 31, 2004 and 2005, Cathay Life had forward foreign exchange contracts of approximately US\$12,123,300 and US\$13,510,800, respectively, in notional value.

The forward foreign exchange contracts as of March 31, 2004, were due between October 1, 2004 and December 30, 2005. In addition, the forward exchange contracts as of March 31, 2005, were due between April 6, 2004 and March 30, 2005.

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

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Item	Contract amount	March 31, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	US\$15,980,800	\$504,149,954	\$16,025,110	\$590,061,216	\$18,755,919

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

Net assets	March 31,	
	2004	2005
Short-term investment	US\$13,852,300	US\$15,980,800

Losses on the forward foreign exchange and currency swap contracts were NT\$1,231,760 (US\$39,153), for the three-month period ended March 31, 2005.

(c) Interest rate swap agreement (IRS)

The IRS agreements of Cathay Life as of March 31, 2005 are set forth below:

Category	Currency	Period	Amount
IRS	NTD	2002.09.13~2015.3.8	NT\$54,134,212 US\$1,720,731

(d) Option

No option transactions were outstanding on March 31, 2004.

Item	Transaction type	Lot	March 31, 2005			
			Contract amount		Net income (loss) of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Call Option	21,800	\$6,531,500	\$207,613	\$10,582	\$336
TXO	Put Option	6,550	2,023,600	64,323	12,647	402
TFO	Put Option	20	4,900	156	(2)	-
Foreign exchange options	Put Option	-	20,000	636	(6,600)	(210)

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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)

	Mar. 31, 2004		
Derivative financial instruments	Contract (notional) amount	Credit risk	Fair value
For the purpose of hedging customers' needs or hedging the Bank's exposures			
Forward foreign exchange contracts	\$3,679,985	\$61,779	\$208,970
Interest rate swap contracts	60,368	869	12
Option contracts	47,665	8	(49)
For non-trading purpose			
Interest rate swap contracts	805,960	8,276	32,312
Cross-currency swap contracts	354,067	6,604	4,859

	Mar. 31, 2005		
Derivative financial instruments	Contract (notional) amount	Credit risk	Fair value
For the purpose of hedging customers' needs or hedging the Bank's exposures			
Forward foreign exchange contracts	\$3,113,313	\$147,490	\$783,414



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For trading purpose			
Interest rate swap contracts	639,410	4,552	(83)
Option contracts	261,469	603	1,019
Future contracts	947	-	1,101
For non-trading purpose			
Interest rate swap contracts	1,497,371	11,450	34,218
Cross-currency swap contracts	573,171	9,074	14,733

Credit risk is the possibility of loss if 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) Clients 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 March 31, 2005, the maturities of Cathay United Bank's (merged) outstanding interest rate swaps ranged from seven months to four years and two 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.

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As of March 31, 2005, Cathay United Bank's (merged) outstanding cross-currency swaps had remaining maturities from one year and seven months to six years and four 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 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 rate and foreign exchange rate. The related risks for Cathay United Bank's (merged) derivative financial instruments are as follows: (In thousands of US Dollars)

Items	March 31,	
	2004	2005
Interest rate risk exposures	\$246,524	\$479,993
Foreign exchange risk exposures	205,692	324,102

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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's (merged) 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 Cathay United Bank (merged) 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.

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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 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.

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

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	Account	For the three-month periods ended March 31,	
		2004	2005
<u>For Trading Purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest revenue	\$2,779	\$4,955
-Realized	Interest expense	1,195	2,403
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	27	(8)
-Unrealized	"	-	23
Option contracts			
-Realized	"	-	348
-Unrealized	"	7	19
Futures contracts			
-Realized	"	-	254
-Unrealized	"	-	(14)
<u>For Non-trading Purpose</u>			
Interest rate swap contracts			
-Realized	Interest revenue	8,595	9,702
-Realized	Interest expense	1,750	5,251
Cross-currency swap contracts			
-Realized	Interest revenue	2,476	3,432
-Realized	Interest expense	877	3,792

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 was 19.7%. Cathay United Bank (merged) also provides guarantees for loans and commercial letters of credit services. These guarantees represent an irrecoverable obligation to pay a third-party beneficiary in the event that a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

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- 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	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Loan commitments	\$21,823,573	\$661,320	\$26,857,603	\$853,706
Credit card lines	223,516,819	6,773,237	282,661,154	8,984,779
Guaranty and Commercial letters of credit	18,932,505	573,712	20,135,269	640,028

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

### D. Cathay Century

#### a. Purpose

As of March 31, 2005, 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.

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### 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	March 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Forward exchange contracts receivable	\$1,831,560	\$55,502	\$2,905,631	\$92,360
Discount on forward exchange contracts	7,327	222	15,992	508
Payables on forward exchange purchased	(1,783,080)	(54,033)	(2,878,689)	(91,503)
Net-other receivable (Payable)	\$55,807	\$1,691	\$42,934	\$1,365

- (b) As of March 31, 2004 and 2005, Cathay Century has forward exchange contracts of approximately US\$54,000 and US\$91,300, respectively, in notional value. The forward foreign exchange contracts as of March 31, 2004 were due between July 14, 2004 and December 29, 2004. In addition, the forward contracts as of March 31, 2005 were due between April 12, 2005 and March 14, 2006.

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		March 31, 2004			
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>US\$54,000</u>	<u>\$1,783,080</u>	<u>\$54,033</u>	<u>\$1,831,560</u>	<u>\$55,502</u>

		March 31, 2005			
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>US\$91,300</u>	<u>\$2,878,689</u>	<u>\$91,503</u>	<u>\$2,905,631</u>	<u>\$92,360</u>

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

e. Futures Contract:

(a) Cathay Century recognizes NT\$76 (US\$2) offsets before March 31, 2005, as futures trading loss (NT\$41 (US\$1) unrealized future contract gain included).

(b)

		March 31, 2005					
Type		Open Interest		Contract amount		Fair value	
		Buy/Sell	Position	NT\$	US\$	NT\$	US\$
Taiwan Stock Exchange							
Electronic Sector Index		Sell	4	<u>\$3,735</u>	<u>\$119</u>	<u>\$3,694</u>	<u>\$117</u>

The Futures contract mentioned above is to hedge the volatility.

(c) 2004: 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.



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### E. Cathay Securities

#### Structured notes transactions

##### a. Nominal principal or contract amount and credit risk:

Financial instruments	March 31, 2005			
	Nominal principal / contract amount		Credit risk	
	NT\$	US\$	NT\$	US\$
For trading purposes				
Principal guaranteed notes				
Fixed-income products	\$9,700	\$308	\$-	\$-

Cathay Securities's credit risk derives from a breach of contract by 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.

##### 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.

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e. Financial statement presentation of derivative financial instruments:

As of March 31, 2005, the disclosure of the transactions of structured notes on the balance sheet and statement of income is summarized as follows:

Balance sheet	March 31, 2005			
	Derivative financial instrument assets - Gre Tai (over-the-counter)		Liabilities for derivative financial instruments - Gre Tai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Principal guaranteed notes	\$-	\$-	\$9,263	\$294

  

Statement of income	For the three-month period ended March 31, 2005		
	Revenue from derivative financial instruments - Gre Tai (over-the-counter)		Comments
	NT\$	US\$	NT\$ / US\$
Principal guaranteed notes	\$3,863	\$123	Market value method

(3) Non-derivative financial instruments related information

A. The Company

Item	March 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$5,854,021	\$5,854,021	\$177,395	\$177,395
Short-term investments	1,910,061	1,910,061	57,880	57,880
Other receivable	54,692	54,692	1,657	1,657
Long-term investments in stocks	173,327,723	173,327,723	5,252,355	5,252,355
<b>Liabilities</b>				
Other payable	172,944	172,944	5,241	5,241
Bonds payable	24,609,818	24,609,818	745,752	745,752

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	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<hr/>				
Assets				
Cash and cash equivalents	\$17,824,536	\$17,824,536	\$566,578	\$566,578
Other receivable	1,443,149	1,443,149	45,872	45,872
Long-term investment in stocks	183,554,547	183,554,547	5,834,537	5,834,537
Guarantee deposits paid	2,523,600	2,523,600	80,216	80,216
<hr/>				
Liabilities				
Other payable	1,348,389	1,348,389	42,860	42,860
Bonds payable	15,257,124	15,257,124	484,969	484,969

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.
- 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.
- c. The fair value of the guarantee deposits paid is based on the carrying amount.

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B. Cathay Life

Item	March 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$137,338,227	\$137,338,227	\$4,161,764	\$4,161,764
Receivables	11,428,132	11,428,132	346,307	346,307
Short-term investments	402,450,910	413,597,902	12,195,482	12,533,270
Long-term investments in stocks	46,162,940	54,002,179	1,398,877	1,636,430
Guarantee deposits paid	1,546,698	1,546,698	46,869	46,869
Securities serving as deposits paid-bonds	7,927,253	7,927,253	240,220	240,220
<u>Liabilities</u>				
Payables	83,151	83,151	2,520	2,520
Guarantee deposits received	1,310,959	1,310,959	39,726	39,726
Item	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$193,434,874	\$193,434,874	\$6,148,597	\$6,148,597
Receivables	8,789,637	8,789,637	279,391	279,391
Short-term investments	320,816,731	332,241,770	10,197,608	10,560,768
Long-term investments in stocks	24,163,470	24,179,095	768,070	768,566
Guarantee deposits paid	2,913,511	2,913,511	92,610	92,610
Securities serving as deposits paid-bonds	8,089,725	8,089,725	257,143	257,143
<u>Liabilities</u>				
Payables	104,018	104,018	3,306	3,306
Guarantee deposits received	1,633,451	1,633,451	51,922	51,922

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.

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- 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 Cathay Life'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 March 31, 2004 and 2005, 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	March 31,							
	2004				2005			
	Carrying value		Fair value		Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Securities								
purchased	\$197,559,393	\$5,986,648	\$198,665,823	\$6,020,176	\$240,672,391	\$7,650,108	\$241,087,694	\$7,663,309
Long-term								
Investments	28,839,943	873,938	28,897,431	875,680	41,163,004	1,308,424	41,217,763	1,310,164

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.

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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	March 31,			
	2004		2005	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Bills and loans, customers' liabilities				
under acceptances and guarantees account				
Geographic Region				
Domestic	\$532,724,220	\$16,143,158	\$584,323,533	\$18,573,539
South East Asia	10,541,787	319,448	11,267,333	358,148
North East Asia	255,957	7,757	45,450	1,445
North America	6,511,565	197,320	8,263,541	262,668
Others	4,980,687	150,930	13,544,606	430,534
Total	<u>\$555,014,216</u>	<u>\$16,818,613</u>	<u>\$617,444,463</u>	<u>\$19,626,334</u>
Industry type				
Manufacturing	\$67,950,717	\$2,059,113	\$72,692,566	\$2,310,635
Financial institutions and insurance	34,594,127	1,048,307	72,939,276	2,318,477
Leasing and real estate	70,716,975	2,142,939	25,858,815	821,958
Individuals	268,874,077	8,147,699	332,416,564	10,566,324
Others	112,878,320	3,420,555	113,537,242	3,608,940
Total	<u>\$555,014,216</u>	<u>\$16,818,613</u>	<u>\$617,444,463</u>	<u>\$19,626,334</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.

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D. Cathay Century

Item	March 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$4,091,290	\$4,091,290	\$123,978	\$123,978
Short-term investments	2,106,033	2,228,385	63,819	67,527
Receivables	890,961	890,961	26,999	26,999
Claims recoverable from reinsurers	171,785	171,785	5,206	5,206
Due from reinsurers and ceding companies	113,205	113,205	3,430	3,430
Secured loans	776,145	776,145	23,519	23,519
Long-term investment in stocks	400,748	400,748	12,144	12,144
Guarantee deposits paid	16,815	16,815	510	510
Securities serving as deposits paid-bonds	359,058	359,058	10,881	10,881
<b>Liabilities</b>				
Claims outstanding	2,383	2,383	72	72
Due to reinsurers and ceding companies	168,806	168,806	5,115	5,115
Reserve for operations and liabilities	6,745,607	6,745,607	204,413	204,413
<b>March 31, 2005</b>				
Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	<b>Assets</b>			
Cash and cash equivalents	\$2,997,129	\$2,997,129	\$95,268	\$95,268
Short-term investments	2,650,333	2,668,169	84,245	84,811
Receivables	1,105,955	1,105,955	35,154	35,154
Claims recoverable from reinsurers	180,286	180,286	5,731	5,731
Due from reinsurers and ceding companies	29,622	29,622	941	941
Secured loans	1,100,891	1,100,891	34,994	34,994
Long-term investment in stocks	314,780	317,950	10,006	10,006
Guarantee deposits paid	16,577	16,577	527	527
Securities serving as deposits paid-bonds	361,232	361,232	11,482	11,482
<b>Liabilities</b>				
Claims outstanding	789	789	25	25
Due to reinsurers and ceding companies	261,623	261,623	8,316	8,316
Reserve for operations and liabilities	7,477,020	7,477,020	237,668	237,668

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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 is 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 is 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	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$1,353,564	\$1,353,564	\$43,025	\$43,025
Short-term investments - net	720,000	722,136	22,886	22,954
Investments in bonds with resale agreements	836,860	836,860	26,601	26,601
Operating securities - net	8,258	8,258	262	262
Receivable amount for margin loans	91,239	91,239	2,900	2,900
Accounts receivable - net	3,113	3,113	99	99
Other receivables - net	8,984	8,984	285	285
Restricted assets - current	1,000,000	1,000,000	31,786	31,786
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,771	4,771
Settlement and clearance funds	56,435	56,435	1,794	1,794
Guarantee deposits paid	20,253	20,253	644	644
<u>Liabilities</u>				
Bonds sold under repurchase agreements	837,897	837,897	26,634	26,634
Payables	28,402	28,402	903	903



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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 carrying amount 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 carrying amounts 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, accounts receivables, other receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements, 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 carrying amount on the balance sheet date is used to estimate the fair value.

### (4) Discretionary account management

Item	March 31, 2004			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,837,522	\$55,683	\$2,037,959	\$61,756
Repurchase bonds	4,767,243	144,462	4,767,959	144,484
Short-term securities bonds	50,000	1,515	50,003	1,516
Convertible bonds	677,643	20,534	756,462	22,923
Bonds	3,524,593	106,806	3,530,839	106,995
Cash in bank	848,506	25,712	848,640	25,716
Net other assets less liabilities	(88,906)	(2,694)	(88,906)	(2,694)
Total	\$11,616,601	\$352,018	\$11,902,956	\$360,696

Item	March 31, 2005			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,713,415	\$86,250	\$2,663,346	\$84,658
Repurchase bonds	7,772,783	247,069	7,772,783	247,069
Short-term securities bonds	16,002	508	16,002	508
Convertible bonds	55,391	1,761	53,504	1,701
Bonds	1,895,460	60,250	1,908,634	60,669
Cash in banks	278,967	8,867	278,967	8,867
Net other assets less liabilities	(77,701)	(2,470)	(77,701)	(2,470)
Total	\$12,654,317	\$402,235	\$12,615,535	\$401,002

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As of March 31, 2004 and 2005, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$10,350,000 (US\$313,636), and NT\$11,650,000 (US\$370,312), respectively.

(5) Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd.

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

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

Conversion rights:

Subject to certain conditions, each holder of the notes (the "Holder") has the right during the conversion period to convert its notes (or any portion thereof being US1,000 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 US1,000 dollars or any integral multiple thereof) of such Holder's notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium. 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 US1,000 dollars or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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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 US 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 US 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.

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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 March 31, 2005, the Company has converted US\$ 261,007 convertible notes at conversion price of NT\$ 54.15 (US\$1.72) per share, into 166,678 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$ 7,314,417 (US\$232,499), and are recognized as capital surplus.

(6) Material contract: None.

(7) 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\$13,189). 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.

(8) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the three-month period ended March 31, 2004 have been reclassified in order to be comparable with those in the consolidated financial statements for the three-month period ended March 31, 2005.

**26. Information regarding investment in Mainland China**

On December 25, 2002 and July 24, 2004, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$27,150 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, 2004, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of March 31, 2005, Cathay Life's remittance to this new company totaled approximately US\$48,330.

**27. Segment information: None.**

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

(1) Concise balance sheets:

Items/Period	Cathay Life				Cathay United Bank (merged)				Cathay Century				Cathay Securities	
	March 31, 2004		March 31, 2005		March 31, 2004		March 31, 2005		March 31, 2004		March 31, 2005		March 31, 2005	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$576,797,148	\$17,478,701	\$552,979,150	\$17,577,214	\$352,471,420	\$10,680,952	\$370,805,146	\$11,786,559	\$7,546,559	\$228,683	\$7,090,053	\$225,367	\$4,032,155	\$128,167
Exchange bills negotiated, discounted, and loans	471,258,726	14,280,567	446,557,843	14,194,464	530,642,552	16,080,077	594,629,774	18,901,137	776,145	23,519	1,100,891	34,994	-	-
Funds and long-term investments	408,372,275	12,374,918	594,310,747	18,890,997	28,839,943	873,938	41,163,004	1,308,423	2,187,201	66,279	3,205,227	101,883	18	1
Fixed assets	15,523,600	470,412	14,790,521	470,137	25,468,325	771,767	24,835,784	789,440	52,476	1,591	59,025	1,876	57,419	1,826
Other assets (including intangible assets)	33,303,918	1,009,210	57,656,767	1,832,701	7,215,019	218,637	4,143,364	131,703	471,680	14,293	583,066	18,533	239,138	7,601
Current liabilities	4,596,434	139,286	6,281,136	199,655	844,501,605	25,590,957	905,651,831	28,787,407	839,469	25,438	1,137,875	36,169	876,749	27,869
Long-term liabilities	911,721	27,628	1,499,458	47,662	-	-	-	-	8,966	272	9,450	300	-	-
Other liabilities	1,403,750,644	42,537,898	1,566,570,352	49,795,625	26,934,406	816,194	46,078,933	1,464,683	6,810,508	206,379	7,522,363	239,109	5,237	167
Capital stocks	50,686,158	1,535,944	50,686,158	1,611,130	43,182,407	1,308,558	43,182,407	1,372,613	2,317,006	70,212	2,317,006	73,649	3,500,000	111,252
Capital surplus	5,200	158	13,153	418	13,461,632	407,928	13,463,186	427,946	430	13	2,021	64	-	-
Retained earnings	45,322,228	1,373,401	41,386,839	1,315,538	16,535,631	501,080	27,288,614	867,407	1,056,395	32,012	1,050,012	33,377	(53,256)	(1,693)
Equity adjustments	(16,718)	(507)	(142,068)	(4,515)	21,578	654	(87,899)	(2,794)	1,287	39	(465)	(15)	-	-
Total assets	\$1,505,255,667	\$45,613,808	\$1,666,295,028	\$52,965,513	\$944,637,259	\$28,625,371	\$1,035,577,072	\$32,917,262	\$11,034,061	\$334,365	\$12,038,262	\$382,653	\$4,328,730	\$137,595
Total liabilities	\$1,409,258,799	\$42,704,812	\$1,574,350,946	\$50,042,942	\$871,436,011	\$26,407,151	\$951,730,764	\$30,252,090	\$7,658,943	\$232,089	\$8,669,688	\$275,578	\$881,986	\$28,036
Total stockholders' equity	\$95,996,868	\$2,908,996	\$91,944,082	\$2,922,571	\$73,201,248	\$2,218,220	\$83,846,308	\$2,665,172	\$3,375,118	\$102,276	\$3,368,574	\$107,075	\$3,446,744	\$109,559

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(2) Concise statements of income:

Items/Period	Cathay Life				Cathay United Bank (merged)				Cathay Century				Cathay Securities	
	For the three-month period ended Mar. 31, 2004		For the three-month period ended Mar. 31, 2005		For the three-month period ended Mar. 31, 2004		For the three-month period ended Mar. 31, 2005		For the three-month period ended Mar. 31, 2004		For the three-month period ended Mar. 31, 2005		For the three-month period ended Mar. 31, 2005	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$113,929,548	\$3,452,411	\$111,591,227	\$3,547,083	\$10,159,809	\$307,873	\$11,852,564	\$376,750	\$6,234,932	\$188,937	\$6,717,395	\$213,522	\$48,082	\$1,528
Operating costs & expenses	(107,472,307)	(3,256,738)	(109,567,100)	(3,482,743)	(5,812,008)	(176,121)	(6,923,603)	(220,076)	(5,875,864)	(178,056)	(6,465,272)	(205,508)	(66,701)	(2,120)
Operating income	6,457,241	195,673	2,024,127	64,340	4,347,801	131,752	4,928,961	156,674	359,068	10,881	252,123	8,014	(18,619)	(592)
Non-operating revenues	433,644	13,141	350,921	11,155	1,202,458	36,438	39,082	1,242	12,571	381	3,779	120	6,171	196
Non-operating expenses	(168,409)	(5,103)	(1,418,103)	(45,077)	(72,886)	(2,209)	(375,315)	(11,930)	(6,122)	(186)	(11,854)	(376)	-	-
Operating income before taxes	6,722,476	203,711	956,945	30,418	5,477,373	165,981	4,592,728	145,986	365,517	11,076	244,048	(7,758)	(12,448)	(396)
Net income	6,741,520	204,288	1,430,323	45,465	4,649,373	140,890	3,457,728	109,909	302,260	9,159	188,654	5,997	(11,690)	(372)
Earning per share before taxes (in dollars)	\$1.34	\$0.04	\$0.19	\$0.01	\$1.27	\$0.04	\$1.06	\$0.03	\$1.58	\$0.05	\$1.05	\$0.03	\$(0.04)	\$-
Earning per share (in dollars)	\$1.34	\$0.04	\$0.28	\$0.01	\$1.08	\$0.03	\$0.80	\$0.03	\$1.30	\$0.04	\$0.81	\$0.03	\$(0.03)	\$-

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**29. Elimination of reciprocal accounts**

		As of and for the three-month periods ended March 31			
		2004		2005	
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).	Short-term investments	\$728,987	\$22,091	\$439,396	\$13,967
	Allowance for valuation loss on short-term investments	18,112	549	22,935	729
	Other accounts receivable	-	-	1	-
	Long-term investments in stock	171,862,359	5,207,950	189,556,797	6,025,327
	Allowance for valuation loss on long-term investments in stock	113,254	3,432	247,100	7,854
	Land	-	-	36,699	1,167
	Buildings and construction	-	-	4,676	149
	Other equipment	-	-	9,339	297
	Accumulated depreciation	-	-	7,737	246
	Deferred Revenue	-	-	3,775	120
	Common stock	96,185,570	2,914,714	109,013,604	3,465,150
	Capital surplus	13,467,264	408,099	13,478,360	428,428
	Legal reserve	23,836,057	722,305	26,680,443	848,075
	Special reserve	6,249,135	189,368	8,059,927	256,196
	Undistributed retained earnings	21,135,909	640,482	35,430,027	1,126,193
	Cumulative conversion adjustments	119,401	3,618	305,414	9,708
	Unrealized valuation losses on long-term equity investments	113,254	3,432	247,100	7,854
	Minority interests	-	-	2,353,841	74,820
	Gain on long-term investments	11,588,611	351,170	5,093,408	161,901
	Gain on disposal of investments	104,541	3,168	8,356	266



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		As of and for the three-month periods ended March 31			
		2004		2005	
Transactions	Account Item	(NT\$)	(US\$)	(NT\$)	(US\$)
	Operating expenses	\$-	\$-	\$281	\$9
	Miscellaneous revenues	-	-	34	1
	Minority interest				
	income	-	-	27,989	890
	Deposits and				
	remittances	11,733,404	355,558	39,863,303	1,267,111
	Cash and cash				
	equivalents	11,733,404	355,558	38,863,303	1,235,324
	Prepayments	2,501	76	2,800	89
	Accounts collected in				
	advance	2,501	76	2,794	89
	Payables	248,288	7,524	2,941,109	93,487
	Receivables	248,288	7,524	2,941,103	93,487
	Guarantee deposits in	134,588	4,078	137,747	4,378
	Refundable deposits	134,588	4,078	1,137,747	36,165
	Due to Banks	-	-	1,310,000	41,640
	short-term secured				
	loans	-	-	1,310,000	41,640
	Interest income	51,275	1,554	99,174	3,152
	Interest expenses	51,275	1,554	99,174	3,152
	Premiums income	166,251	5,038	151,647	4,820
	Insurance expenses	166,251	5,038	151,647	4,820
	Rental income	72,392	2,194	95,228	3,027
	Rental expenses	72,392	2,194	95,228	3,027
	Handling fee earned	-	-	451	14
	Handling fee paid	-	-	451	14
	Other revenues	113,393	3,436	170,771	5,428
	Other expenses	113,393	3,436	430,666	13,689
	Indemnity income	656	20	250	8
	Insurance Claims				
	payment	656	20	250	8
	Sales	-	-	5,399	172
	Service income	-	-	254,461	8,088
	Management fees				
	income	-	-	35	1