

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated financial statements
Together with
Independent auditors' report
June 30, 2004 and 2005

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Index to financial statements

	<u>Page</u>
Independent auditors' report	3
Consolidated balance sheets as of June 30, 2004 and 2005	4
Consolidated statements of income for the six-month periods ended June 30, 2004 and 2005	5
Consolidated statements of changes in stockholders' equity for the six-month periods ended June 30, 2004 and 2005	6
Consolidated statements of cash flows for the six-month periods ended June 30, 2004 and 2005	7-8
Notes to financial statements	9-94

English Translation of Report Originally Issued in Chinese
Independent auditors' report

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2004 and 2005 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of June 30, 2004 and 2005 and the results of its operations and its cash flows for the six-month periods ended June 30, 2004 and 2005 in conformity with generally accepted accounting principles in the Republic of China "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies."

Diwan, Ernst & Young
Taipei, Taiwan
The Republic of China
August 1, 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 jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated balance sheets
June 30, 2004 and 2005
(Expressed in thousands of dollars)

Assets	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
Current assets					
Cash and cash equivalents	2, 4	\$266,884,719	\$7,928,839	\$362,498,351	\$11,456,964
Due from Central Bank and call loans to banks		55,111,864	1,637,310	62,829,095	1,985,749
Short-term investments	2, 5	425,748,284	12,648,493	458,274,793	14,484,033
Other financial assets-current		-	-	4,430,670	140,034
Receivables	2	91,401,135	2,715,423	83,537,246	2,640,242
Inventories	2	-	-	2,524,879	79,800
Prepayments		1,521,905	45,214	1,521,405	48,085
Restricted current assets-current		-	-	1,300,000	41,087
Deferred income tax assets-current	2	59,225	1,760	222,425	7,030
Subtotal		840,727,132	24,977,039	977,138,864	30,883,024
Bills and loans-net	2, 6	1,001,285,487	29,747,044	1,063,883,938	33,624,650
Long-term investments in stock, bonds and real estate					
Long-term investments in stocks	2, 7				
Long-term investments under equity method		8,464,717	251,477	3,082,590	97,427
Long-term investments under cost method		49,670,977	1,475,668	28,145,832	889,565
Long-term investments in bonds	2, 8	375,933,391	11,168,550	477,295,230	15,085,184
Investments in real estate	2, 9	100,960,476	2,999,420	102,333,780	3,234,317
Other long-term investments		2,029,701	60,300	911,589	28,811
Less: Accumulated impairment		-	-	(199,599)	(6,308)
Subtotal		537,059,262	15,955,415	611,569,422	19,328,996
Property and equipment	2				
Land		20,072,464	596,330	20,161,014	637,200
Buildings and construction		20,426,247	606,840	21,618,112	683,253
Furniture and fixtures		3,715,600	110,386	3,912,129	123,645
Transportation and communication equipment		228,830	6,798	184,859	5,842
Other equipment		8,396,348	249,446	9,477,690	299,548
Subtotal		52,839,489	1,569,800	55,353,804	1,749,488
Less: Accumulated depreciation		(12,691,028)	(377,036)	(13,716,790)	(433,527)
Less: Accumulated impairment		-	-	(183,801)	(5,809)
Construction in progress		905,120	26,890	863,285	27,285
Net		41,053,581	1,219,654	42,316,498	1,337,437
Intangible assets		8,512	253	174,921	5,528
Other assets					
Idled assets		2,554,380	75,888	1,491,958	47,154
Deferred charges		664,569	19,744	504,870	15,957
Refundable deposits		30,189,993	896,910	15,383,903	486,217
Investment-linked products assets		26,425,804	785,080	54,677,960	1,728,128
Deferred income tax assets -noncurrent	2	2,071,823	61,551	838,127	26,489
Other assets-others		6,471,601	192,264	2,571,408	81,271
Less: Accumulated impairment		-	-	(295,449)	(9,338)
Subtotal		68,378,170	2,031,437	75,172,777	2,375,878
Total assets		<u>\$2,488,512,144</u>	<u>\$73,930,842</u>	<u>\$2,770,256,420</u>	<u>\$87,555,513</u>
Liabilities & stockholders' equity					
Current liabilities					
Short-term debts		\$-	\$-	\$2,518,511	\$79,599
Bonds sold under repurchase agreement		39,960,389	1,187,177	31,284,009	988,749
Due to Central Bank and commercial banks		79,077,377	2,349,298	76,643,412	2,422,358
Payables		40,077,562	1,190,659	43,546,686	1,376,317
Accounts collected in advance		377,387	11,212	569,349	17,995
Others current liabilities		749,168	22,257	494,689	15,635
Subtotal		160,241,883	4,760,603	155,056,656	4,900,653
Deposits and remittances	10	705,694,297	20,965,368	796,242,514	25,165,693
Bankers acceptances and funds borrowed		2,361,784	70,166	791,501	25,016
Long-term liabilities					
Bonds payable	2, 11	25,313,234	752,027	15,238,962	481,636
Other long-term liabilities		-	-	311,632	9,849
Subtotal		25,313,234	752,027	15,550,594	491,485
Other liabilities					
Reserve for operations and liabilities	2, 12	1,416,662,964	42,087,432	1,565,163,896	49,467,885
Accrued pension liabilities		1,097,438	32,604	1,596,904	50,471
Investment-linked products liabilities		26,425,804	785,080	54,677,960	1,728,128
Guarantee deposits in		2,151,799	63,927	2,304,803	72,844
Other liabilities-others		1,815,676	53,942	2,754,188	87,048
Subtotal		1,448,153,681	43,022,985	1,626,497,751	51,406,376
Total liabilities		<u>2,341,764,879</u>	<u>69,571,149</u>	<u>2,594,139,016</u>	<u>81,989,223</u>
Stockholders' Equity					
Capital stock					
Common stock	13	83,074,891	2,468,060	84,758,914	2,678,853
Capital surplus	14				
Additional paid-in capital		53,101,717	1,577,591	60,492,671	1,911,905
Treasury stock transactions		563,685	16,746	5,407,666	170,912
Others		10,124	301	11,133	352
Retained earnings	15				
Legal reserve		3,026,715	89,920	6,009,431	189,931
Special reserve		122,653	3,644	226,579	7,161
Unappropriated retained earnings		18,785,160	558,086	16,998,517	537,248
Equity adjustments					
Unrealized valuation losses on long-term equity investments		(114,845)	(3,412)	(4,961)	(157)
Cumulative conversion adjustments		160,287	4,762	(95,048)	(3,004)
Net loss not yet recognized as net pension cost		(1,971)	(59)	(5,560)	(176)
Treasury stock	2, 16	(11,981,151)	(355,946)	(146,221)	(4,621)
Minority interests		-	-	2,464,283	77,886
Total stockholders' equity		<u>146,747,265</u>	<u>4,359,693</u>	<u>176,117,404</u>	<u>5,566,290</u>
Total liabilities and stockholders' equity		<u>\$2,488,512,144</u>	<u>\$73,930,842</u>	<u>\$2,770,256,420</u>	<u>\$87,555,513</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of income
For the six-month periods ended June 30, 2004 and 2005
(Expressed in thousands of dollars, except earning per share)

	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
Operating revenues	2				
Interest income		\$42,796,592	\$1,271,438	\$45,398,008	\$1,434,830
Premiums income		131,327,416	3,901,587	130,793,651	4,133,807
Claims recovered from reinsurers		605,224	17,980	2,012,394	63,603
Recovered premiums reserve		63,685,850	1,892,033	54,736,160	1,729,967
Recovered special reserve		36,796	1,093	550,919	17,412
Commission and handling fee earned		3,534,873	105,017	4,053,885	128,125
Gain on disposal of investments		11,986,320	356,100	8,684,324	274,473
Income from long-term equity investments		270,381	8,033	91,309	2,886
Investment-linked products revenues		15,486,587	460,089	23,007,420	727,162
Other operating income		8,171,275	242,759	5,011,735	158,399
Subtotal		<u>277,901,314</u>	<u>8,256,129</u>	<u>274,339,805</u>	<u>8,670,664</u>
Operating costs	2				
Interest expenses		(4,267,436)	(126,780)	(6,099,312)	(192,772)
Insurance expenses		(1,360,710)	(40,425)	(1,411,080)	(44,598)
Brokerage expenses		(11,117,227)	(330,280)	(11,411,922)	(360,680)
Commissions expenses		(314,870)	(9,354)	(440,077)	(13,909)
Insurance claims payment		(75,022,449)	(2,228,831)	(69,221,439)	(2,187,783)
Provision for premiums reserve		(126,970,537)	(3,772,149)	(128,918,978)	(4,074,557)
Provision for special reserve		(3,339,197)	(99,204)	(743,158)	(23,488)
Handling fee paid		(895,920)	(26,617)	(996,004)	(31,479)
Provision for possible losses		(3,951,264)	(117,387)	(896,797)	(28,344)
Investment-linked products expenses		(15,486,587)	(460,089)	(23,007,420)	(727,163)
Operating expenses		(11,770,623)	(349,692)	(17,221,090)	(544,282)
Impairment loss		-	-	(678,849)	(21,455)
Losses on foreign exchange		(1,096,202)	(32,567)	(662,390)	(20,935)
Other operating cost		(2,259,524)	(67,128)	(565,294)	(17,866)
Subtotal		<u>(257,852,546)</u>	<u>(7,660,503)</u>	<u>(262,273,810)</u>	<u>(8,289,311)</u>
Income from continuing operations before income taxes		20,048,768	595,626	12,065,995	381,353
Income taxes	2, 18	(2,077,449)	(61,719)	(1,394,393)	(44,071)
Consolidated income		<u>17,971,319</u>	<u>533,907</u>	<u>10,671,602</u>	<u>337,282</u>
Minority interest income		-	-	(32,287)	(1,020)
Consolidated net income		<u>\$17,971,319</u>	<u>\$533,907</u>	<u>\$10,639,315</u>	<u>\$336,262</u>
Earnings per share (expressed in dollars)	19				
Primary earnings per share:					
Consolidated net income		<u>\$2.24</u>	<u>\$0.07</u>	<u>\$1.27</u>	<u>\$0.04</u>
Fully-diluted earnings per share:					
Consolidated net income		<u>\$2.16</u>	<u>\$0.06</u>	<u>\$1.24</u>	<u>\$0.04</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
 Consolidated statements of changes in stockholders' equity
 For the six-month periods ended June 30, 2004 and 2005
 (Expressed in thousands of dollars)

Summary	Retained earnings										Equity adjustments										Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments		Cumulative conversion adjustments		Net loss not yet recognized as net pension cost		Treasury stock		Minority interests			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
Balance on January 1, 2004	\$83,074,891	\$2,468,060	\$53,651,046	\$1,593,911	\$1,335,046	\$39,663	\$1,833,255	\$54,464	\$16,916,694	\$502,576	\$(136,202)	\$(4,046)	\$176,537	\$5,245	\$(1,971)	\$(59)	\$(15,039,516)	\$(446,807)	\$-	\$-	\$141,809,780	\$4,213,007
Appropriations and distributions for 2003																						
Legal reserve					1,691,669	50,257			(1,691,669)	(50,257)												
Special reserve							(1,710,602)	(50,820)	1,710,602	50,820												
Cash dividends									(16,105,155)	(478,466)											(16,105,155)	(478,466)
Remuneration paid to directors and supervisors									(5,700)	(169)											(5,700)	(169)
Bonus paid to employees									(1,612)	(48)											(1,612)	(48)
Capital surplus			10,124	301																	10,124	301
Cumulative conversion adjustments													(16,250)	(483)							(16,250)	(483)
Unrealized valuation losses on long-term equity investments											21,357	634									21,357	634
Treasury stock			14,356	426					(9,319)	(277)							3,058,365	90,861			3,063,402	91,010
Consolidated net income for the six-month period ended June 30, 2004									17,971,319	533,907											17,971,319	533,907
Balance on June 30, 2004	<u>\$83,074,891</u>	<u>\$2,468,060</u>	<u>\$53,675,526</u>	<u>\$1,594,638</u>	<u>\$3,026,715</u>	<u>\$89,920</u>	<u>\$122,653</u>	<u>\$3,644</u>	<u>\$18,785,160</u>	<u>\$558,086</u>	<u>\$(114,845)</u>	<u>\$(3,412)</u>	<u>\$160,287</u>	<u>\$4,762</u>	<u>\$(1,971)</u>	<u>\$(59)</u>	<u>\$(11,981,151)</u>	<u>\$(355,946)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$146,747,265</u>	<u>\$4,359,693</u>
Balance on January 1, 2005	\$83,167,130	\$2,628,544	\$58,958,697	\$1,863,423	\$3,026,715	\$95,661	\$122,653	\$3,877	\$30,640,997	\$968,426	\$(110,435)	\$(3,490)	\$(96,005)	\$(3,034)	\$(5,560)	\$(176)	\$(354,955)	\$(11,219)	\$2,431,995	76,866	\$177,781,232	\$5,618,878
Appropriations and distributions for 2004																						
Legal reserve					2,982,716	94,270			(2,982,716)	(94,270)												
Special reserve							103,926	3,284	(103,926)	(3,284)												
Cash dividends									(21,187,333)	(669,638)											(21,187,333)	(669,638)
Remuneration paid to directors and supervisors									(5,700)	(181)											(5,700)	(181)
Bonus paid to employees									(2,120)	(67)											(2,120)	(67)
Convertible notes converted into common stock	1,591,784	50,309	6,968,363	220,239																	8,560,147	270,548
Capital surplus			1,009	32																	1,009	32
Cumulative conversion adjustments												957	30								957	30
Unrealized valuation losses on long-term equity investments											105,474	3,333									105,474	3,333
Treasury stock			(16,599)	(525)													208,734	6,598			192,135	6,073
Consolidated net income for the six-month period ended June 30, 2005									10,639,315	336,262											10,639,315	336,262
Minority interests income																			32,288	1,020	32,288	1,020
Balance on June 30, 2005	<u>\$84,758,914</u>	<u>\$2,678,853</u>	<u>\$65,911,470</u>	<u>\$2,083,169</u>	<u>\$6,009,431</u>	<u>\$189,931</u>	<u>\$226,579</u>	<u>\$7,161</u>	<u>\$16,998,517</u>	<u>\$537,248</u>	<u>\$(4,961)</u>	<u>\$(157)</u>	<u>\$(95,048)</u>	<u>\$(3,004)</u>	<u>\$(5,560)</u>	<u>\$(176)</u>	<u>\$(146,221)</u>	<u>\$(4,621)</u>	<u>\$2,464,283</u>	<u>\$77,886</u>	<u>\$176,117,404</u>	<u>\$5,566,290</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NTS33.66 and NTS31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the six-month periods ended June 30, 2004 and 2005

(Expressed in thousands of dollars)

	2004		2005	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$17,971,319	\$533,907	\$10,639,315	\$336,262
Adjustments:				
Minority interest income	-	-	32,287	1,020
Recovered on bad debt	(66,483)	(1,975)	(172,516)	(5,452)
Amortizations and depreciation expenses	1,575,754	46,814	1,876,271	59,301
Provision for reserve for operations	131,155,546	3,896,481	79,459,879	2,511,374
Recovered reserve for operations	(62,538,539)	(1,857,948)	(4,210,635)	(133,079)
Applicant terminate the insurance contract income	(1,204,852)	(35,795)	-	-
Realized loss on long-term equity investments	-	-	23,919	756
Loss (gain) on disposal of long-term investments	906	27	(409,960)	(12,957)
Gain on disposal of property and equipment	(1,136,338)	(33,759)	(20,827)	(658)
Impairment loss	-	-	678,849	21,455
Amortization long-term investments in bonds	29,076	864	110,984	3,508
Investment income recognized by equity method (excess) smaller of cash dividends received	(44,256)	(1,315)	198,369	6,270
Increase in bonds payable redemption premium	409,144	12,155	280,511	8,866
Effects of exchange rate changes	47,347	1,407	(782,862)	(24,743)
Increase in short-term investments	(41,999,572)	(1,247,759)	(77,754,658)	(2,457,480)
Increase other financial assets-current	-	-	(548,888)	(17,348)
Decrease in receivables	867,556	25,774	197,498	6,242
Increase in inventories	-	-	(161,273)	(5,097)
Decrease in prepayments	146,673	4,357	13,476,081	425,919
Decrease (increase) in deferred income tax assets-current	14,270	424	(16,792)	(531)
Increase in deferred income tax assets-noncurrent	(52,508)	(1,560)	(92,467)	(2,922)
Decrease in other assets	6,827,123	202,826	711	22
Decrease in payables	(900,444)	(26,751)	(3,605,634)	(113,958)
(Decrease) increase in accounts collected in advance	(910,446)	(27,048)	45,786	1,447
(Decrease) increase other current liabilities	(376,076)	(11,173)	102,653	3,244
Increase (decrease) in other liabilities	14,323,440	425,533	(18,781,877)	(593,612)
Net cash provided by operating activities	64,138,640	1,905,486	564,724	17,849
Cash flows from investing activities				
Increase in bills and loans	(19,858,612)	(589,977)	(19,446,311)	(614,612)
Acquisition of long-term investments in stocks	(14,815,637)	(440,156)	(13,536,607)	(427,832)
Disposal of long-term investments in stocks	5,930,473	176,188	4,597,901	145,319
Acquisition of investment in real estate	(7,083,291)	(210,437)	(867,700)	(27,424)
Increase in long-term investments in bonds	(17,711,839)	(526,199)	(5,634,502)	(178,082)
Disposal of property and equipment	1,769,224	52,562	261,523	8,266
Acquisition of property and equipment	(796,949)	(23,676)	(1,296,208)	(40,967)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the six-month periods ended June 30, 2004 and 2005

(Expressed in thousands of dollars)

	2004		2005	
	NT \$	US \$	NT \$	US \$
Increase restricted current assets-current	-	-	(800,000)	(25,284)
Increase in deferred charges	(61,513)	(1,827)	(67,538)	(2,135)
Acquisition of intangible assets	(3,485)	(104)	(96,943)	(3,064)
Decrease in non-operation assets	1,148,472	34,120	351,292	11,103
Increase in refundable deposits	(3,339,117)	(99,201)	(4,832,210)	(152,725)
Decrease miscellaneous assets	-	-	855,014	27,023
Increase in due form Central Bank and call loans to banks	6,631,095	197,002	(2,333,263)	(73,744)
Net cash used in investing activities	(48,191,179)	(1,431,705)	(42,845,552)	(1,354,158)
Cash flows from financing activities				
Decrease in short-term debts	-	-	(1,665,530)	(52,640)
Increase in due to Central Bank and commercial banks	(1,915,316)	(56,902)	(3,376,298)	(106,710)
Increase in deposits and remittances payables	20,687,378	614,599	33,799,820	1,068,262
Increase (decrease) in banker's acceptances and funds borrowed	608,260	18,071	(311,676)	(9,851)
Decrease in bonds payable	(231,000)	(6,863)	(255,962)	(8,090)
Increase in other long-term liabilities	-	-	121	4
Increase (decrease) in guarantee deposits in	124,948	3,712	(786,961)	(24,872)
Acquisition of treasury stock	3,023,647	89,829	-	-
Disposal of treasury stock	-	-	192,135	6,073
Capital increase from cash	-	-	150,000	4,741
Bonus paid to employees	(1,441)	(43)	(84,975)	(2,686)
Cash dividends	-	-	(900)	(28)
Net cash provided by financing activities	22,296,476	662,403	27,659,774	874,203
Effects of exchange rate changes	(60,310)	(1,792)	650,553	20,561
Cash and cash equivalents - first consolidated subsidiaries	-	-	3,599,761	113,772
Increase (decrease) in cash and cash equivalents	38,183,627	1,134,392	(10,370,740)	(327,773)
Cash and cash equivalents at the beginning of period	228,701,093	6,794,447	372,869,091	11,784,737
Cash and cash equivalents at the end of period	\$266,884,720	\$7,928,839	\$362,498,351	11,456,964
Supplemental disclosure of cash flows information				
Interest paid during the period	\$4,194,660	\$124,619	\$5,748,936	\$181,698
Interest paid (excluding capitalized interest)	\$4,194,660	\$124,619	\$5,732,485	\$181,178
Income tax paid	\$437,807	\$13,007	\$787,729	\$24,897
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$-	\$-	\$8,560,147	\$270,548

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars except
for share and per share data and unless otherwise stated)
June 30, 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

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on 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 of Cathay Securities Corporation (“Cathay Securities”). Since July 29, 2003, 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 June 30, 2004 and 2005, the total numbers of employees were 54 and 62, 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 significant accounting policies adopted are summarized below:

English Translation of Financial Statements Originally issued in Chinese

(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.

The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2004 include the Company and its subsidiaries, which include Cathay Life, Cathay United Bank (merged), Cathay Century and Cathay Securities. The consolidated financial statements of the Company as of June 30, 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 six-month period ended June 30, 2005, the consolidated financial statements include the followings:

English Translation of Financial Statements Originally issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Life	Life insurance	100%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Law (the “Company Law”). As of June 30, 2004 and 2005, the total numbers of employees were 27,780 and 26,163, respectively.
The Company	Cathay United Bank(merged)	Commercial banking operations	100%	Cathay United Bank (merged), originally named UWCCB, was enfranchised by the ROC government in January 1975, and started its operations on May 20, 1975. On October 27, 2003, UWCCB merged with the former Cathay United Bank which dissolved after the merger. As of June 30, 2004 and 2005, the total numbers of employees were 3,673 and 3,927, respectively.
The Company	Cathay Century	Property and casualty insurance	100%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on August 2, 2002. As of June 30, 2004 and 2005, the total numbers of employees were 838 and 858, respectively.
The Company	Cathay Securities	Securities	100%	Cathay Securities was incorporated in Taipei on May 12, 2004, under the provisions of the Company Law. 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(merged), were transferred to Cathay Securities by using operating assignment along with its business, assets and liabilities. The assigned date was August 13, 2004. As of June 30, 2004 and 2005, the total numbers of employees were 39 and 142, respectively.

English Translation of Financial Statements Originally issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100%	Cathay Pacific Venture was incorporated in Taiwan on April 16, 2003, under the provisions of the Company Law. As of June 30, 2004 and 2005, the total numbers of employees were both 2.
The Company, Cathay Life, Cathay United Bank(merged), Cathay Century	Cathay Venture Capital Co., Ltd. (“Cathay Venture”)	Venture capital investment	67%	Cathay Venture was incorporated in Taiwan on September 13, 2000, under the provisions of the Company Law.
The Company	Cathay II Venture Capital Co., Ltd. (“Cathay II Venture”)	Venture capital investment	100%	Cathay II Venture was incorporated in Taipei on April 12, 2004, under the provisions of the Company Law.
Cathay Life	Cathay Life Insurance Ltd. (Shanghi) (“Cathay Life (Shanghi)”)	Life insurance	50%	Cathay Life (Shanghi) acquired an operation license of an enterprise as a juristic person on December 29, 2004. Cathay Life (Shanghi) and China Eastern Airlines Corporation Limited ownership interest are 50% of the common stock, respectively. As of June 30, 2005, the total number of employees was 137.
Cathay Life, Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Law. Cathay Life and Cathay Venture’s ownership interest are 60.12% and 39.41% of the common stock, respectively. As of June 30, 2004 and 2005, the total numbers of employees were 84 and 110, respectively.

English Translation of Financial Statements Originally issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
Cathay Life	Lin Yuan Property Management Co., Ltd. (“Lin Yuan Property Management”)	Property management services	90%	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.” As of June 30, 2004 and 2005, the total numbers of employees were 246 and 262, respectively.
Cathay United Bank(merged)	Cathay Futures Corp. (“Cathay Futures”)	Time-bargain, self-support and further consulting	99.99%	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. As of June 30, 2004 and 2005, the total numbers of employees were 53 and 60, respectively.
Cathay United Bank(merged)	Seaward Leasing Ltd. (“Seaward Leasing”)	Leasing for all kinds of equipments	100%	Seaward Leasing was incorporated in Taiwan on February, 1996, under the provision of the Company Law. As of June 30, 2004 and 2005, the total numbers of employees were 15 and 13, respectively.
Cathay United Bank(merged)	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50%	Indovina Bank Limited was incorporated in Vietnam on October 29, 1992. As of June 30, 2004 and 2005, the total numbers of employees were 180 and 199, respectively.

English Translation of Financial Statements Originally issued in Chinese

As of and for the six-month period ended June 30, 2005, the consolidated financial statements excluded:

Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Capital Management Inc., (“Cathay Capital Management”)	Management consultant	100%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Cathay Capital Management because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Class3 insurer Long-term insurer	100%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
Cathay life	Cathay Securities Investment Co., Ltd. (“Cathay Securities Investment”)	Securities investment research analysis	100%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Cathay Securities Investment because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
Cathay United Bank(merged)	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	99.98%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Cathay Life Insurance Agent because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
Cathay United Bank(merged)	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	99.97%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Cathay Property Insurance Agent because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.

English Translation of Financial Statements Originally issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
Cathay United Bank(merged)	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Seaward Card because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
Cathay Capital Management	Cathay Pacific Partners Co., Ltd. (“Cathay Pacific Partners”)	Finance consultant	60%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded Cathay Pacific Partners because its total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
Seaward Leasing	China England Co., Ltd. (“China England”)	Accreditation, load and securities investment	100%	The consolidated financial statements of the Company as of and for the six-month period ended June 30, 2005 excluded China England because its 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.

English Translation of Financial Statements Originally issued in Chinese

(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 a 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.

English Translation of Financial Statements Originally issued in Chinese

- 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 "Other liabilities". Interest income from securities purchased under resell agreements and interest expense from securities sold under repurchase agreements are recognized on an accrual basis.

- 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) Customer's margin accounts

Cathay Futures engages in future trading and collects margins/premiums due and/or settlement balance from the consigning futures customers. The customer's margin derives from bank deposits, the settlement balances of both futures clearing houses and other future commission merchants.

English Translation of Financial Statements Originally issued in Chinese

(7) Margin deposit for futures trading - own capitals

The margin and premium resulting from trading futures and options are recorded as “margin deposit for futures trading - own capitals”. The profit or loss from the trading or valuation of futures and options is recorded as “gain (loss) from futures transactions” or “gain (loss) from options transactions”, and the amount of “margin deposit for futures trading – own capitals” is adjusted. Futures and options transactions are divided into hedging and non-hedging according to the trading purpose. The profit or loss from trading or valuation of futures and options is divided into realized and unrealized.

(8) Accounting for account receivable factoring

For Seaward Leasing, entered into account receivable factoring contracts with clients. For contracts that buying principle and interest on due day, interest revenue is calculated based on the principle and contracted interest rate. For contracts that buying principle and interest in installments, the amount that total installments exceed principle will be deferred. The deferred interest is recorded as unearned interest and recognized as interest revenue by interest method in installment.

(9) Allowance for bad and doubtful debts

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

For Cathay United Bank (merged), allowances for doubtful accounts on receivables, bills and loans is provided based on the results of collectibility reviews conducted in accordance with the guidelines set forth in the relevant regulations. When receivables are considered uncollectible, a write-off is made after it is approved by Cathay United Bank’s (merged) board of directors.

Allowance for doubtful accounts on accounts receivable and other receivable of Seaward Leasing is provided based on the result of collectibility reviews.

(10)Foreclosed properties

For Cathay United Bank (merged), 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.

English Translation of Financial Statements Originally issued in Chinese

(11) Inventories

For Symphox Information and Seaward Leasing, inventories are recorded at cost when purchased. Perpetual inventory system is adopted. Cost of inventories sold is determined by weighted-average method. Inventories are valued at the lower of cost or market. Market price is determined by replacement cost or net realizable value. Inventories that are defective, destroyed or obsolete are stated at their net realizable value.

(12) 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), any difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

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

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to "capital surplus" as well as the "long-term equity investments" accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

English Translation of Financial Statements Originally issued in Chinese

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.

(13) 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.

Cost of major additions, renewals and betterment are capitalized, while repairs and maintenance are expensed when incurred.

English Translation of Financial Statements Originally issued in Chinese

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for 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.

(14) Leasing account for Seaward Leasing, a capital lease can be divided into two types:

Under the direct capital lease, the Seaward Leasing only recognizes interest revenue on the lease payment receivable. The lease payment receivable should be classified as either a current asset or long-term lease payment receivable, depending on the rental collection periods. Unearned interest revenue should be treated as a contra account of the lease payment receivable. The interest revenue is equal to the lesser net investment times the maximum borrowing rate for non-financial institutions specified by the Republic of China Ministry of Finance, Department of Treasury. The service charge is equal to the lesser net investment times the difference between the maximum borrowing rate and the interest rate implicit in the lease.

(15) 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.

(16) 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 on 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.

English Translation of Financial Statements Originally issued in Chinese

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 annually or more frequently if events or changes in circumstance indicate goodwill impairment. 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.

Thus, reversal of impairment loss on goodwill is prohibited.

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

(17) 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.

English Translation of Financial Statements Originally issued in Chinese

(18) Reserves for operations

A. Cathay Life

Reserves for 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 provide the figures for these reserves.

In addition, according to the ROC Ministry of Finance (the “MOF”) regulation which became effective from 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\$6.3 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\$6.3 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.

English Translation of Financial Statements Originally issued in Chinese

D. Cathay Life (Shanghi)

Reserves for operation are organized according to the Insurance Law of the People's Republic of China. These reserves include unearned premium reserve/outstanding claims reserve, life insurance reserve, long-term health insurance reserve, guaranteed funds and total reserve. The actuary provides the figures of such reserves in the financial statements.

E. Cathay Futures

According to Article 16 of the Rules Governing Futures Brokerage Firms, 2% of futures brokerage commissions received by licensed futures firm are required to be set aside as a reserve for losses from breach of contract until such reserve meets legally minimum paid-in capital and operating capital. According to the rule (88) TFS (VII) 108957 SFC, it is not necessary to appropriate the reserve for default losses from July 1, 1999 to June 30, 2003. Effective from July 1, 2003, the appropriation resumes.

According to the Rules Governing Future Commission Merchant, securities firms which are engaged in futures trading are required to appropriate 10% of realized monthly futures trading profits as a reserve for futures trading losses until such reserve reaches the legal minimum issued capital or operating capital. The reserve for trading losses cannot be used for purposes other than offsetting trading losses.

According to the rule (88) TFS (VII) 91625 SFC, 3% of revenue from non-major business is required to be set aside as a reserve for bad debts. Such Ruling has been phased out on July 1, 2003.

(19) Structured notes transactions

The structured notes transactions of Cathay Securities can be divided into equity-linked notes and principal guaranteed notes based on the terms of the contracts.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as "Liabilities for equity-linked notes-fixed-income products" and "Liabilities for equity-linked notes-option premium". The former amortizes its interest expense over the contract period using the straight-line method with the amount recognized as "Losses on equity-linked notes". Any options purchased are recognized as "Assets for equity-linked notes-options", and are valued at fair value with any resulting gains or losses recognized as "Gains/Losses on valuation for equity-linked 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 current period earnings.

English Translation of Financial Statements Originally issued in Chinese

Principal guaranteed notes transactions involve 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 current period earnings.

(20) 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. At the time of writing off treasury stock, the Company should debit common stock and capital surplus premium on stock issuance proportionally. As long as 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 excess should be debited to other capital surplus or retained earnings when capital surplus treasury stock is insufficient. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus-premium of common shares, the difference is credited to capital surplus-treasury stock.

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

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

English Translation of Financial Statements Originally issued in Chinese

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

(21) Recognition of interest income 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 on an accrual basis.

(22) Insurance premium income and expenses

In accordance with "The General Accounting Systems for Insurance Companies" published by the MOF, 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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(23) Construction accounting

Seaward Leasing entered into contracts with contractors to build business buildings for selling and renting purpose. The completed-contract method of accounting for long-term construction contracts are adopted. The construction cost incurred were recorded as “Inventory-construction-in-progress” account. After completion, the cost of sold and unsold units were allocated by the proportion of selling price of sold units and estimated reasonable selling price of unsold units to the sum of total price. The allocated costs of sold units were recorded as cost of good sold as of unsold units were recorded as inventory (selling purpose) and fixed assets (renting purpose) of the year when the contracts were completed. Promotion expenses occurred for selling unsold units were recorded as expense at the corresponding year.

(24) Installment sales

For Seaward Leasing, the unrealized interest revenue of installment sales shall be classified as a deduction of account receivable. Where any portion of an amount is to be received beyond one year, a note shall be provided to explain the amount expected to be received in each year.

(25) 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.

(26) 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.

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(27) 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.

The Labor Pension Act of ROC ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

(28) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency transactions are recorded in NT dollars at the spot rate when the conversion occurs. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income in the period of actual conversion or settlement. Long-term investments in foreign currency are accounted for as cumulative translation adjustments and are treated as adjustments of stockholders' equity. Year-end foreign currency assets and liabilities are converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

Assets and liabilities of Cathay United Bank's (merged) foreign branches, which are denominated in foreign currencies, are translated into NT dollars using the method described in the preceding paragraph. The foreign branches' income and expenses denominated in foreign currencies are translated at the applicable weighted-average exchange rate. Gains or losses resulting from the translation are treated as "cumulative conversion adjustments" under stockholders' equity.

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B. Conversion of foreign subsidiaries' statements

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

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements are first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same results as if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is recognized in the current period because it directly affects the cash flows of the foreign operation.

(29) 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. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries may jointly file corporation income tax returns and pay a 10% surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the foregoing consolidated income tax return, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

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Deferred income tax assets or liabilities are classified as current or non-current on the basis of the classification of the related assets or liabilities for financial reporting. A deferred income tax asset or liability that cannot be related to an asset or liability for financial reporting is classified according to the expected realization date of the temporary difference.

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 when the stockholders resolve the appropriation of earnings.

(30) 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.

(31) 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. Call options and put options are recorded based on option premium. Changes in market value are reflected in "call options", "put options" and "gain (loss) from options transactions".

The difference between the market value and the exercise price of options at the exercise date is included in current period earnings. The difference between the settlement price and the average cost of unexercised options at the balance sheet date is included in current period earnings.

English Translation of Financial Statements Originally issued in Chinese

- C. For cross-currency swap contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. The interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, on each settlement date, is recorded as revenue or expense.
- D. There is no physical exchange of notional principal amounts for interest rate swaps. 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 applicable market rate at the balance sheet date. Any difference between the carrying amount and mark-to-market value is recognized as a gain or loss. For swaps entered into for hedging purposes, interest income and expense are recognized upon settlement.
- E. Only memo entries of the notional amounts are recorded on the trade date for forward rate agreements. The present value of the differences between the market interest rate and the contract interest rate is recognized as a gains or loss on the balance sheet date.
- 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.

English Translation of Financial Statements Originally issued in Chinese

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.
- J. Margin deposits paid by Cathay United Bank (merged) for futures contracts entered into for trading or hedging purposes are recognized as assets and nominal amounts are made as memo entries. On the balance sheet date, outstanding futures contracts are market-to-market and any gain or loss is recognized in the statements of income. Unrealized gain or loss from classified as hedging or non-hedging based on the initial intentions when the contracts were entered into.

(32) 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.

Cathay Life 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.

(33) 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 liability in the footnotes to the financial statements.

(34) The interim financial statement

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

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(35) Convenience conversion into US dollars

The financial statements are stated in NT dollars. Conversion of the June 30, 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\$33.66 and NT\$31.64 to US\$1.00 on June 30, 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 its 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 since January 1, 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 non-operating assets by NT\$199,599 (US\$6,308), NT\$183,801 (US\$5,809) and NT\$295,449 (US\$9,338) as of June 30, 2005, respectively, and therefore reduced the Company and its subsidiaries' net income by NT\$678,849 (US\$21,455) for the six-month period ended June 30, 2005. The Company believes the effect of such a change was not material.

Since January 1, 2005, the Company and its subsidiaries adopted the amended ROC's Statement of Financial Accounting Standards No. 5, "Long-term Investment in Equity securities" to recognized investment income in the following year when investee cannot be obtained in time is no longer allowed thereafter. No retrospective adjustments are required. Such a change in accounting principles increased the Company and its subsidiaries' long-term investment by NT\$21,554 (US\$681), cumulative conversion adjustments increased by NT\$347 (US\$11), capital surplus decreased by NT\$97 (US\$3) and unrealized valuation losses on long-term equity investments decreased by NT\$27,230 (US\$861) as of June 30, 2005 and net income decreased by NT\$5,926 (US\$187) for the six-month period ended June 30, 2005, respectively. The Company believes the effect of such a change was not material.

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4. Cash and cash equivalents

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Petty cash and cash on hand	\$8,099,515	\$240,627	\$9,732,743	\$307,609
Cash in banks	3,189,653	94,761	5,601,883	177,051
Time deposits	198,023,973	5,883,065	262,958,441	8,310,949
Cash equivalents	52,450,837	1,558,254	78,675,818	2,486,593
Checks for clearance	5,120,741	152,132	5,529,466	174,762
Total	<u>\$266,884,719</u>	<u>\$7,928,839</u>	<u>\$362,498,351</u>	<u>\$11,456,964</u>

5. Short-term investments

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Common stock	\$61,077,256	\$1,814,535	\$109,689,360	\$3,466,794
Beneficiary certificates	74,047,570	2,199,868	35,715,988	1,128,824
Government bonds and corporate bonds	55,403,154	1,645,964	91,091,501	2,878,998
Oversea investments	155,085,683	4,607,418	152,152,911	4,808,878
Designated purpose trust fund	42,339,994	1,257,873	23,673,558	748,216
Financial debentures	18,202,885	540,787	36,755,258	1,161,671
Short-term notes	64,472,598	1,915,407	71,427,942	2,257,520
Securities purchased under agreements to resell	6,261,652	186,026	2,901,239	91,696
Operating securities	-	-	29,578	935
Subtotal	476,890,792	14,167,878	523,437,335	16,543,532
Less: Cash equivalents	(50,711,624)	(1,506,584)	(65,034,911)	(2,055,465)
Allowance for valuation loss	(430,884)	(12,801)	(127,631)	(4,034)
Total	<u>\$425,748,284</u>	<u>\$12,648,493</u>	<u>\$458,274,793</u>	<u>\$14,484,033</u>

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As of June 30, 2004 and 2005, certain of the Cathay United Bank's investments in government and corporate bonds were pledged under repurchase agreements with notional amounts of NT\$30,213,600 (US\$897,611) and NT\$24,903,700 (US\$787,095), respectively. Such repurchase agreements amounting to NT\$32,456,165 (US\$964,235) and NT\$26,633,384 (US\$841,763), respectively, were posed to the "other liabilities" account on the balance sheets. Repurchase agreements entered prior to June 30, 2004 and 2005 were settled at NT\$32,494,403 (US\$965,371) and NT\$26,679,132 (US\$843,209) prior to December 27, 2004 and December 26, 2005, respectively.

6. Exchange bills negotiated discounted and loans, net

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Exchange bills negotiated discounted	\$1,090,653	\$32,402	\$6,801,565	\$214,967
Short-term loans and overdrafts	223,702,668	6,645,950	211,425,518	6,682,222
Short-term secured loans and overdrafts	106,949,845	3,177,357	89,132,284	2,817,076
Medium-term loans	53,196,536	1,580,408	106,967,551	3,380,770
Medium-term secured loans	129,103,517	3,835,518	129,709,464	4,099,541
Long-term loans	19,714,565	585,697	22,126,274	699,313
Long-term secured loans	474,730,890	14,103,710	499,117,896	15,774,902
Overdue receivables	-	-	7,248,973	229,108
Subtotal	1,008,488,674	29,961,042	1,072,529,525	33,897,899
Less: Allowance for bad debts	(7,203,187)	(213,998)	(8,645,587)	(273,249)
Total	<u>\$1,001,285,487</u>	<u>\$29,747,044</u>	<u>\$1,063,883,938</u>	<u>\$33,624,650</u>

(1) 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

(2) For Cathay United Bank (merged), as of June 30, 2004 and 2005, the accounts with no interest accrued were NT\$6,001,784 (US\$178,306) and NT\$8,176,600 (US\$258,426), respectively. The non-accrued interest on such accounts amounted to NT\$115,142 (US\$3,421) and NT\$93,368 (US\$2,951) for the six-month periods ended June 30, 2004 and 2005, respectively.

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7. Long-term investments in stocks

Investee	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Under the equity method:				
Cathay Pacific Venture	\$589,901	\$17,525	\$(Note)	\$-
Cathay Venture	548,945	16,308	-(Note)	-
Cathay II Venture	597,699	17,757	-(Note)	-
Lin Yuan Property Management	19,430	577	-(Note)	-
Seaward Leasing	2,220,268	65,962	-(Note)	-
Cathay futures	726,444	21,582	-(Note)	-
Indovina Bank	427,449	12,699	-(Note)	-
Symphox Information	261,257	7,762	-(Note)	-
WK Technology Fund VI Co., Ltd	375,627	11,159	361,530	11,426
Vista Technology Venture Capital Corp.	74,038	2,200	62,222	1,967
Omnitek Venture Capital Corp.	152,081	4,518	161,420	5,102
Wa Tech Venture Capital Co., Ltd.	178,895	5,315	148,434	4,691
Cathay Securities Investment	20,490	609	29,710	939
Cathay Capital Management	-	-	23,103	730
Seaward Card	51,435	1,528	49,097	1,552
Taiwan Real-estate Management Corp.	51,947	1,543	20,612	652
Taiwan Finance Corp.	1,269,428	37,713	1,354,722	42,817
Cathay Property Insurance Agent	8,169	243	8,800	278
Cathay Life Insurance Agent	79,744	2,369	78,702	2,487
IBT Venture Capital Corp.	575,239	17,090	508,247	16,063
Cathay Insurance (Bermuda)	59,883	1,779	59,492	1,880
Cathay Securities Investment Trust Co., Ltd.	208,198	6,185	219,630	6,942
Subtotal	8,496,567	252,423	3,085,721	97,526
Less: Unrealized gain from intercompany transactions	(31,850)	(946)	(3,131)	(99)
Under the equity method	8,464,717	251,477	3,082,590	97,427
Under the cost method	49,670,977	1,475,668	28,145,832	889,565
Net	\$58,135,694	\$1,727,145	\$31,228,422	\$986,992

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 six-month period ended June 30, 2005 include Cathay Pacific Venture, Cathay Venture, Cathay II Venture, Lin Yuan Property Management, Symphox Information, Seaward Leasing, Cathay Futures and Indovina Bank. 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 June 30, 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 June 30, 2004 and 2005, long-term investments in bonds amounted to NT\$375,933,391 (US\$11,168,550) and NT\$477,295,230 (US\$15,085,184), respectively.

9. Investment in real estate

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

Item	June 30, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$113,453,569	\$3,585,764	\$4,563	\$144	\$(14,088,344)	\$(445,270)	\$(199,599)	\$(6,308)	\$99,170,189	\$3,134,330
Construction	2,271,545	71,793	-	-	-	-	-	-	2,271,545	71,793
Rental assets	714,640	22,587	-	-	(22,193)	(701)	-	-	692,447	21,886
Total	\$116,439,754	\$3,680,144	\$4,563	\$144	\$(14,110,537)	\$(445,971)	\$(199,599)	\$(6,308)	\$102,134,181	\$3,228,009

- (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.

English Translation of Financial Statements Originally issued in Chinese

10. Deposits and remittances

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Check deposits	\$9,614,204	\$285,627	\$10,121,994	\$319,911
Demand deposits	113,971,261	3,385,955	125,607,068	3,969,882
Demand savings deposits	425,311,094	12,635,505	473,788,976	14,974,367
Time deposits	129,449,923	3,845,809	134,386,567	4,247,363
Remittances payable	297,815	8,848	287,909	9,100
Financial debentures payable	27,050,000	803,624	52,050,000	1,645,070
Total	<u>\$705,694,297</u>	<u>\$20,965,368</u>	<u>\$796,242,514</u>	<u>\$25,165,693</u>

Financial debenture payable as follow:

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Financial debentures payable	\$14,700,000	\$436,720	\$39,700,000	\$1,254,741
Subordinate financial debentures payable	12,350,000	366,904	12,350,000	390,329
Total	<u>\$27,050,000</u>	<u>\$803,624</u>	<u>\$52,050,000</u>	<u>\$1,645,070</u>

On May 23, 2002, Cathay United Bank (merged) issued five-year subordinated financial debentures totaling NT\$5,000,000 (US\$158,028) with a stated interest rate of 4.15%. Subsequently on September 10, 2002, Cathay United Bank (merged) issued five-year and six-month subordinated financial debentures totalling NT\$5,000,000 (US\$158,028) with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinated financial debentures are repayable at maturity, and the interest is payable semi-annually.

On April 28, 2003, Cathay United Bank (formerly) issued five-year subordinated financial debentures totaling NT\$2,350,000 (US\$74,273) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

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

English Translation of Financial Statements Originally issued in Chinese

On June 20, 2003, Cathay United Bank (merged) issued five-year and six month financial debentures totaling NT\$5,000,000 (US\$158,028) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank (merged) issued five-year financial debentures totaling NT\$3,200,000 (US\$101,138), NT\$2,700,000 (US\$85,335) and NT\$1,800,000 (US\$56,890), respectively, with floating interest rates. Subsequently on March 29, 2004, Cathay United Bank (merged) issued six-year financial debentures totaling NT\$2,000,000 (US\$63,211) with a floating interest rate. 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 totaling NT\$1,000,000 (US\$31,606), NT\$3,500,000 (US\$110,619), NT\$2,000,000 (US\$63,211) and NT\$1,000,000 (US\$31,606), respectively, with inverse floating interest rates or specific structure 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 totaling NT\$2,500,000 (US\$79,014), NT\$1,500,000 (US\$47,408), NT\$1,500,000 (US\$47,408), NT\$2,500,000 (US\$79,014), NT\$1,500,000 (US\$47,408), NT\$2,500,000 (US\$79,014), NT\$1,000,000 (US\$31,606) and NT\$1,000,000 (US\$31,606), NT\$2,000,000 (US\$63,211), NT\$1,500,000 (US\$47,408), respectively, with fixed interest rate. These financial debentures are repayable at maturity, and the interest is payable quarterly.

These financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank (merged).

11. Bonds payable

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Zero coupon convertible notes	\$23,562,000	\$700,000	\$13,716,535	\$433,519
Redemption premium payable	1,751,234	52,027	1,522,427	48,117
Total	<u>\$25,313,234</u>	<u>\$752,027</u>	<u>\$15,238,962</u>	<u>\$481,636</u>

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

English Translation of Financial Statements Originally issued in Chinese

12. Reserve for operations and liabilities

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Unearned premium reserve	\$12,838,206	\$381,408	\$13,812,369	\$436,548
Reserve for life insurance	1,383,576,713	41,104,478	1,530,591,023	48,375,190
Special reserve	18,945,158	562,839	19,494,814	616,145
Claims reserve	897,694	26,670	1,083,607	34,248
Reserves for losses on guarantees	231,391	6,874	28,554	902
Reserves for losses on stock brokerage transactions	42,820	1,272	6,588	208
Reserves for losses on trading securities	130,982	3,891	146,941	4,644
Total	<u>\$1,416,662,964</u>	<u>\$42,087,432</u>	<u>\$1,565,163,896</u>	<u>\$49,467,885</u>

13. Common stock

As of June 30, 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 8,475,891 thousand shares, respectively.

On December 31, 2001, the Company listed its shares of stock on Taiwan Stock Exchange (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depository 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 NT53,675,526 (US\$1,594,638) and NT\$65,911,470 (US\$2,083,169) as of June 30, 2004 and 2005. Before conversion into a financial holding company, NT\$267,215 (US\$8,445) 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.

English Translation of Financial Statements Originally issued in Chinese

- (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\$611,669) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$26,365) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,714), 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. On June 3, 2005, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2004. The Company declared cash dividends and cash bonus of NT2.5 dollars (US0.08 dollars) per common share and such dividends were paid on July 11, 2005.

English Translation of Financial Statements Originally issued in Chinese

D. Cathay Life originally held 156,927 thousand shares of the Company. After conversion into a financial holding company, Cathay Life's treasury stock has been treated as the Company's treasury stock without any stockholder rights. As of June 30, 2004, Cathay Life had transferred all such treasury shares to employees.

E. The Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

F. In accordance with ROC SFC regulations, in addition to the legal reserve retained, the Company is required to provide a special reserve in the amount equal to current year's contra account in shareholders' equity from current year's earnings after tax or prior years' undistributed earnings. However, contra accounts in prior years' accumulated shareholders' equity should only be provided from prior years' undistributed earnings. If a reversal of shareholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

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

H. Dividends policy

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

16. Treasury stock

(1) The following is a summary of the movement of treasury stock for the six-month period ended June 30, 2005.

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2005			June 30, 2005		Per share	Per share	Per share	Per share	
	2005	Increase	Decrease	Book value (NT\$)	Book value (US\$)	Book value (in NT dollars)	Book value (in US dollars)	Market value (in NT dollars)	Market value (in US dollars)	
Shares held by										
subsidiaries	6,897	-	3,397	3,500	\$146,221	\$4,621	\$41.77	\$1.32	\$61.18	\$1.93

English Translation of Financial Statements Originally issued in Chinese

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

(Unit: in thousands of shares)

Name	Holding share	Amount (NT \$)	Amount (US\$)	Cause	About retained earnings limit	Legal time limit	Pro forma way by the board of directors determine
					None	Within three years	None
Cathay United Bank (merged)	3,500	2210,810	6,663	Holding other subsidiaries stock by conversion			

17. Personnel, depreciation, depletion and amortization expenses - The Company and main subsidiaries

Item	For the six-month period ended June 30 ,2004			For the six-month period ended June 30,2005		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$9,567,045	\$3,817,799	\$13,384,844	\$10,204,046	\$4,568,451	\$14,772,497
Labor & health insurance expenses	583,559	290,362	873,921	522,814	353,658	876,472
Pension expenses	421,463	272,527	693,990	233,393	254,804	488,197
Other expenses	501,783	770,345	1,272,128	475,022	462,869	937,891
Depreciation	-	1,393,779	1,393,779	25,674	1,646,291	1,671,965
Depletion	-	-	-	-	-	-
Amortizations	-	180,815	180,815	2,829	191,565	194,394

Item	For the six-month period ended June 30 ,2004			For the six-month period ended June 30,2005		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$284,226	\$113,422	\$397,648	\$322,505	\$144,388	\$466,893
Labor & health insurance expenses	17,337	8,626	25,963	16,524	11,177	27,701
Pension expenses	12,521	8,097	20,618	7,377	8,053	15,430
Other expenses	14,907	22,886	37,793	15,014	14,629	29,643
Depreciation	-	41,408	41,408	811	52,032	52,843
Depletion	-	-	-	-	-	-
Amortizations	-	5,372	5,372	89	6,055	6,144

English Translation of Financial Statements Originally issued in Chinese

18. Estimated income taxes

(1) Income tax expenses include the following:

	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Expected income tax expense	\$581,820	\$17,285	\$1,318,612	\$41,676
Plus: Interest income of tax on a separate basis	118,818	3,530	213,956	6,762
Deferred income tax expenses (benefits)	1,857,680	55,190	(99,086)	(3,132)
Extra 10% income tax on undistributed retained earnings	336,791	10,006	4,156	131
Less: Income tax credit	(5,781)	(172)	(4,255)	(134)
Tax effects under consolidated income tax return	(347,711)	(10,330)	(11,028)	(348)
Dissimilitude on estimate tax from prior years	(464,168)	(13,790)	(27,962)	(884)
Total income tax expenses	<u>\$2,077,449</u>	<u>\$61,719</u>	<u>\$1,394,393</u>	<u>\$44,071</u>

The Compa 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 returns:

	June 30, 2005	
	Income tax returns assessed	Notes
The Company	through 2001	-
Cathay Life	through 2000	-
Cathay United Bank (merged)	through 2001	Cathay United Bank's (merged) income tax returns for the years from 1994 through 2001 had assessed by the tax authority, and Cathay United Bank (merged) had accrued appropriate tax provisions for those years. However, Cathay United Bank (merged) disagreed with the assessments and appealed to the tax authority. After further reviewed by tax authorities, the government upheld its previous decisions and re-determined the income tax obligations of Cathay United Bank (merged) for the years from 1994 through 1998 and 2000 in 2004 and for the years 1999 and 2001 in 2005, respectively.

English Translation of Financial Statements Originally issued in Chinese

Former Cathay United Bank's	through 2002	For the tax years 1994, 1995 and 2001 with respect to the former Cathay United Bank, withholding tax on interest income from bonds held by other investors (the "bond withholding tax") was disallowed by the tax authority as a deduction. Former Cathay United Bank disagreed with the tax authority's decision, accrued appropriated tax provisions, and decided to file for administrative remediation. In 2004, the tax authority upheld its original decisions and Former Cathay United Bank made appropriate accounting treatment to reflect the outcome. In 2004, Former Cathay United Bank entered into a settlement with the tax authority. In the same year, Former Cathay United Bank also settled the tax dispute arising from the withholding tax on interest income from bonds pertaining to the above relevant periods in its 2002 tax returns.
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Cathy Century	through 2002	-
Cathay Pacific Venture	through 2003	-
Symphox Information	through 2002	-
Lin Yuan Property Management	through 2002	-
Cathay Futures	through 2003	-
Seaward Leasing	through 2002	-

(3) Information related tax imputation:

A. Balance of imputation credit account

	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
The Company	\$1,439,178	\$42,756	\$1,097,249	\$34,679
Cathay Life	50,961	1,514	63,265	2,000
Cathay United Bank (merged)	50,113	1,489	106,426	3,364
Cathy Century	3,496	104	61	2
Cathay Securities	596	18	3,106	98
Cathay Venture	11,883	353	13,575	429
Cathay II Venture	-	-	1,256	40
Lin Yuan Property Management	10,798	321	14,381	455
Cathay Futures	10,341	307	9,462	299
Seaward Leasing	85,527	2,541	68,585	2,168

English Translation of Financial Statements Originally issued in Chinese

B Imputation credit account ratio

	For the six-month periods ended June 30,			
	2004		2005	
	Actual	Estimate	Actual	Estimate
The Company	19.17%	-	7.58%	-
Cathay Life	8.34%	-	9.52%	-
Cathay United Bank (merged)				
-cash dividends	-	10.94%	-	1.04%
-stock dividends	-	-	-	3.28%
Cathy Century	29.73%	-	1.83%	-
Lin Yuan Property Management	-	-	33.33%	-
Cathay Futures	-	33.33%	-	33.33%
Seaward Leasing	-	18.72%	-	31.58%

(4) Information relating of undistributed earnings:

Year	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Prior to 1997	\$267,215	\$7,939	\$267,215	\$8,446
After 1998	823,160	24,455	6,359,202	200,986
Total	<u>\$1,090,375</u>	<u>\$32,394</u>	<u>\$6,626,417</u>	<u>\$209,432</u>

The above undistributed earnings do not include the net income for the six-month periods ended June 30, 2004 and 2005.

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.

English Translation of Financial Statements Originally issued in Chinese

19. Earnings per share

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

For the six-month period ended June 30, 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\$
Consolidated net Income	<u>\$12,065,995</u>	<u>\$381,353</u>	<u>\$10,639,315</u>	<u>\$336,262</u>					
Primary earnings per share									
Consolidated net income for common stock holder	\$12,065,995	\$381,353	\$10,639,315	\$336,262	8,410,401	<u>\$1.43</u>	<u>\$0.05</u>	<u>\$1.27</u>	<u>\$0.04</u>
Effect of potentially dilutive common stock									
Convertible notes payable	<u>287,187</u>	<u>9,077</u>	<u>215,390</u>	<u>6,807</u>	<u>337,839</u>				
Fully-diluted earnings per share									
Consolidated net income for common stock holder & effect of potentially common stock	<u>\$12,353,182</u>	<u>\$390,430</u>	<u>\$10,854,705</u>	<u>\$343,069</u>	<u>8,748,240</u>	<u>\$1.41</u>	<u>\$0.04</u>	<u>\$1.24</u>	<u>\$0.04</u>

English Translation of Financial Statements Originally issued in Chinese

20. Related party transactions

(1) Related parties

Name	Relationship
Cathay Capital Management	Subsidiary of Company
Cathay Insurance (Bermuda)	The investee is accounted for using the equity method
Cathay Securities Investment	The investee is accounted for using the equity method
Cathay Life Insurance Agent (merged with Seaward Insurance Agent Corp. on February 5, 2004, Cathay Life Insurance Agent 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
Seaward Card	The investee is accounted for using the equity method
Cathay Property Insurance Agent	The investee is accounted for using the equity method
China England	The investee is accounted for using the equity method
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
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)
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Yi Ru Corporation	Their chairman is a second immediate family member of the Company's chairman
Wu Ming-Yang	Senior manager of Cathay Century

(2) Significant transactions with related parties:

A. Beneficiary certificates

Name	Cost	June 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	Cost	\$4,765,705	\$141,583	\$4,930,150	\$155,820
	Market Value	\$4,794,254	\$142,432	\$5,133,751	\$162,255

English Translation of Financial Statements Originally issued in Chinese

B. Receivables

Name	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$120,000	\$3,565	\$15,413	\$487
Cathay Insurance (Bermuda)	10,973	326	13,290	420
Cathay Capital Management	-	-	4,985	158
Other	2,525	75	1,810	57
Total	\$133,498	\$3,966	\$35,498	\$1,122

C. Prepayments

Name	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information	\$5,367	\$159	\$-	\$-

D. Regular secured loans

As of and for the six-month period ended June 30, 2004				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,192,866	\$2,192,802	2.60%-3.50%	\$20,973
Wu Ming-Yang	2,374	1,708	2.48%	27
Total		\$2,194,510		\$21,000

As of and for the six-month period ended June 30, 2004				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$65,148	\$65,145	2.60%-3.50%	\$623
Wu Ming-Yang	71	51	2.48%	1
Total		\$65,196		\$624

English Translation of Financial Statements Originally issued in Chinese

As of and for the six-month period ended June 30, 2005

Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General				
Hospital	\$2,321,146	\$2,321,013	2.60%-2.84%	\$30,809
Wu Ming-Yang	1,651	1,593	2.66%	21
Total		<u>\$2,322,606</u>		<u>\$30,830</u>

As of and for the six-month period ended June 30, 2005

Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$73,361	\$73,357	2.60%-2.84%	\$974
Wu Ming-Yang	52	50	2.66%	1
Total		<u>\$73,407</u>		<u>\$975</u>

E. Loans and deposits

June 30,

Account	2004		% of account	Interest Revenue (Expense)		2005		% of account	Interest Revenue (Expense)	
	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
	Bills and loans	<u>\$4,869,926</u>		<u>\$144,680</u>	0.91	<u>\$56,989</u>	<u>\$1,693</u>		<u>\$628,963</u>	<u>\$19,879</u>
Deposits	<u>\$24,023,113</u>	<u>\$713,699</u>	5.18	<u>\$(17,116)</u>	<u>\$(508)</u>	<u>\$3,862,538</u>	<u>\$122,078</u>	5.07	<u>\$(14,555)</u>	<u>\$(460)</u>

F. Property transactions:

- a. Transactions between Cathay Life 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.

English Translation of Financial Statements Originally issued in Chinese

For the six-month period ended June 30, 2004

Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$5,775	\$172
	Hsinyi District Base-D	20,338	604
	Cathay Information Building	10,569	314
	Ban Ciao Building	113,237	3,364
	Sheraton Taipei Hotel	20,332	604
	Cathay General Hospital	7,120	211
	Siangyang Building	18,362	546
	Huanyu Building	5,984	178
	Xi-Men Bldg.	15,882	472
	Tucheng Office Building	50,749	1,508
	Jhunan Building	10,740	319
	Cathay Golden & Sliver Bldg.	3,878	115
	Tian-Mu Shopping Center (B)	4,757	141
	Taipei Financial Center Building	3,883	115
	Li-Yuan Bldg.	3,934	117
	Ji-Long Bldg (II)	2,080	62
Cathay Life Insurance Building	1,757	52	
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	332	10
	Tucheng Office Building	116	3
	Ban Ciao Building	1,310	39
	Total	<u>\$301,135</u>	<u>\$8,946</u>

For the six-month period ended June 30, 2005

Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$2,659	\$84
	Cathay Golden & Slivr	3,791	120
	Ban Ciao Building	181,599	5,739
	Sheraton Taipei Building	32,576	1,030
	Sainyang Bulding	4,222	133
	Cathay Land Mark	1,500	47
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,474	47
	Total	<u>\$228,102</u>	<u>\$7,209</u>

English Translation of Financial Statements Originally issued in Chinese

- (a) The total amount of contracted projects for real estate as of June 30, 2004 and 2005 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$9,142,446 (US\$271,612) and NT\$7,412,460 (US\$234,275), respectively.
- (b) Cathay United Bank (merged) paid project and construction management fees to Taiwan Real-estate Management Corp. in the amount of NT\$168 (US\$5) during the six-month period ended June 30, 2004.
- (c) Cathay United Bank (merged) purchased automated systems for the 24-hour self-service banking centers from Sanching Engineering Corp. for the amounts of NT\$87,519 (US\$2,600) and NT\$3,820 (US\$121) during the six-month periods ended June 30, 2004 and 2005, respectively.

b. Cathay Life disposal of real estate information:

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

Cathay Life did not sell any real estate to its related parties for the six-month period ended June 30, 2005.

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

Name	Rental income			
	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$11,365	\$337	\$8,028	\$254
Cathay General Hospital	70,758	2,102	65,240	2,062
San Ching Engineering Co., Ltd.	7,196	214	3,784	120
Symphox Information	12,421	369	-	-
Cathay Securities Investment Trust Co., Ltd.	4,311	128	5,804	183
Taiwan Asset Management Corporation	-	-	7,171	227
Cathay Securities Investment	2,110	63	1,813	57
Lin Yuan Property Management	224	6	-	-
Cathay Capital Management	-	-	962	30
Culture and Charity Foundation of CUB	500	15	500	16
Taipei Smart Card Corp.	2,854	85	2,854	90
Seaward Leasing	941	28	-	-
Other	61	2	57	2
Total	\$112,741	\$3,349	\$96,213	\$3,041

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

Name	Guarantee deposits received			
	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$172	\$4,286	\$135
Cathay General Hospital	2,354	70	4,509	143
San Ching Engineering Co., Ltd.	7,079	210	2,009	63
Symphox Information	1,394	41	-	-
Cathay Securities Investment Trust Co., Ltd.	2,144	64	2,738	87
Taiwan Asset Management Corporation	-	-	3,477	110
Cathay Securities Investment Co., Ltd.	-	-	877	28
Cathay Capital Management Inc.	-	-	479	15
Other	77	2	28	1
Total	\$18,844	\$559	\$18,403	\$582

d. Real estate rental expense from Cathay Life, Cathay United Bank (merged) and Lin Yuan Property Management.

Name	Rental expense			
	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$21,760	\$646	\$21,796	\$689
Lin Yuan Investment Co., Ltd.	3,340	99	2,275	72
Yi Ru Corporation	2,038	61	2,041	64
Total	\$27,138	\$806	\$26,112	\$825

Name	Guarantee deposits paid			
	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,565	\$373	\$12,439	\$393
Lin Yuan Investment Co., Ltd.	1,650	49	628	20
Seaward Leasing	42,000	1,248	-	-
Cathay Capital Management	-	-	8	-
Cathay Securities Investment Trust Co., Ltd.	-	-	47	1
Cathay Futures	4,072	121	-	-
Yi Ru Corporation	1,190	35	1,190	38
Total	\$61,477	\$1,826	\$14,312	\$452

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According to contracts, terms of leases with third parties generally were 3 years, and rents were paid monthly.

e. The Company acquisition of property and equipment information:

Name	Item	For the six-month period ended June 30,	
		2004(NT\$)	2004(US\$)
Lin Yuan Property Management	Property transactions	\$152	\$5

The Company did not buy any property and equipment from related parties for the six-month period ended June 30, 2005.

G. Bonds sold under repurchase agreements

Name	June 30, 2005	For the six-month period ended June 30, 2005
	Ending balance (NT\$)	Interest expense (NT\$)
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$127,436	\$1,263

Name	June 30, 2005	For the six-month period ended June 30, 2005
	Ending balance (US\$)	Interest expense (US\$)
Cathay Securities Investment Trust Co., Ltd. - Cathay Bond Fund	\$4,028	\$40

H. Payable

Name	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Symphox Information	\$27,472	\$816	\$-	\$-
Lin Yuan Property Management	14,247	423	-	-
Seaward Card	40,346	1,199	90,697	2,867
Other	7,698	229	46	1
Total	\$89,763	\$2,667	\$90,743	\$2,868

English Translation of Financial Statements Originally issued in Chinese

I. Accounts collected in advance

Name	June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$-	\$-	\$11	\$-
Other	113	3	92	3
Total	\$113	\$3	\$103	\$3

J. Insurance income

Name	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$11,501	\$342	\$14,745	\$466
Cathay Real Estate Development Co., Ltd.	1,037	31	1,322	42
San Ching Engineering Co., Ltd.	1,142	34	2,102	67
Cathay Securities Investment Trust Co., Ltd.	456	14	404	13
Cathay Securities Investment	117	3	131	4
Cathay Futures	1,496	44	-	-
Lin Yuan Investment Co., Ltd.	115	3	388	12
Symphox Information	397	12	-	-
Other	1,375	41	164	5
Total	\$17,636	\$524	\$19,256	\$609

K. Sales

Name	For the six-month periods ended June 30,			
	2004		2005	
	(NT\$)	(US\$)	(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	\$-	\$-	\$243	\$8
Cathay Real Estate Development Co., Ltd.	-	-	322	10
Cathay General Hospital	-	-	462	15
Cathay Securities Investment Trust Co., Ltd.	-	-	1,595	50
Other	-	-	85	3
Total	\$-	\$-	\$2,707	\$86

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L. Service Income

Name	For the six-month periods ended June 30,			
	2004		2005	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay General Hospital	\$-	\$-	\$51,350	\$1,623
San Ching Engineering Co., Ltd.	-	-	557	17
Cathay Securities Investment Trust Co., Ltd.	-	-	1,422	45
Cathay Real Estate Development Co., Ltd.	-	-	18,760	593
Lin Yuan Investment Co., Ltd.	-	-	6,201	196
Other	-	-	150	5
Total	\$-	\$-	\$78,440	\$2,479

M.Reinsurance income

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$51,955	\$1,544	\$47,482	\$1,501

Cathay Insurance (Bermuda) 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) subsequently redirected 90% of such policies to Cathay Life.

N. Reinsurance handling fee income

Name	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda)	\$-	\$-	\$6,553	\$207

O.Handling fee Income

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Futures	\$1,839	\$55	\$-	\$-

English Translation of Financial Statements Originally issued in Chinese

P. Miscellaneous income

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$3,487	\$104	\$3,368	\$106
Cathay Futures	39	1	-	-
Total	\$3,526	\$105	\$3,368	\$106

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

Q. Commissions expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life Insurance Agent	\$132,353	\$3,932	\$101,839	\$3,219
Cathay Property Agent	8,530	253	15,951	504
Total	\$140,883	\$4,185	\$117,790	\$3,723

R. Reinsurance commissions expense

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$9,500	\$282	\$5,977	\$189

S. Reinsurance claims payment

Name	For the six-month periods ended June 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$7,565	\$225	\$33,268	\$1,051

T. Credit card processing charges

Name	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Seaward Card	\$297,995	\$8,853	\$517,495	\$16,356

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U.Reinsurance handling fee expense

Name	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda)	\$3,795	\$113	\$-	\$-

V.Operating expense

Name	For the six-month periods ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management	\$361,867	\$10,751	\$-	\$-
Cathay Real Estate Development Co., Ltd.	7,500	223	6,627	209
Cathay Securities Investment	26,250	780	26,250	830
San Ching Engineering Co., Ltd.	4,500	134	3,594	114
Symphox Information	138,025	4,100	-	-
Seaward Card	-	-	1,223	39
Cathy Capital Management	-	-	20,000	632
Cathay General Hospital	-	-	268	8
Total	\$538,142	\$15,988	\$57,962	\$1,832

Cathay Venture entered into an agreement with Cathay Capital Management to manage its domestic and foreign investment business. The annual management fee was increased from 0.25% to 2% of its capital starting from in the 4th quarter to comply with normal market price with third parties.

Cathay II Venture entered into an agreement with Cathay Capital Management to manage its domestic and foreign investment business. The annual management fee is 2% of its capital.

W.Others

- a. As of the end of June 30, 2005, the China England is a subsidiary company of the Seaward Leasing which was not only provided collaterals of land, houses and buildings but also acted as a guarantor in loans or finances to financial organization. Furthermore, the credit lines of Seaward Leasing and China England were jointly liable.

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- b. Seaward Leasing purchased a Inventory-construction-in-progress of Taichung Jing T'ang Building (Renamed the Shr-Hwa International Tower). As of December 26, 2001, it signed a construction management services contracts with the Taiwan Real-estate Management Corp. The amount of contract which paid by construction-in-progress is NT\$17,010,000 (US\$537,611). Up to June 30, 2005, Seaward Leasing have paid NT\$15,945,000 (US\$503,951) and the remaining amount is NT\$1,065,000 (US\$33,660).
- c. The related party San Ching Engineering Co., Ltd. is a consultant which is responsible for overseeing construction-in-progress and managing finishing realties by consigning of the Seaward Leasing on May 7, 2003. From May 15, 2003 to December 31, 2004, the consulting fees were NT\$234,000 (US\$7,396) per month. However, the construction-in-progress could not finish at the end of 2004 as originally expected, thus the consulting fees had paid till the end of May 2005 without signing the subjoined contract. The Seaward Leasing had paid NT\$1,170,000 (US\$36,979) for the six-month period ended June 30, 2005.

21. Pledged assets

(1) Cathay Life

As of June 30, 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	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Long-term investment				
in bonds	\$7,914,509	\$235,131	\$8,075,676	\$255,236
Time deposits	290,550	8,632	232,550	7,350
Total	<u>\$8,205,059</u>	<u>\$243,763</u>	<u>\$8,308,226</u>	<u>\$262,586</u>

(2) Cathay United Bank (merged)

- A. NT\$17,015,329 (US\$505,506) and NT\$21,169,455 (US\$669,073) of the securities purchased as of June 30, 2004 and 2005, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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B. As of June 30, 2005, NT\$159,645 (US\$5,046) of Cathay United Bank's (merged) investments in government bonds were pledged to other parties as collateral for business reserves and guarantees.

(3) Cathay Century

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	\$357,833	\$10,631	\$359,518	\$11,363

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

The pledged assets are disclosed at net carrying amount.

(4) Cathay Securities

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Restricted assets - time deposits	\$-	\$-	\$1,300,000	\$41,087

A. As of June 30, 2005, Cathay Securities pledged its restricted assets - time deposits to Cathay United Bank (merged) as collateral for the over-loaning of settlement accounts.

B. Restricted assets - time deposits is disclosed at its net carrying amount.

(5) Seaward Leasing

As of June 30, 2005, the following assets had been provided as collaterals by Seaward Leasing to guarantee loans, others financing or leasing:

Item	June 30, 2005	Creditor
Property and equipment- Buildings and construction (Book value)	\$1,094,624	Taiwan Finance Corp.

22. Other important matters and contingent liabilities

(1) Cathay United Bank (merged)

As of June 30, 2005, Cathay United Bank (merged) had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	NT\$	US\$
A. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	\$605,597,329	\$19,140,244
Travelers checks for sale	675,707	21,356
Bills for collection	51,742,544	1,635,352
Guarantees on duties and contracts	15,800,838	499,394
Unused commercial letters of credit	3,809,051	120,387
Irrevocable loan commitments	25,203,457	796,569
Credit card lines	285,121,188	9,011,416
Stamp tax, securities and memorial currency consignments	1,757	56

B. As of June 30, 2005, Cathay United Bank (merged) had various lawsuits, claims and proceedings. The significant ones are described below:

- a. In 1997, Cathay United Bank (merged), as requested by Polaris International Securities Investment Trust Co., Ltd., paid Chung Shing Bank (had been merged with Union Bank of Taiwan) in an amount of NT\$600,000 (US\$18,963) for the purchase of certain certificate of time deposit. Such certificate of time deposit was later found to have been forged by Mr. Chung-For Su (a clerk of another bank). Cathay United Bank (merged) filed a lawsuit against Chung Shing Bank for the return of personal gains obtained by Mr. Chung-For Su. Cathay United Bank (merged) obtained a judgment rendered by the Taiwan High Court in favor of Chung Shing Bank. Cathay United Bank (merged) appealed and the Taiwan High Court reversed its previous decision. This case is pending as Chung Shing Bank subsequently has filed an appeal to the Supreme Court.
- b. In 1996, several clients of Cathay United Bank (merged) filed a lawsuit against Cathay United Bank (merged), claiming restitution in the amount of NT\$24,000 (US\$759) for theft of their properties stored in a safe at Chung-Li Branch. The High Court has held Cathay United Bank (merged) responsible for making restitution. Cathay United Bank (merged) has subsequently filed an appeal and the case is being reviewed by the High Court. Cathay United Bank (merged) has also filed an insurance claim against Taiwan Secom Co., Ltd. in relation to the loss mentioned above.

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- c. In 2001, embezzlement and illegal acts involving the amount of NT\$60,204 (US\$1,903) was committed by one of Cathay United Bank's (merged) employees. Cathay United Bank (merged) has filed a motion of injunction against such employee's personal properties.
 - d. On January 1, 2004, Pacific SOGO began to issue its own SOGO membership card, which Cathay United Bank (merged) believes constitutes a breach of Pacific SOGO's co-branded card contract with Cathay United Bank (merged). Cathay United Bank (merged) has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards.
 - e. On December 25, 2004, a charge of embezzlement in the amount of NT\$24,971 (US\$742) by one of Cathay United Bank's (merged) employees was brought to the Taipei District Prosecutors Office.
- C. As of June 30, 2005, Cathay United Bank (merged) entered into certain contracts to purchase premises and equipment totalling NT\$941,513 (US\$29,757) with down payments of NT\$814,396 (US\$25,739).

(2) Cathay Century

The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in years 2001, 2002 and 1999 tax returns, amounting to NT\$2,474 (US\$78), NT\$1,658 (US\$52) and NT\$2,796 (US\$88), 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.

(3) Seaward Leasing

Seaward Leasing purchased the Inventory-construction-in-progress of Taichung Jing T'ang Building (Renamed the Shr-Hwa International Tower). As of December 26, 2001, it signed a construction management services contracts with the Taiwan Real-estate Management Corp. The amount of contract which paid by construction-in-progress is NT\$17,010,000 (US\$537,611). Up to June 30, 2005, the Seaward Leasing have paid NT\$15,945,000 (US\$503,951) and the residual is NT\$1,065,000 (US\$33,660).

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(4) Indovina Bank

By the date June 30, 2005, Indovina Bank had signed some significant rental contracts, and base, which we estimate that the rents for the following 5 years are, as follows:

Period	Amount	
	NT\$	US\$
July 01, 2005 ~ June 30, 2006	\$4,418	\$140
July 01, 2006 ~ June 30, 2010	15,714	497
July 01, 2010 ~	4,278	135
Total	\$24,410	\$772

23. Serious damages: None.

24. Subsequent events:

- (1) As of July 8, 2005, the Company's supervisor-Cheng Jin Han was replaced by Chien Fu whose prefecture is from July 8, 2005 to June 2, 2007.
- (2) As of July 29, 2005, the Company had acquired the Lucky Bank's common stocks of 255,141 thousand shares with its ownership interest of 81.10% at the exercise price NT\$16 (US\$0.51) per share, totaling NT\$4,082,256 (US\$129,022).

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".

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(2) Derivative financial instruments related information

A. The Company

a. Purpose

As of June 30, 2004 and 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.

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.

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(b) As of June 30, 2004:

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

As of June 30, 2005: None.

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 June 30, 2004: None.

(c) As of June 30, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>	<u>Fair value</u>
Goldman Sachs International	2005.3.3	2005.3.7- 2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>	<u>USD 461,911</u>

f. Foreign currency options

(a) The Company uses foreign currency option contract to manage currency exposures.

(b) As of June 30, 2004: None.

As of June 30, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>	<u>Fair value</u>
Goldman Sachs International	2005.3.3	2005.3.7; 2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>	<u>USD 521,250</u>

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B. Cathay Life

a. Purpose

As of June 30, 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.

d. Product type and condition

(a) Futures

Item	Transaction type	Lot	June 30, 2004			
			Contract amount		Net income of fair value estimated	
			NT\$	US\$	NT\$	US\$
Bonds futures	Selling out	1,950	\$7,111,443	\$211,273	\$46,852	\$1,392

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June 30, 2005						
Item	Transaction type	Lot	Contract amount		Net loss(income) of fair value estimated	
			NT\$	US\$	NT\$	US\$
TX	Selling out	488	\$569,034	\$17,985	\$(25,545)	\$(807)
Bonds futures	Selling out	2,684	9,329,184	294,854	10,264	324

(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 June 30, 2004 and 2005, Cathay Life had forward foreign exchange contracts of approximately US\$12,914,800 and US\$13,449,800, respectively, in notional value.

The forward foreign exchange contracts as of June 30, 2004, were due between July 1, 2004 and April 8, 2005. In addition, the forward exchange contracts as of June 30, 2005, were due between July 5, 2005 and May 22, 2006.

June 30, 2004					
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	US\$14,418,000	\$487,068,057	\$14,470,233	\$483,843,886	\$14,374,447

June 30, 2005					
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	US\$15,794,800	\$499,652,203	\$15,791,789	\$497,569,346	\$15,725,959

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

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Net assets	June 30,	
	2004	2005
Short-term and long-term investment	USD 14,418,000	USD 15,794,800

Losses on the forward foreign exchange and currency swap contracts were NT\$349,142 (US\$10,373) and NT\$768,346 (US\$24,284), for the six-month periods ended June 30, 2004 and 2005.

(c) Interest rate swap agreement (IRS)

The IRS agreements of Cathay Life as of June 30, 2005 are set forth below:

Category	Currency	Period	Amount
IRS	NTD	2002.09.13~2015.04.12	NT\$37,234,212 US\$1,176,808

(d) Option

No option transactions were outstanding on June 30, 2004.

Item	Transaction type	Lot	June 30, 2005			
			Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	33,144	\$9,657,735	\$305,238	\$(82,442)	\$(2,606)
TXO	Selling out	16,810	5,211,815	164,722	(42,407)	(1,340)

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 and other similar instruments. These financial instruments involve varying degrees of risks. The related information is as follows:

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

Derivative financial instruments	June 30, 2004		
	Contract (nominal) amount	Credit risk	Fair value
<u>For the purpose of customers' hedging needs or hedging Cathay United Bank's exposures</u>			
Forward foreign exchange contracts	\$2,362,667	\$219,742	\$6,706
<u>For trading purpose</u>			
Interest rate swap contracts	172,963	1,376	74
Options	10,873	11	10
<u>For non-trading purposes</u>			
Interest rate swap contracts	963,200	7,828	16,816
Cross-currency swap contracts	577,707	8,419	(1,908)
	June 30, 2005		
Derivative financial instruments	Contract (nominal) amount	Credit risk	Fair value
<u>For the purpose of customers' hedging needs or hedging Cathay United Bank's exposures</u>			
Forward foreign exchange contracts	\$2,815,976	\$15,128	\$19,364
<u>For trading purpose</u>			
Interest rate swap contracts	1,078,642	4,620	(184)
Options	193,884	301	13
<u>For non-trading purpose</u>			
Interest rate swap contracts	1,592,150	13,829	39,030
Cross-currency swap contracts	573,171	10,723	16,824

Credit risk is the risk of loss if counterparty fails to perform its obligations under the contractual terms of a derivative financial instrument. The balance of credit risk above represents losses which Cathay United Bank (merged) would suffer if counterparties failed to meet their obligations according to the contractual terms, after taking into consideration the netting effects under the master netting agreements.

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Forward foreign exchange contracts represent agreements to exchange designated currencies on a specified date at a predetermined exchange rate. Forward foreign exchange contracts are useful for the purposes of hedging risks resulting from transactions with customers or hedging Cathay United Bank's (merged) exposure. For contracts entered into with customers, prior approval of the credit facility limit is required before a transaction can be executed. The credit limit approval process is similar to policies and procedures applied to lending activities to ensure that the risk and exposure to all customers are properly monitored and managed. Certain customers are required to provide collateral (generally cash) for entering into such forward contracts. Such collateral is deemed necessary by Cathay United Bank (merged) to reduce its credit exposure incurred during the life of the contract.

Forward rate contacts made with major international financial institutions are 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 contacts is the present value of interest differences between the market rate and the contract rate. Cathay United Bank (merged) monitors and adjusts its exposure to and believes its credit risks associated with forward rate contacts are limited.

As of June 30, 2005, the maturities of Cathay United Bank's (merged) outstanding interest rate swaps contracts ranged from seven months to four years. 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.

As of June 30, 2005, Cathay United Bank's (merged) outstanding cross-currency swap contracts had remaining maturities from one year and seven months to six years and one month. Cross-currency swap contracts 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 or interest rate risk resulting from Cathay United Bank's (merged) foreign currency securities investment, foreign currency liquidity gap and financial debentures payable. 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.

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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 customers' deposits, the paid premiums are supported by interest income from their own deposits with Cathay United Bank (merged). Consequently, the credit risks are considered 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	June 30,	
	2004	2005
Interest rate risk exposures	\$412,418	\$309,981
Foreign exchange risk exposures	144,686	201,543

The overall market risk exposures from 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) entered into such financial instruments with its customers, usually for hedging purposes, it requires customers to provide supporting documents to process the trades. Since such contracts are not speculative in nature and both contracting parties will often hold on to their contract positions until the maturity of such contracts, the liquidity risk of forward foreign exchange contracts should be immaterial. Cathay United Bank (merged) also manages the forward rate risk through the interbank market. The liquidity risk of this type of transaction is very low because interbank forward markets are very liquid. The liquidity risk of interest rate swap contracts and cross-currency swap contracts is more limited because most of the trades are made for the purpose of holding to maturity. The use of derivative financial instruments by Cathay United Bank (merged) is mainly driven by customers' demands as well as Cathay United Bank's (merged) funding or hedging investment purposes. They did not involve any degree of high leverage.

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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. Cathay United Bank's (merged) current asset-backed swap contract portfolio does not require additional significant cash flow demand.

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

	Account	For the six-month periods ended June 30,	
		2004	2005
<u>For trading purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest revenue	\$5,241	\$11,387
-Realized	Interest expense	3,317	3,937
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	487	(171)
-Unrealized	"	80	(138)
Option contracts			
-Realized	"	10	18
-Unrealized	"	10	7
Futures contracts			
-Realized	"	-	56
<u>For non-trading purpose</u>			
Interest rate swap contracts			
-Realized	Interest revenue	18,955	19,170
-Realized	Interest expense	4,145	11,448
Cross-currency swap contracts			
-Realized	Interest revenue	5,316	6,844
-Realized	Interest expense	1,954	8,069

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e. Off-balance sheet credit risk

Cathay United Bank (merged) enters into certain transactions with customers to repurchase or resell securities or short-term notes for business purposes 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 highest interest rate Cathay United Bank (merged) charged for credit card loans is 19.7%. Cathay United Bank (merged) also provides guarantees for loans and commercial letters of credit services. These guarantees represent an irrecoverable obligation to pay a third-party beneficiary in the event that a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

f. A summary of the contract amount of each significant class of off-balance sheet credit related financial instruments outstanding is set forth in the table below:

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Irrevocable loan commitments	\$19,119,713	\$568,025	\$25,203,457	\$796,569
Credit card lines	228,848,020	6,798,812	285,121,188	9,011,416
Guarantees and commercial letters of credit	20,460,280	607,851	19,609,889	619,782

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 from the above off-balance sheet credit related financial instruments is approximately equal to the total contract amount if borrowers fail to perform the contracts.

Cathay United Bank (merged) maintains a strict policy to evaluate customers' credit ratings 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 on or liquidate the collateral. Generally, the collateral includes cash, real estate, securities or other properties. However, 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 June 30, 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.

b. Credit and market risks

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.

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Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Forward exchange contracts receivable	\$2,389,638	\$70,993	\$2,886,869	\$91,241
Discount on forward exchange contracts	7,716	229	13,965	441
Payables on forward exchange purchased	(2,398,025)	(71,242)	(2,886,723)	(91,236)
Net-other receivable (Payable)	<u>\$(671)</u>	<u>\$(20)</u>	<u>\$14,111</u>	<u>\$446</u>

- (b) As of June 30, 2004 and 2005, Cathay Century has forward exchange contracts of approximately US\$71,000 and US\$91,300, respectively, in notional value. The forward foreign exchange contracts as of June 30, 2004 were due between July 14, 2004 and May 26, 2005. In addition, the forward contracts as of June 30, 2005 were due between July 6, 2005 and March 14, 2006.

		June 30, 2004			
		Fair value		Due value	
Item	Contract amount	NT\$	US\$	NT\$	US\$
Forward	<u>US\$71,000</u>	<u>\$2,398,025</u>	<u>\$71,242</u>	<u>\$2,389,638</u>	<u>\$70,993</u>

		June 30, 2005			
		Fair value		Due value	
Item	Contract amount	NT\$	US\$	NT\$	US\$
Forward	<u>US\$91,300</u>	<u>\$2,886,723</u>	<u>\$91,236</u>	<u>\$2,886,869</u>	<u>\$91,241</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\$79 (US\$2) offsets before June 30, 2005, as futures trading loss.
- (b) 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

a. Structured notes transactions

(a) Nominal principal or contract amount and credit risk:

<u>Financial instruments</u>	<u>June 30, 2004</u>		<u>June 30, 2005</u>	
	<u>Nominal principal</u>	<u>Credit risk</u>	<u>Nominal principal</u>	<u>Credit risk</u>
<u>For trading purposes</u>	<u>/contract amount</u>		<u>/contract amount</u>	
Equity-linked notes	NT\$-	\$-	NT\$10,000	\$-
	(US\$-)		(US\$316)	

Cathay Securities 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 structure notes being issued.

(b) Market risk

In structured notes transactions, Cathay Securities receives proceeds 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. Cathay Securities believes there is no significant market risk 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 financial derivatives:

The structured notes transactions of Cathay Securities can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

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Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. The return to investors consists of returns from the fixed income products and value of the options at expiration.

(e) Financial statement presentation of derivative financial instruments:

As of June 30, 2005, the disclosure of structured notes transactions on the balance sheet and statement of income is summarized as follows:

Balance sheet	June 30, 2005			
	Derivative financial instrument assets – Gre Tai (over-the-counter)		Derivative financial instrument liabilities – GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Equity-linked notes	\$820	\$26	\$10,515	\$332

Statement of income	From January 1 to June 30, 2005		
	Revenue from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT\$	US\$	NT\$/US\$
Principal guaranteed notes	\$3,911	\$124	Market value method
Equity-linked notes	204	6	Market value method
Total	\$4,115	\$130	

b. Futures and options transactions

As of June 30, 2005, Cathay Securities unexercised options were as follows:

Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Options	TXO-Call	Sell	30	\$10	\$-	\$4	\$-
Options	TXO-Put	Sell	70	\$24	\$1	\$10	\$-

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(a) Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$34(US\$1)	\$-

Cathay Securities believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

(b) Market risk

As of June 30, 2005, Cathay Securities' market risk from futures and options transactions arose from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range. Hence, no significant market risk is expected.

(c) Risk from liquidity, cash flow, and other uncertainties

As of June 30, 2005, Cathay Securities unexercised options could all be liquidated at reasonable prices in the market. As a result liquidity risk is low.

Cathay Securities trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, Cathay Securities has sufficient working capital to meet its requirements, and hence funding risk and cash flow risk are low. With respect to Cathay Securities trading in options, prior to any transaction Cathay Securities pay or receives option premium. If Cathay Securities sells call options and the counterparty exercises its option, Cathay Securities has sufficient working capital to cover the exercise and hence funding risk and cash flow risk are low.

(d) Types, purposes, and strategies for financial derivatives

Cathay Securities purpose in trading futures and options is to increase the scope of its investment activities and its capital efficiency.

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(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “margin for futures trading - own funds” on the balance sheet. On June 30, 2005, the account had NT\$2,127 (US\$67). For the six-month period ended June 30, 2005, the related gain/loss of futures and options on the statement of income is as follows:

	For the six-month period ended June 30, 2005	
	NT\$	US\$
Futures		
Gain on futures contracts	<u>\$121</u>	<u>\$4</u>
Options		
Loss from options transactions	<u>\$8</u>	<u>\$-</u>

(Includes unrealized gains from options transactions of NT\$20 (US\$1))

F. Cathy Futures

- a. Cathy Futures uses of financial derivatives including Taiwan Stock Index Futures, TAIEX (Taiwan Futures Exchange), government futures and options for trading purposes. As of June 30, 2003 and 2004, Cathy Futures expects insignificant exposures to credit risks.
- b. Cathy Futures risk evaluation and control of the above operation transaction is as following:

(a) Special risk for stock broker service:

Future Commission Merchant (FCM) is requested by customers and futures business brokered under the related law. Due to the transaction is paid by guarantee deposits, there will be a risk at unexecuted contract by consumers. In order to avoid and reduce the above risks, customers should pay the guarantee deposits prior to set a transaction. A non-offset position is recorded by the clearing price of local and overseas futures exchange day by day. If the balance of guarantee deposit were lower than the maintenance margin, the margin will be called. The Cathy Futures Co., Ltd should examine the amount of futures transaction, the position of market price, the rule of local and overseas futures exchange and company policy to ensure the guarantee deposit is sufficient to avoid the risk.

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(b) Specific risk for futures dealer transactions

Cathay Futures needs to maintain adequate liquidity in case its clients fail to fulfill the contracts in the futures transactions with low margin of financial leverage and unpredictable market fluctuation. If the dealing business fails to maintain its margin, the open contracts may be closed and the margin may be lost entirely. Otherwise, the dealing business should pay more margins since the balance of trading margin account is lower than the maintenance margin.

(c) Special risk for futures consultant business

None.

C. For the six-month periods ended June 30, 2004 and 2005, the balance of excess deposit with NT\$57,856 (US\$1,719) and NT\$46,357 (US\$1,465) which is recognized “deposit of futures transaction – Operation Assets” in the Cathy Futures. For the six-month periods ended June 30, 2004 and 2005, the gain on futures contract-realized of the derivative financial instruments transaction (Taiwan Stock Index Futures and Taiwan Stock Exchange) were as followings:

	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Gain on futures contracts - realized	\$52,632	\$1,564	\$15,367	\$486
Gain on option contracts - realized	31,535	937	23,490	742
Gain on futures contracts - realized	(42,921)	(1,275)	(13,606)	(430)
Loss on option contracts - realized	(20,779)	(618)	(21,275)	(672)
Net income	<u>\$20,467</u>	<u>\$608</u>	<u>\$3,976</u>	<u>\$126</u>

(3) Non-derivative financial instruments related information

A. The Company

Assets	June 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$2,699,986	\$2,699,986	\$80,214	\$80,214
Short-term investments	669,619	669,619	19,894	19,894
Other receivable	18,076,268	18,076,268	537,025	537,025
Long-term investments in stocks	166,795,248	166,795,248	4,955,295	4,955,295

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Liabilities				
Other payable	772,332	772,332	22,945	22,945
Bonds payable	25,313,234	25,313,234	752,027	752,027

June 30, 2005					
		NT\$		US\$	
Assets		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$35,098,096	\$35,098,096	\$1,109,295	\$1,109,295	\$1,109,295
Other receivable	1,608,786	1,608,786	50,847	50,847	50,847
Long-term investment in stocks	172,493,704	172,493,704	5,451,761	5,451,761	5,451,761
Guarantee deposits paid	2,529,600	2,529,600	79,949	79,949	79,949

Liabilities				
Other payable	1,661,601	1,661,601	52,516	52,516
Bonds payable	15,238,962	15,238,962	481,636	481,636

Methods and assumptions applied in 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. The carrying amounts of the accounts such as cash and cash equivalents, and receivables approximate their fair value because of the short maturities of these instruments.
- 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 values of the guarantee deposits paid are estimated at their carrying amounts.

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B. Cathay Life

	June 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$132,008,318	\$132,008,318	\$3,921,816	\$3,921,816
Receivables	12,725,759	12,725,759	378,068	378,068
Short-term investments	371,443,785	372,382,931	11,035,169	11,063,070
Long-term investments in stocks	45,866,644	52,744,116	1,362,645	1,566,967
Guarantee deposits paid	4,603,108	4,603,108	136,753	136,753
Securities serving as deposits paid-bonds	7,914,509	7,914,509	235,131	235,131
Liabilities				
Payables	64,008	64,008	1,902	1,902
Guarantee deposits received	1,418,522	1,418,522	42,143	42,143
	June 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$211,949,462	\$211,949,462	\$6,698,782	\$6,698,782
Receivables	10,362,977	10,362,977	327,528	327,528
Short-term investments	367,401,851	378,349,363	11,611,942	11,957,944
Long-term investments in stocks	24,632,591	24,632,591	778,527	778,527
Guarantee deposits paid	3,755,312	3,755,312	118,689	118,689
Securities serving as deposits paid-bonds	8,075,676	8,075,676	255,236	255,236
Liabilities				
Payables	89,303	89,303	2,822	2,822
Guarantee deposits received	1,634,584	1,634,584	51,662	51,662

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

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- a. The fair value of Cathay Life's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.
- b. The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- c. The fair value of Cathay Life's short-term investments and long-term investments is based on market prices at the reporting date if market prices are available. The fair value of 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 June 30, 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	June 30,							
	2004				2005			
	Carrying value		Fair value		Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Securities purchased	\$187,377,554	\$5,566,772	\$187,361,142	\$5,566,285	\$213,356,087	\$6,743,239	\$214,381,713	\$6,775,655
Long-term Investments	38,967,689	1,157,685	39,005,244	1,158,801	41,665,706	1,316,868	41,680,006	1,317,320

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

Information on concentrations of credit risk

Concentrations of credit risk exist when the counterparties to financial instrument transactions are either concentrated in certain individuals or groups of individuals or engaged in business activities in the same region or industry, which would impair their ability to meet contractual obligations under negative economic or other conditions. Cathay United Bank (merged) does not believe it has high levels of risk concentration with regard to any single customer or transaction. 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:

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic region				
Domestic	\$546,882,162	\$16,247,241	\$599,310,111	\$18,941,533
South east asia	12,043,100	357,787	9,770,154	308,791
North east asia	254,974	7,575	21,839	690
North America	7,770,855	230,863	9,719,797	307,200
Others	7,664,372	227,700	15,981,269	505,097
Total	<u>\$574,615,463</u>	<u>\$17,071,166</u>	<u>\$634,803,170</u>	<u>\$20,063,311</u>
Industry type				
Manufacturing	\$71,324,283	\$2,118,963	\$71,364,279	\$2,255,508
Financial institutions and insurance	33,006,325	980,580	42,595,519	1,346,255
Leasing and real estate	65,389,817	1,942,656	66,698,111	2,108,031
Individuals	292,726,793	8,696,577	343,680,676	10,862,221
Others	112,168,245	3,332,390	110,464,585	3,491,296
Total	<u>\$574,615,463</u>	<u>\$17,071,166</u>	<u>\$634,803,170</u>	<u>\$20,063,311</u>

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

English Translation of Financial Statements Originally issued in Chinese

D. Cathay Century

June 30, 2004				
Assets	NT\$		US\$	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
Cash and cash equivalents	\$4,093,486	\$4,093,486	\$121,613	\$121,613
Short-term investments	2,080,998	2,105,029	61,824	62,538
Receivables	1,028,901	1,028,901	30,568	30,568
Claims recoverable from reinsurers	188,370	188,370	5,596	5,596
Due from reinsurers and ceding companies	40,015	40,015	1,189	1,189
Secured loans	840,835	840,835	24,980	24,980
Long-term investment in stocks	316,252	316,252	9,396	9,396
Guarantee deposits paid	16,747	16,747	498	498
Securities serving as deposits paid-bonds	357,833	357,833	10,631	10,631
Liabilities				
Claims outstanding	2,559	2,559	76	76
Due to reinsurers and ceding companies	269,559	269,559	8,008	8,008
Reserve for operations and liabilities	6,967,171	6,967,171	206,987	206,987
June 30, 2005				
Assets	NT\$		US\$	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
Cash and cash equivalents	\$2,422,913	\$2,422,913	\$76,578	\$76,578
Short-term investments	2,552,758	2,552,758	80,681	80,681
Receivables	1,212,924	1,212,924	38,334	38,334
Claims recoverable from reinsurers	207,902	207,902	6,571	6,571
Due from reinsurers and ceding companies	58,898	58,898	1,862	1,862
Secured loans	1,306,392	1,306,392	41,289	41,289
Long-term investment in stocks	469,882	472,579	14,851	14,936
Guarantee deposits paid	17,203	17,203	544	544
Securities serving as deposits paid-bonds	359,518	359,518	11,363	11,363
Liabilities				
Claims outstanding	795	795	25	25
Due to reinsures and ceding companies	254,524	254,524	8,044	8,044
Reserve for operations and liabilities	7,775,703	7,775,703	245,755	245,755

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Methods and assumptions for estimating the fair value of nonderivative financial instruments are as follows:

- a. Short-term financial instruments estimate their fair values 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, 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

	June 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<hr/>				
Assets				
Cash and cash equivalents	\$3,403,425	\$3,403,425	\$101,112	\$101,112
Other receivables-net	204	204	6	6
Operating deposits	100,097	100,097	2,974	2,974
<hr/>				
Liabilities				
Payables	6,160	6,160	183	183

English Translation of Financial Statements Originally issued in Chinese

	June 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$1,693,843	\$1,693,843	\$53,535	\$53,535
Short-term investments – net	600,000	600,000	18,963	18,963
Investments in bonds with resale agreements	540,465	540,465	17,082	17,082
Operating securities – net	29,578	29,949	934	947
Receivable amount for margin loans	5,759	5,759	182	182
Accounts receivable – net	2,536	2,536	80	80
Other receivables – net	8,108	8,108	256	256
Restricted assets – current	1,300,000	1,300,000	41,087	41,087
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,744	4,744
Settlement and clearance funds	37,435	37,435	1,183	1,183
Guarantee deposits paid	21,127	21,127	668	668
Liabilities				
Bonds sold under repurchase agreements	541,181	541,181	17,104	17,104
Payables	12,326	12,326	390	390

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 receivable, 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.

English Translation of Financial Statements Originally issued in Chinese

F. Cathay Futures

	June 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$154,248	\$154,248	\$4,583	\$4,583
Short-term investments	4,460	4,460	133	133
Customers' margin accounts	1,013,530	1,013,530	30,111	30,111
Other receivables (contain transactions with related parties)	6,303	6,303	187	187
Long-term investments	30,500	30,500	906	906
Operating bond	70,000	70,000	2,080	2,080
Settlement and clearance funds	68,000	68,000	2,020	2,020
Refundable deposits	1,363	1,363	40	40
Liabilities				
Futures customers' equity	1,012,132	1,012,132	30,069	30,069
Payables (contain transactions with related parties)	3,187	3,187	95	95
Receipts under custody	615	615	18	18
Other payable (contain transactions with related parties)	6,309	6,309	187	187
	June 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$154,392	\$154,392	\$4,880	\$4,880
Short-term investments	2,672	2,672	84	84
Customers' margin accounts	1,053,741	1,053,741	33,304	33,304
Other receivable (contain transactions with related parties)	984	984	31	31
Long-term investments	30,500	30,500	964	964
Operating bond	80,000	80,000	2,528	2,528
Settlement and clearance funds	56,000	56,000	1,770	1,770
Refundable deposits	1,767	1,767	56	56

English Translation of Financial Statements Originally issued in Chinese

Liabilities				
Futures customers' equity	1,054,112	1,054,112	33,316	33,316
Payables (contain transactions with related parties)	2,415	2,415	76	76
Receipts under custody	242	242	8	8
Other payable (contain transactions with related parties)	4,127	4,127	130	130

Methods and assumptions applied in estimating the fair value of financial instruments are as follows:

- a. The carrying amounts of the financial instruments such as cash and cash equivalent, customers' margin accounts, other receivable, operation bond, settlement and clearance funds, refundable deposits, futures customers' equity, payables, receipts under custody and other payable, approximate their fair values because of the short maturities of these instruments.
- b. The fair value of long-term equity investments and short-term investments is valued at market prices or other financial information when available.

(4) Discretionary account management

Item	June 30, 2004			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,249,488	\$66,830	\$2,109,019	62,656
Repurchase bonds	5,171,268	153,632	5,171,826	153,649
Convertible bonds	1,465,847	43,549	1,406,805	41,795
Short-term notes	119,696	3,556	119,806	3,559
Bonds	4,238,832	125,931	4,225,596	125,538
Cash in banks	948,223	28,170	948,252	28,171
Net other assets less liabilities	(29,150)	(866)	(29,150)	(866)
Total	\$14,164,204	\$420,802	\$13,952,154	\$414,502

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Item	June 30, 2005			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,367,426	\$74,824	\$2,379,369	\$75,201
Repurchase bonds	6,858,783	216,776	6,587,219	208,193
Convertible bonds	33,867	1,070	34,119	1,078
Short-term notes	15,028	475	15,028	475
Bonds	3,653,657	115,476	3,665,091	115,837
Cash in banks	96,578	3,052	96,578	3,053
Net other assets less liabilities	(87,173)	(2,755)	(87,173)	(2,755)
Total	<u>\$12,938,166</u>	<u>\$408,918</u>	<u>\$12,690,231</u>	<u>\$401,082</u>

As of June 30, 2004 and 2005, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$10,950,000 (US\$325,312), and NT\$11,650,000 (US\$368,205), 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).

English Translation of Financial Statements Originally issued in Chinese

Repurchase in the event of delisting:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Company's common shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Repurchase in the event of change of control:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium, upon the occurrence of a change of control.

Redemption at the option of the Company:

The notes may be redeemed at the option of the Company, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that (a) the closing price (translated into 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.

English Translation of Financial Statements Originally issued in Chinese

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.

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.

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Status quo:

As of June 30, 2005, the Company has converted US\$263,707 convertible notes at conversion price of NT54.15 dollars (US1.71 dollars) per share, into 168,402 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$7,390,954 (US\$233,595), which are recognized as capital surplus. As of June 30, 2005 the Holder had exercised the repurchase right with US\$2,500 by par value, the Company had repurchased such Holder's notes at par value plus the redemption premium with US\$214.

(6) Capital adequacy ratio on a consolidated basis

As of June 30, 2004 and 2005, consolidated capital adequacy ratios of the Company were 104.11% and 137.47%, respectively.

(7) Material contract: None.

(8) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the six-month period ended June 30, 2004 have been reclassified in order to be comparable with those in the consolidated financial statements for the six-month period ended June 30, 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\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 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 June 30, 2005, Cathay Life remittances to this new company totaled approximately US\$48,330.

27. Segment information: None.

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

(1) Concise balance sheets:

Items/Period	Cathay Life Insurance Ltd.										
	Cathay Life		Cathay United Bank (merged)		Cathay Century		Cathay Securities		(Shanghi)	Indovina Bank	
	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2005	June 30, 2004	June 30, 2005
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Current assets	\$529,470,061	\$609,201,982	\$310,332,769	\$349,816,071	\$7,498,792	\$6,590,416	\$3,409,569	\$4,193,469	\$1,979,658	\$1,379,059	\$1,687,287
Exchange bills negotiated, discounted, and loans	465,898,374	444,591,719	551,276,132	612,539,747	840,835	1,306,392	-	-	600	5,391,866	5,937,543
Funds and long-term investments	494,009,867	568,945,296	38,967,689	41,665,706	2,719,894	3,374,765	-	18	454,075	240,334	-
Property and equipment	15,336,001	14,554,331	25,544,496	25,048,759	52,892	57,692	-	92,432	21,403	24,671	27,386
Other assets(including intangible assets)	42,906,968	69,556,297	5,651,720	3,716,151	492,432	574,534	100,097	227,879	628,575	58,759	7,972
Current liabilities	23,737,191	6,440,372	815,873,218	920,470,603	1,534,254	1,146,736	6,160	566,135	12,587	6,272,168	6,706,615
Long-term liabilities	1,086,877	1,568,186	-	-	8,966	9,450	-	-	122	-	-
Other liabilities	1,437,994,779	1,615,127,695	41,136,476	31,656,852	7,041,401	7,850,778	-	9,004	106,750	-	-
Capital stocks	50,686,158	50,686,158	43,182,407	46,420,519	2,317,006	2,317,006	3,500,000	3,700,000	3,257,376	675,000	791,658
Capital surplus	12,591	13,153	13,463,074	13,463,713	1,909	2,021	-	300,000	-	103,106	115,004
Retained earnings	34,119,240	33,124,326	18,058,290	20,761,111	700,049	578,273	3,506	(61,341)	(91,472)	44,044	46,385
Equity adjustments	(15,565)	(110,265)	59,341	13,636	1,260	(465)	-	-	(201,052)	371	526
Treasury stocks	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$1,547,621,271	\$1,706,849,625	\$931,772,806	\$1,032,786,434	\$11,604,845	\$11,903,799	\$3,509,666	\$4,513,798	\$3,084,311	\$7,094,689	\$7,660,188
Total liabilities	\$1,462,818,847	\$1,623,136,253	\$857,009,694	\$952,127,455	\$8,584,621	\$9,006,964	\$6,160	\$575,139	\$119,459	\$6,272,168	\$6,706,615
Total stockholders' equity	\$84,802,424	\$83,713,372	\$74,763,112	\$80,658,979	\$3,020,224	\$2,896,835	\$3,503,506	\$3,938,659	\$2,964,852	\$822,521	\$953,573

(1) Concise balance sheets:

Items/Period	Cathay Life Insurance Ltd.										
	Cathay Life		Cathay United Bank (merged)		Cathay Century		Cathay Securities		(Shanghi)	Indovina Bank	
	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2005	June 30, 2004	June 30, 2005
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Current assets	\$15,729,948	\$19,254,171	\$9,219,631	\$11,056,134	\$222,781	\$208,294	\$101,294	\$132,537	\$62,568	\$40,970	\$53,328
Exchange bills negotiated, discounted, and loans	13,841,306	14,051,572	16,377,782	19,359,663	24,980	41,289	-	-	20	160,186	187,659
Funds and long-term investments	14,676,467	17,981,836	1,157,685	1,316,868	80,805	106,661	-	1	14,351	7,140	-
Property and equipment	455,615	459,998	758,898	791,680	1,571	1,823	-	2,921	676	733	865
Other assets(including intangible assets)	1,274,717	2,198,366	167,906	117,451	14,630	18,159	2,974	7,202	19,866	1,746	252
Current liabilities	705,204	203,552	24,238,658	29,091,991	45,581	36,243	183	17,893	397	186,339	211,966
Long-term liabilities	32,290	49,563	-	-	266	299	-	-	4	-	-
Other liabilities	42,721,176	51,047,019	1,222,118	1,005,533	209,192	248,128	-	285	3,374	-	-
Capital stocks	1,505,828	1,601,965	1,282,900	1,467,147	68,836	73,230	103,981	116,940	102,951	20,053	25,021
Capital surplus	374	416	399,972	425,528	57	64	-	9,482	-	3,063	3,635
Retained earnings	1,013,643	1,046,913	536,491	656,166	20,798	18,277	104	(1,939)	(2,891)	1,309	1,466
Equity adjustments	(462)	(3,485)	1,763	431	37	(15)	-	-	(6,354)	11	17
Treasury stocks	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$45,978,053	\$53,945,943	\$27,681,902	\$32,641,796	\$344,767	\$376,226	\$104,268	\$142,661	\$97,481	\$210,775	\$242,104
Total liabilities	\$43,458,670	\$51,300,134	\$25,460,776	\$30,097,524	\$255,039	\$284,670	\$183	\$18,178	\$3,775	\$186,339	\$211,966
Total stockholders' equity	\$2,519,383	\$2,645,809	\$2,221,126	\$2,549,272	\$89,728	\$91,556	\$104,085	\$124,483	\$93,706	\$24,436	\$30,138

(2) Concise income statement :

Cathay Life Insurance Ltd.											
	Cathay Life		Cathay United Bank (merged)		Cathay Century		Cathay Securities		(Shanghi)	Indovina Bank	
	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005
Items/Period	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Operating revenues	\$243,957,549	\$238,693,104	\$19,934,996	\$23,582,394	\$8,534,351	\$10,919,688	\$-	\$93,432	\$141,670	\$223,800	\$254,678
Operating costs & expenses	(233,695,963)	(235,014,098)	(11,094,925)	(14,536,687)	(7,936,084)	(10,516,536)	-	(132,874)	(194,209)	(151,978)	(205,788)
Operating income	10,261,586	3,679,006	8,840,071	9,045,707	598,267	403,152	-	(39,442)	(52,539)	71,822	48,890
Non-operating revenues	1,104,152	770,749	1,256,414	44,628	27,598	4,293	4,463	18,167	-	15,964	10,880
Non-operating expenses	(1,516,733)	(1,185,309)	(92,834)	(390,637)	(11,070)	(26,855)	-	(900)	(41)	(15,128)	-
Operating income before taxes	9,849,005	3,264,446	10,003,651	8,699,698	614,795	380,590	4,463	(22,175)	(52,580)	72,658	59,770
Net income	9,781,530	4,150,109	8,106,651	6,645,698	479,308	293,470	3,506	(19,775)	(52,580)	54,641	59,770
Earning per share before taxes (in dollars)	\$1.95	\$0.64	\$2.16	\$1.87	\$2.65	\$1.64	\$0.01	(\$0.06)	\$-	\$-	\$-
Earning per share (in dollars)	\$1.94	\$0.82	\$1.75	\$1.43	\$2.07	\$1.27	\$0.01	(\$0.06)	-	-	-

Cathay Life Insurance Ltd.											
	Cathay Life		Cathay United Bank (merged)		Cathay Century		Cathay Securities		(Shanghi)	Indovina Bank	
	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2005	For the six-month period ended Jun. 30,2004	For the six-month period ended Jun. 30,2005
Items/Period	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Operating revenues	\$7,247,700	\$7,544,030	\$592,246	\$745,335	\$253,546	\$345,123	\$-	\$2,953	\$4,478	\$6,649	\$8,049
Operating costs & expenses	(6,942,840)	(7,427,753)	(329,618)	(459,440)	(235,772)	(332,381)	-	(4,200)	(6,138)	(4,515)	(6,504)
Operating income	304,860	116,277	262,628	285,895	17,774	12,742	-	(1,247)	(1,660)	2,134	1,545
Non-operating revenues	32,803	24,360	37,327	1,410	820	136	133	574	-	474	344
Non-operating expenses	(45,060)	(37,462)	(2,758)	(12,346)	(329)	(849)	-	(28)	(1)	(449)	-
Operating income before taxes	292,603	103,175	297,197	274,959	18,265	12,029	133	(701)	(1,661)	2,159	1,889
Net income	290,598	131,167	240,839	210,041	14,240	9,275	104	(625)	(1,661)	1,623	1,889
Earning per share before taxes (in dollars)	\$0.06	\$0.02	\$0.06	\$0.06	\$0.08	\$0.05	\$-	\$-	\$-	\$-	\$-
Earning per share (in dollars)	\$0.06	\$0.03	\$0.05	\$0.05	\$0.06	\$0.04	-	-	-	-	-