

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudited consolidated financial statements
Together with
Independent auditors' review report
September 30, 2004 and 2005

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Index to financial statements

	<u>Page</u>
Independent auditors' review report	3
Unaudited consolidated balance sheets as of September 30, 2004 and 2005	4
Unaudited consolidated statements of income for the nine-month periods ended September 30, 2004 and 2005	5
Unaudited consolidated statements of changes in stockholders' equity for the nine-month periods ended September 30, 2004 and 2005	6
Unaudited consolidated statements of cash flows for the nine-month periods ended September 30, 2004 and 2005	7-8
Notes to unaudited financial statements	9-99

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

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

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of September 30, 2004 and 2005 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

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

Base on our review, we are not aware of any material modifications that should be made to the consolidated financial statements as of and for the nine-month periods ended September 30, 2004 and 2005 in order for them to be 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
October 24, 2005

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Unaudited consolidated balance sheets

September 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	\$283,378,432	\$8,337,112	\$398,594,610	\$12,013,099
Due from Central Bank and call loans to banks		57,150,493	1,681,392	56,690,851	1,708,585
Short-term investments	2, 5	437,540,870	12,872,635	416,622,420	12,556,432
Other financial assets-current		-	-	4,239,612	127,776
Receivables	2	97,940,334	2,881,445	104,200,094	3,140,449
Inventories	2	-	-	2,370,625	71,447
Prepayments		1,558,888	45,863	2,086,361	62,880
Restricted assets-current		-	-	1,300,000	39,180
Deferred income tax assets-current		58,398	1,718	167,316	5,043
Subtotal		877,627,415	25,820,165	986,271,889	29,724,891
Bills and loans-net	2, 6	1,003,572,604	29,525,525	1,127,615,877	33,984,807
Long-term investments in stock, bonds and real estate					
Long-term investments in stocks	2, 7				
Long-term investments under equity method		8,682,085	255,430	3,227,271	97,266
Long-term investments under cost method		16,083,531	473,184	27,201,991	819,831
Long-term investments in bonds	2, 8	395,823,106	11,645,281	558,561,625	16,834,286
Investments in real estate	2, 9	100,964,594	2,970,421	99,388,172	2,995,424
Other long-term investments		2,028,689	59,685	604,377	18,215
Less: Accumulated impairment		-	-	(197,253)	(5,945)
Subtotal		523,582,005	15,404,001	688,786,183	20,759,077
Property and equipment	2				
Land		20,050,504	589,894	20,708,370	624,122
Buildings and construction		20,382,269	599,655	22,184,776	668,619
Furniture and fixtures		3,807,772	112,027	3,963,045	119,441
Transportation and communication equipment		217,234	6,391	191,176	5,762
Other equipment		8,594,821	252,863	10,111,821	304,756
Subtotal		53,052,600	1,560,830	57,159,188	1,722,699
Less: Accumulated depreciation		(13,024,905)	(383,198)	(14,539,857)	(438,212)
Less: Accumulated impairment		-	-	(215,447)	(6,493)
Construction in progress		1,007,008	29,626	786,317	23,699
Net		41,034,703	1,207,258	43,190,201	1,301,693
Intangible assets		10,111	298	194,034	5,848
Other assets					
Idled assets	2	2,149,057	63,226	1,822,689	54,933
Deferred charges	2	611,624	17,994	961,822	28,988
Refundable deposits		13,394,622	394,075	14,550,631	438,536
Investment-linked products assets		32,180,780	946,772	75,685,648	2,281,062
Deferred income tax assets -noncurrent	2	1,406,302	41,374	1,238,268	37,320
Other assets-others		6,797,163	199,976	4,098,041	123,510
Less: Accumulated impairment		-	-	(626,625)	(18,886)
Subtotal		56,539,548	1,663,417	97,730,474	2,945,463
Total assets		<u>\$2,502,366,386</u>	<u>\$73,620,664</u>	<u>\$2,943,788,658</u>	<u>\$88,721,779</u>
Liabilities & stockholders' equity					
Current liabilities					
Short-term debts		\$-	\$-	\$5,978,989	\$180,198
Bonds sold under repurchase agreement		33,534,991	986,613	24,347,247	733,793
Due to Central Bank and commercial banks		75,085,703	2,209,053	75,265,041	2,268,386
Payables		24,550,404	722,283	52,351,787	1,577,811
Accounts collected in advance		396,314	11,660	852,914	25,706
Others current liabilities		716,811	21,089	1,214,215	36,595
Subtotal		134,284,223	3,950,698	160,010,193	4,822,489
Deposits and remittances	10	665,032,668	19,565,539	829,215,882	24,991,437
Financial debentures payable	11	34,550,000	1,016,475	52,050,000	1,568,716
Bankers acceptances and funds borrowed		1,997,029	58,753	829,875	25,011
Long-term liabilities					
Bonds payable	2, 12	25,777,354	758,381	13,426,490	404,656
Other long-term liabilities		-	-	311,768	9,397
Subtotal		25,777,354	758,381	13,738,258	414,053
Other liabilities					
Reserve for operations and liabilities	2, 13	1,447,520,808	42,586,667	1,601,850,838	48,277,602
Accrued pension liabilities		1,271,526	37,409	1,624,639	48,965
Investment-linked products liabilities		32,180,780	946,772	75,685,648	2,281,062
Guarantee deposits in		2,037,429	59,942	2,306,429	69,513
Other liabilities-others		3,480,720	102,404	9,866,711	297,369
Subtotal		1,486,491,263	43,733,194	1,691,334,265	50,974,511
Total liabilities		<u>2,348,132,537</u>	<u>69,083,040</u>	<u>2,747,178,473</u>	<u>82,796,217</u>
Stockholders' Equity					
Capital stock					
Common stock	14	83,074,891	2,444,098	85,242,234	2,569,085
Capital surplus	15				
Additional paid-in capital		53,101,717	1,562,274	62,592,220	1,886,444
Treasury stock transactions		585,879	17,237	5,491,169	165,496
Others		10,124	298	11,133	336
Retained earnings	16				
Legal reserve		3,026,715	89,047	6,009,431	181,116
Special reserve		122,653	3,609	226,579	6,829
Unappropriated retained earnings		26,233,972	771,814	33,645,753	1,014,037
Equity adjustments					
Unrealized valuation losses on long-term equity investments		(114,845)	(3,379)	(12,758)	(385)
Cumulative conversion adjustments		175,865	5,174	125,407	3,780
Net loss not yet recognized as net pension cost		(1,971)	(58)	(5,560)	(168)
Treasury stock	2, 17	(11,981,151)	(352,490)	-	-
Minority interests		-	-	3,284,577	98,993
Total stockholders' equity		<u>154,233,849</u>	<u>4,537,624</u>	<u>196,610,185</u>	<u>5,925,563</u>
Total liabilities and stockholders' equity		<u>\$2,502,366,386</u>	<u>\$73,620,664</u>	<u>\$2,943,788,658</u>	<u>\$88,721,780</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudited consolidated statements of income
For the nine-month periods ended September 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		\$63,061,903	\$1,855,308	\$70,641,300	\$2,129,032
Premiums income		205,820,698	6,055,331	196,523,174	5,922,941
Claims recovered from reinsures		1,018,891	29,976	2,451,517	73,885
Recovered premiums reserve		101,342,648	2,981,543	82,877,097	2,497,803
Recovered special reserve		216,777	6,378	1,016,161	30,626
Commission and handling fee earned		5,748,332	169,118	6,523,164	196,599
Gain on disposal of investments		16,844,395	495,569	14,870,448	448,175
Income from long-term equity investments		388,754	11,437	185,689	5,596
Investment-linked products revenues		20,105,521	591,513	46,267,706	1,394,446
Gains on foreign exchange		-	-	2,275,536	68,582
Other operating income		6,739,924	198,291	16,689,897	503,011
Subtotal		<u>421,287,843</u>	<u>12,394,464</u>	<u>440,321,689</u>	<u>13,270,696</u>
Operating costs	2				
Interest expenses		(6,457,030)	(189,968)	(10,095,943)	(304,278)
Insurance expenses		(2,146,553)	(63,152)	(2,119,393)	(63,876)
Brokerage expenses		(18,663,309)	(549,082)	(19,269,285)	(580,750)
Commissions expenses		(522,379)	(15,369)	(471,339)	(14,205)
Insurance claims payment		(120,674,309)	(3,550,289)	(106,306,998)	(3,203,948)
Provision for premiums reserve		(195,543,345)	(5,752,967)	(193,123,318)	(5,820,474)
Provision for special reserve		(3,704,727)	(108,995)	(1,320,099)	(39,786)
Handling fee paid		(1,328,555)	(39,087)	(1,675,503)	(50,497)
Provision for possible losses		(922,419)	(27,138)	(2,482,985)	(74,834)
Investment-linked products expenses		(20,105,521)	(591,513)	(46,267,706)	(1,394,446)
Operating expenses		(17,773,897)	(522,915)	(25,868,874)	(779,653)
Impairment loss		-	-	(1,039,325)	(31,324)
Losses on foreign exchange		(1,339,666)	(39,414)	-	-
Other operating cost		(3,789,835)	(111,498)	(660,167)	(19,896)
Subtotal		<u>(392,971,545)</u>	<u>(11,561,387)</u>	<u>(410,700,935)</u>	<u>(12,377,967)</u>
Income from continuing operations before income taxes		<u>28,316,298</u>	<u>833,077</u>	<u>29,620,754</u>	<u>892,729</u>
Income taxes	2, 19	<u>(2,896,168)</u>	<u>(85,206)</u>	<u>(2,349,410)</u>	<u>(70,808)</u>
Consolidated income		<u>\$25,420,130</u>	<u>\$747,871</u>	<u>\$27,271,344</u>	<u>\$821,921</u>
Include:					
Parent company		\$25,420,130	\$747,871	\$27,286,551	\$822,379
Minority interest		-	-	(15,207)	(458)
Consolidated income		<u>\$25,420,130</u>	<u>\$747,871</u>	<u>\$27,271,344</u>	<u>\$821,921</u>
Earnings per share (expressed in dollars)	20				
Primary earnings per share:					
Income from continuing operations		\$3.17	\$0.09	\$3.23	\$0.10
Consolidated income		3.17	0.09	3.23	0.10
Minority interest loss		-	-	-	-
Income from parent company		<u>\$3.17</u>	<u>\$0.09</u>	<u>\$3.23</u>	<u>\$0.10</u>
Fully-diluted earnings per share:					
Income from continuing operations		\$3.06	\$0.09	\$3.15	\$0.09
Consolidated income		3.06	0.09	3.15	0.09
Minority interest loss		-	-	(0.01)	-
Income from parent company		<u>\$3.06</u>	<u>\$0.09</u>	<u>\$3.14</u>	<u>\$0.09</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Unaudited consolidated statements of changes in stockholders' equity
For the nine-month periods ended September 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	\$2,444,098	\$53,651,046	\$1,578,436	\$1,335,046	\$39,278	\$1,833,255	\$53,935	\$16,916,694	\$497,696	\$(136,202)	\$(4,007)	\$176,537	\$5,194	\$(1,971)	\$(58)	\$(15,039,516)	\$(442,469)	\$-	\$-	\$141,809,780	\$4,172,103
Appropriations and distributions for 2003																						
Legal reserve					1,691,669	49,769			(1,691,669)	(49,769)												
Special reserve							(1,710,602)	(50,326)	1,710,602	50,326												
Cash dividends									(16,105,155)	(473,820)											(16,105,155)	(473,820)
Remuneration paid to directors and supervisors									(5,700)	(168)												(5,700)
Bonus paid to employees									(1,611)	(48)												(1,611)
Cash dividends to subsidiaries			22,194	653																		22,194
Capital surplus			10,124	298																		10,124
Cumulative conversion adjustments													(672)	(20)								(672)
Gain on unrealized value recoveries on long-term equity investments											21,357	628										21,357
Treasury stock			14,356	422					(9,319)	(274)							3,058,365	89,979				3,063,402
Parent company income for the nine-month period ended September 30, 2004									25,420,130	747,871												25,420,130
Balance on September 30, 2004	\$83,074,891	\$2,444,098	\$53,697,720	\$1,579,809	\$3,026,715	\$89,047	\$122,653	\$3,609	\$26,233,972	\$771,814	\$(114,845)	\$(3,379)	\$175,865	\$5,174	\$(1,971)	\$(58)	\$(11,981,151)	\$(352,490)	\$-	\$-	\$154,233,849	\$4,537,624
Balance on January 1, 2005	\$83,167,130	\$2,506,544	\$58,958,698	\$1,776,935	\$3,026,715	\$91,221	\$122,653	\$3,697	\$30,640,997	\$923,478	\$(110,435)	\$(3,329)	\$(96,005)	\$(2,893)	\$(5,560)	\$(168)	\$(354,955)	\$(10,698)	\$3,299,784	99,451	\$178,649,022	\$5,384,238
Appropriations and distributions for 2004																						
Legal reserve					2,982,716	89,895			(2,982,716)	(89,895)												
Special reserve							103,926	3,132	(103,926)	(3,132)												
Cash dividends									(21,187,334)	(638,557)												(21,187,334)
Remuneration paid to directors and supervisors									(5,700)	(172)												(5,700)
Bonus paid to employees									(2,119)	(64)												(2,119)
Cash dividends to subsidiaries			8,749	264																		8,749
Convertible notes converted into common stock	2,075,104	62,541	9,067,912	273,294																		11,143,016
Capital surplus			1,009	30																		1,009
Cumulative conversion adjustments													221,412	6,673								221,412
Gain on unrealized value recoveries on long-term equity investments											97,677	2,944										97,677
Treasury stock			58,154	1,753													354,955	10,698				413,109
Parent company income for the nine-month period ended September 30, 2005									27,286,551	822,379												27,286,551
Minority interests loss																			(15,207)	(458)		(15,207)
Balance on September 30, 2005	\$85,242,234	\$2,569,085	\$68,094,522	\$2,052,276	\$6,009,431	\$181,116	\$226,579	\$6,829	\$33,645,753	\$1,014,037	\$(12,758)	\$(385)	\$125,407	\$3,780	\$(5,560)	\$(168)	\$-	\$-	\$3,284,577	\$98,993	\$196,610,185	\$5,925,563

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NTS33.99 and NTS33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Unaudited consolidated statements of cash flows

For the nine-month periods ended September 30, 2004 and 2005

(Expressed in thousands of dollars)

	2004		2005	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated income	\$25,420,130	\$747,871	\$27,271,344	\$821,921
Adjustments:				
Net loss before acquisitions of the subsidiaries	-	-	(124,217)	(3,744)
Recovered on bad debt	(405,694)	(11,936)	(1,080,532)	(32,566)
Amortizations and depreciation expenses	2,279,373	67,060	2,862,742	86,279
Provision for reserve for operations	200,207,558	5,890,190	117,448,883	3,539,749
Recovered reserve for operations	(100,228,538)	(2,948,765)	(4,404,806)	(132,755)
Applicant terminate the insurance contract income	(1,362,990)	(40,100)	-	-
Realized loss on long-term equity investments	-	-	893,320	26,923
Gain on disposal of long-term investments	(194,817)	(5,732)	(191,525)	(5,772)
Gain on disposal of property and equipment	(1,137,564)	(33,468)	(8,634,459)	(260,231)
Impairment loss	-	-	1,039,325	31,324
Amortization long-term investments in bonds	44,228	1,301	181,593	5,473
Investment income recognized by equity method (excess) smaller of cash dividends received	(99,216)	(2,919)	70,762	2,133
Increase in bonds payable redemption premium	642,264	18,896	471,647	14,215
Effects of exchange rate changes	42,236	1,243	711,439	21,442
Decrease (increase) in short-term investments	97,804,473	2,877,449	(86,997,080)	(2,621,973)
Increase other financial assets-current	-	-	(272,712)	(8,219)
Increase in receivables	(3,107,150)	(91,414)	(3,085,210)	(92,984)
Increase in inventories	-	-	(7,019)	(212)
Decrease (increase) in prepayments	175,165	5,154	(5,091,376)	(153,447)
Decrease in deferred income tax assets-current	15,097	444	50,875	1,533
Increase in deferred income tax assets-noncurrent	(207,468)	(6,104)	(275,222)	(8,295)
Decrease in other assets	5,885,270	173,147	195	6
(Decrease) increase in payables	(7,694,338)	(226,371)	25,774,532	776,809
(Decrease) increase in accounts collected in advance	(1,070,380)	(31,491)	406,904	12,264
Increase (decrease) in other liabilities	9,614,943	282,876	(19,170,588)	(577,775)
Net cash provided by operating activities	226,622,582	6,667,331	47,848,815	1,442,098
Cash flows from investing activities				
Increase in bills and loans	(18,498,716)	(544,240)	(21,892,239)	(659,802)
Acquisition of long-term investments in stocks	(43,160,701)	(1,269,806)	(25,348,843)	(763,980)
Disposal of long-term investments in stocks	23,486,262	690,976	7,605,849	229,230
(Increase) decrease investment in real estate	(6,400,184)	(188,296)	11,309,978	340,867
Increase in long-term investments in bonds	(19,484,168)	(573,232)	(13,074,344)	(394,043)
Disposal of property and equipment	1,786,259	52,552	253,421	7,638
Increase restricted assets-current	-	-	(800,000)	(24,111)
Acquisition of property and equipment	(1,384,718)	(40,739)	(1,958,019)	(59,012)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Unaudited consolidated statements of cash flows

For the nine-month periods ended September 30, 2004 and 2005

(Expressed in thousands of dollars)

	2004		2005	
	NT \$	US \$	NT \$	US \$
Increase in deferred charges	(96,741)	(2,846)	(221,411)	(6,673)
Acquisition of intangible assets	(6,449)	(190)	(128,045)	(3,859)
Decrease in non-operation assets	1,588,989	46,749	1,116,666	33,655
Increase in refundable deposits	(3,152,556)	(92,750)	(3,515,872)	(105,964)
Decrease miscellaneous assets	156,999	4,619	2,127,468	64,119
(Increase) decrease in due from Central Bank and call loans to banks	(3,003,118)	(88,353)	8,927,800	269,072
Net cash used in investing activities	(68,168,842)	(2,005,556)	(35,597,591)	(1,072,863)
Cash flows from financing activities				
Increase in short-term debts	-	-	2,030,093	61,184
Decrease in due to Central Bank and commercial banks	(5,906,990)	(173,786)	(6,865,788)	(206,926)
Increase in deposits and remittances payables	14,575,748	428,825	33,238,817	1,001,773
Increase in banker's acceptances and funds borrowed	243,505	7,164	272,393	8,210
Increase in bonds payable	-	-	323,299	9,744
Increase in other long-term liabilities	-	-	242	7
Increase in guarantee deposits in	11,348	334	1,572	47
Disposal of treasury stock	3,023,647	88,957	-	-
Capital increase from cash	-	-	150,000	4,521
Remuneration paid to directors and supervisors	(5,700)	(168)	(21,700)	(654)
Bonus paid to employees	(3,052)	(90)	(84,340)	(2,542)
Cash dividends	(16,082,961)	(473,167)	(21,504,934)	(648,129)
Net cash (used in) provided by financing activities	(4,144,455)	(121,931)	7,539,654	227,235
Effects of exchange rate changes	(3,265)	(96)	(529,106)	(15,947)
Cash and cash equivalents - first consolidated subsidiaries	-	-	6,463,747	194,809
Increase in cash and cash equivalents	154,306,020	4,539,748	25,725,519	775,332
Cash and cash equivalents at the beginning of period	129,072,412	3,797,364	372,869,091	11,237,767
Cash and cash equivalents at the end of period	\$283,378,432	\$8,337,112	\$398,594,610	\$12,013,099
Supplemental disclosure of cash flows information				
Interest paid during the period	\$5,734,047	\$168,698	\$9,425,877	\$284,083
Interest paid (excluding capitalized interest)	\$5,734,047	\$168,698	\$9,425,877	\$284,083
Income tax paid	\$891,063	\$26,215	\$1,341,610	\$40,434
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$-	\$-	\$11,143,016	\$335,835

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries Notes to unaudited consolidated financial statements (Expressed in thousands of dollars except for share and per share data and unless otherwise stated) September 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”). On June 30, 2005, an investment strategy of Lucky Bank, Inc. (“Lucky Bank”) was approved by the Financial Supervisory Commission, Executive Yuan. As of September 30, 2005 the Company had acquired its ownership interest of 81.35%. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depository Shares (GDSs). The Company mainly engages in financial holding business activities.

As of September 30, 2004 and 2005, the total numbers of employees were 57 and 63, respectively.

2. Summary of significant accounting policies

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

(1) Principles of consolidation

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

The consolidated financial statements of the Company as of and for the nine-month period ended September 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 September 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 21.

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.

English Translation of Financial Statements Originally Issued in Chinese

As of and for the nine-month period ended September 30, 2005, the consolidated financial statements include the followings:

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 September 30, 2004 and 2005, the total numbers of employees were 26,855 and 26,263, 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 September 30, 2004 and 2005, the total numbers of employees were 3,981 and 4,120, 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 September 30, 2004 and 2005, the total numbers of employees were 882 and 869, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
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 September 30, 2004 and 2005, the total numbers of employees were 90 and 148, respectively.
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 September 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.
The Company	Lucky Bank	Commercial banking operations	81.35%	Lucky Bank, formerly Taichung Credit Department of Central Cooperative, was set up in 1947 and reorganized as Taichung Seventh Credit Cooperative in guaranteed and responsibility in 1971. On September 1, 1997, Lucky Bank was restructured into a commercial bank in accordance with the Company Law and Banking Law. As of September 30, 2004 and 2005, the total numbers of employees were 729 and 693, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
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 September 30, 2005, the total number of employees was 245.
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 September 30, 2004 and 2005, the total numbers of employees were 90 and 132, respectively.
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 September 30, 2004 and 2005, the total numbers of employees were 253 and 272, 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 Cathy Futures Corp. on December 24, 2003. As of September 30, 2004 and 2005, the total numbers of employees were 54 and 62, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
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 September 30, 2004 and 2005, the total numbers of employees were 14 and 12, 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 September 30, 2004 and 2005, the total numbers of employees were 187 and 209, respectively.

As of and for the nine-month period ended September 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 nine-month period ended September 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 nine-month period ended September 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.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
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 nine-month period ended September 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 nine-month period ended September 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 nine-month period ended September 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.
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 nine-month period ended September 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 nine-month period ended September 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.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	Ownership interest	Notes
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 nine-month period ended September 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.

(3) Basis for preparation of financial statements

The accompanying financial statements of Cathay United Bank (merged) and Lucky Bank 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.

English Translation of Financial Statements Originally Issued in Chinese

- 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.
- 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) and Lucky Bank, 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.

English Translation of Financial Statements Originally Issued in Chinese

- 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 revenue or interest expense.
- 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.

(7) Margin deposit for futures trading - own funds

The margin and premium resulting from trading futures and options are recorded as “margin for futures trading - own funds”. The profit or loss from the trading or valuation of futures and options is recorded as “gain (loss) on futures contracts” or “gain (loss) from options transactions”, and the amount of “margin for futures trading – own funds” 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.

English Translation of Financial Statements Originally Issued in Chinese

(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) and Lucky Bank, allowances for doubtful accounts on receivables, bills and loans are 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) and Lucky Bank's 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) and Lucky Bank, foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date.

(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.

English Translation of Financial Statements Originally Issued in Chinese

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

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.

English Translation of Financial Statements Originally Issued in Chinese

(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.

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, (the “MOF”) 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) Idle assets

Idle assets are valued at the lower of net realizable value or net carrying amount. Since 2005, except for depreciation, Lucky Bank assesses impairment annually.

English Translation of Financial Statements Originally Issued in Chinese

(16) 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.

(17) 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.

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).

English Translation of Financial Statements Originally Issued in Chinese

(18) 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.

(19) 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 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 premiums reserve, claims reserve and special claim reserve. The actuary provides the figures of such reserves in the financial statements.

C. Cathay United Bank (merged) and Cathay Securities

Pursuant to the “Regulations Governing Securities Firms”, 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\$6.03 million). The reserve cannot be used for other purposes except to offset trading losses.

English Translation of Financial Statements Originally Issued in Chinese

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\$6.03 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.

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 September 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.

(20) 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.

English Translation of Financial Statements Originally Issued in Chinese

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 or interest 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.

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 or interest 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.

(21) 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.

English Translation of Financial Statements Originally Issued in Chinese

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.

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.

(22) 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.

(23) 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.

English Translation of Financial Statements Originally Issued in Chinese

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.

(24) 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.

(25) 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.

(26) 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.

(27) 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.

English Translation of Financial Statements Originally Issued in Chinese

(28) 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.

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.

In compliance with SFC regulations, the Company and its subsidiaries follow the ROC SFAS No. 18, "Accounting for Pensions". When providing defined benefit plans, 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; when providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense for the employee's employment period.

(29) 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.

English Translation of Financial Statements Originally Issued in Chinese

B. Conversion of foreign subsidiaries' statements

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

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

(30) 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.

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.

English Translation of Financial Statements Originally Issued in Chinese

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.

(31) 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.

(32) 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.

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.

English Translation of Financial Statements Originally Issued in Chinese

- 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. 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.
- F. 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.
- G. The purpose of the CS held by the Company is to hedge the risks that may result from changes in currency rates. CS transactions are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheets date are recognized in the current period. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.
- The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis in the balance sheets.
- H. 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.

English Translation of Financial Statements Originally Issued in Chinese

(33) 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.

(34) 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.

(35) The interim financial statement

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

(36) Convenience conversion into US dollars

The financial statements are stated in NT dollars. Conversion of the September 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\$33.99 and NT\$33.18 to US\$1.00 on September 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.

English Translation of Financial Statements Originally Issued in Chinese

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’ goodwill, investments in real estate, property and equipment and non-operating assets by NT\$311,442 (US\$9,386), NT\$197,253 (US\$5,945), NT\$215,447 (US\$6,493) and NT\$315,183 (US\$9,499) as of September 30, 2005, respectively, and therefore reduced the Company and its subsidiaries’ net income by NT\$1,039,325 (US\$31,324) for the nine-month period ended September 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 recognize 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\$42,262 (US\$1,274), cumulative conversion adjustments increased by NT\$347 (US\$10), capital surplus increased by NT\$639 (US\$19) and unrealized valuation losses on long-term equity investments decreased by NT\$27,230 (US\$821) as of September 30, 2005 and net income increased by NT\$14,046 (US\$423) for the nine-month period ended September 30, 2005, respectively. The Company believes the effect of such a change was not material.

Since January 1, 2005, The Company adopted the ROC Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements” (“SFAS No. 7”) which was recognized by the essential controlling interest. This modification was uninfluenced the Company’s earnings per share for the nine-month period ended September 30, 2005.

4. Cash and cash equivalents

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Petty cash and cash on hand	\$8,270,928	\$243,334	\$10,641,139	\$320,709
Cash in banks	4,011,768	118,028	10,544,657	317,802
Time deposits	204,915,086	6,028,688	311,197,892	9,379,081
Cash equivalents	61,869,392	1,820,223	60,236,399	1,815,443
Checks for clearance	4,311,258	126,839	5,974,523	180,064
Total	\$283,378,432	\$8,337,112	\$398,594,610	\$12,013,099

English Translation of Financial Statements Originally Issued in Chinese

5. Short-term investments

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Common stock	\$80,545,124	\$2,369,671	\$107,870,361	\$3,251,066
Beneficiary certificates	48,230,728	1,418,968	36,919,300	1,112,697
Government bonds and corporate bonds	69,140,392	2,034,139	86,991,050	2,621,792
Oversea investments	156,086,476	4,592,129	110,148,950	3,319,739
Designated purpose trust fund	43,267,223	1,272,940	25,177,800	758,824
Financial debentures	18,923,764	556,745	38,261,938	1,153,163
Short-term notes	78,988,720	2,323,881	68,107,748	2,052,675
Securities purchased under agreements to resell	4,424,403	130,168	3,700,969	111,542
Operating securities	24,748	728	295,614	8,909
Subtotal	499,631,578	14,699,369	477,473,730	14,390,407
Less: Cash equivalents	(61,665,857)	(1,814,235)	(60,514,361)	(1,823,820)
Allowance for valuation loss	(424,851)	(12,499)	(336,949)	(10,155)
Total	\$437,540,870	\$12,872,635	\$416,622,420	\$12,556,432

As of September 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\$27,886,400 (US\$820,430) and NT\$20,789,900 (US\$626,579), respectively. Such repurchase agreements amounting to NT\$29,572,759 (US\$870,043) and NT\$22,050,539 (US\$664,573), respectively, were posed to the "other liabilities" account on the balance sheets. Repurchase agreements entered prior to September 30, 2004 and 2005 were settled at NT\$29,608,173 (US\$892,350) and NT\$22,090,033 (US\$665,764) prior to March 28, 2005 and March 29, 2006, respectively.

6. Exchange bills negotiated discounted and loans, net

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Exchange bills negotiated discounted	\$1,236,847	\$36,388	\$6,987,045	\$210,580
Short-term loans and overdrafts	214,157,107	6,300,592	210,639,048	6,348,374
Short-term secured loans and overdrafts	98,744,926	2,905,117	99,824,193	3,008,565
Medium-term loans	65,663,619	1,931,851	115,888,498	3,492,721
Medium-term secured loans	130,971,641	3,853,240	148,111,464	4,463,878
Long-term loans	19,320,909	568,429	28,619,695	862,559
Long-term secured loans	480,479,810	14,135,917	515,888,201	15,548,168
Overdue receivables	-	-	10,295,625	310,296
Subtotal	1,010,574,859	29,731,534	1,136,253,769	34,245,141
Less: Allowance for bad debts	(7,002,255)	(206,009)	(8,637,892)	(260,334)
Total	\$1,003,572,604	\$29,525,525	\$1,127,615,877	\$33,984,807

English Translation of Financial Statements Originally Issued in Chinese

(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 September 30, 2004 and 2005, the accounts with no interest accrued were NT\$8,250,524 (US\$242,734) and NT\$9,135,104 (US\$275,320), respectively. The non-accrued interest on such accounts amounted to NT\$102,254 (US\$3,008) and NT\$140,231 (US\$4,226) for the nine-month periods ended September 30, 2004 and 2005, respectively.

7. Long-term investments in stocks

Investee	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Under the equity method:				
Cathay Pacific Venture	\$586,017	\$17,241	\$(note)	\$-
Cathay Venture	556,028	16,359	-(note)	-
Cathay II Venture	594,419	17,488	-(note)	-
Lin Yuan Property Management	31,825	936	-(note)	-
Seaward Leasing	2,237,710	65,834	-(note)	-
Cathay futures	721,533	21,228	-(note)	-
Indovina Bank	527,149	15,509	-(note)	-
Symphox Information	263,412	7,750	-(note)	-
WK Technology Fund VI Co., Ltd	375,627	11,051	361,485	10,895
Vista Technology Venture Capital Corp.	68,776	2,024	62,037	1,870
Omnitek Venture Capital Corp.	152,081	4,474	172,721	5,206
Wa Tech Venture Capital Co., Ltd.	178,895	5,263	151,074	4,553
Cathay Securities Investment	23,265	684	31,829	959
Cathay Capital Management	10,897	321	34,853	1,050
Seaward Card	59,635	1,754	56,973	1,717
Taiwan Real-estate Management Corp.	51,947	1,528	20,955	632
Taiwan Finance Corp.	1,296,483	38,143	1,373,304	41,390
Cathay Property Insurance Agent	9,388	276	9,921	299

English Translation of Financial Statements Originally Issued in Chinese

Investee	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
Cathay Life Insurance Agent	117,846	3,467	100,373	3,025
IBT Venture Capital Corp.	575,239	16,924	513,926	15,489
Cathay Insurance (Bermuda)	60,760	1,788	64,207	1,935
Cathay Securities Investment Trust Co., Ltd.	215,002	6,325	253,686	7,646
Pao Shin Securities Co., Ltd.	-	-	51,773	1,560
Subtotal	8,713,934	256,367	3,259,117	98,226
Less: Unrealized gain from intercompany transactions	(31,849)	(937)	(31,846)	(960)
Under the equity method	8,682,085	255,430	3,227,271	97,266
Under the cost method	16,083,531	473,184	27,201,991	819,831
Net	\$24,765,616	\$728,614	\$30,429,262	\$917,097

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 nine-month period ended September 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 September 30, 2004.

8. Long-term investments in bonds

Long-term investments in bonds consist mainly of the government bonds and oversea bonds. As of September 30, 2004 and 2005, long-term investments in bonds amounted to NT\$395,823,106 (US\$11,645,281) and NT\$558,561,625 (US\$16,834,286), respectively.

9. Investment in real estate

Item	September 30, 2004							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in								
real estate	\$104,585,379	\$3,076,946	\$4,565	\$134	\$(12,699,585)	\$(372,744)	\$91,920,359	\$2,704,336
Construction	9,044,235	266,085	-	-	-	-	9,044,235	266,085
Total	\$113,629,614	\$3,343,031	\$4,565	\$134	\$(12,669,585)	\$(372,744)	\$100,964,594	\$2,970,421

English Translation of Financial Statements Originally Issued in Chinese

September 30, 2005

Item	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Investments in									
real estate	\$109,233,813	\$3,292,158	\$4,563	\$137	\$(12,603,872)	\$(379,863)	\$(197,253)	\$(5,945)	\$96,437,251	\$2,906,487
Construction	1,526,192	45,997	-	-	-	-	-	-	1,526,192	45,997
Rental assets	1,267,495	38,201	-	-	(40,019)	(1,206)	-	-	1,227,476	36,995
Total	<u>\$112,027,500</u>	<u>\$3,376,356</u>	<u>\$4,563</u>	<u>\$137</u>	<u>\$(12,643,891)</u>	<u>\$(381,069)</u>	<u>\$(197,253)</u>	<u>\$(5,945)</u>	<u>\$99,190,919</u>	<u>\$2,989,479</u>

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

10. Deposits and remittances

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Check deposits	\$9,948,579	\$292,692	\$13,320,954	\$401,475
Demand deposits	90,551,508	2,664,063	95,278,596	2,871,567
Savings deposits	435,449,840	12,811,116	519,452,060	15,655,578
Time deposits	128,755,577	3,788,043	200,783,222	6,051,333
Remittances payable	327,164	9,625	381,050	11,484
Total	<u>\$665,032,668</u>	<u>\$19,565,539</u>	<u>\$829,215,882</u>	<u>\$24,991,437</u>

11. Financial debentures payable:

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Financial debentures payable	\$22,200,000	\$653,133	\$39,700,000	\$1,196,504
Subordinate financial debentures payable	12,350,000	363,342	12,350,000	372,212
Total	<u>\$34,550,000</u>	<u>\$1,016,475</u>	<u>\$52,050,000</u>	<u>\$1,568,716</u>

English Translation of Financial Statements Originally Issued in Chinese

On May 23, 2002, Cathay United Bank (merged) issued five-year subordinated financial debentures totaling NT\$5,000,000 (US\$150,693) with a stated interest rate of 4.15%, and the interest is payable annually. Subsequently on September 10, 2002, Cathay United Bank (merged) issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$150,693) with a floating interest rate or inverse floating interest rate, and the interest is payable semi-annually. The subordinated financial debentures are repayable at maturity.

On April 28, 2003, Cathay United Bank (formerly) issued five-year subordinated financial debentures totaling NT\$2,350,000 (US\$70,826) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

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

On June 20, 2003, Cathay United Bank (merged) issued five-year and six-month financial debentures totaling NT\$5,000,000 (US\$150,693) 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\$96,444), NT\$2,700,000 (US\$81,374) and NT\$1,800,000 (US\$54,250), 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\$60,277) 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\$30,139), NT\$3,500,000 (US\$105,485), NT\$2,000,000 (US\$60,277) and NT\$1,000,000 (US\$30,139), respectively, with floating interest rates, 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\$75,347), NT\$1,500,000 (US\$45,208), NT\$1,500,000 (US\$45,208), NT\$2,500,000 (US\$75,347), NT\$1,500,000 (US\$45,208), NT\$2,500,000 (US\$75,347), NT\$1,000,000 (US\$30,139) and NT\$1,000,000 (US\$30,139), NT\$2,000,000 (US\$60,277), NT\$1,500,000 (US\$45,208), 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).

English Translation of Financial Statements Originally Issued in Chinese

12. Bonds payable

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Zero coupon convertible notes	\$23,793,000	\$700,000	\$11,984,517	\$361,197
Redemption premium payable	1,984,354	58,381	1,441,973	43,459
Total	<u>\$25,777,354</u>	<u>\$758,381</u>	<u>\$13,426,490</u>	<u>\$404,656</u>

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

13. Reserve for operations and liabilities

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Unearned premium reserve	\$12,700,550	\$373,656	\$13,911,707	\$419,280
Reserve for life insurance	1,414,630,380	41,619,017	1,566,568,167	47,214,230
Special reserve	19,130,708	562,833	19,606,552	590,915
Claims reserve	898,610	26,437	1,294,960	39,028
Reserves for losses on guarantees	28,823	848	28,731	866
Reserves for losses on stock brokerage transactions	577	17	6,953	210
Reserves for losses on trading securities	131,160	3,859	148,577	4,478
Pension reserve	-	-	285,191	8,595
Total	<u>\$1,447,520,808</u>	<u>\$42,586,667</u>	<u>\$1,601,850,838</u>	<u>\$48,277,602</u>

14. Common stock

As of September 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 8,524,223 thousand shares, respectively.

On December 31, 2001, the Company listed its shares of stock on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. 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).

15. Capital surplus

- (1) The capital surplus of the Company consists of premium of stock conversion from consolidation, equity method adjustments from investee companies and transactions of treasury stocks. Capital surplus was NT\$53,697,720 (US\$1,579,809) and NT\$68,094,522 (US\$2,052,276) as of September 30, 2004 and 2005. Before conversion into a financial holding company, NT\$267,215 (US\$8,053) constituted retained earnings of certain subsidiaries of the Company.
- (2) The additional paid-in capital of par value through the conversion of shares was generated from the transfer of the shares of the Subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's undistributed retained earnings is allowed to be distributed as cash dividends.
- (3) In addition, pursuant to the Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

16. Retained earnings

(1) Legal reserve

Pursuant to the Company Law, 10% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

(2) Unappropriated retained earnings

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.

English Translation of Financial Statements Originally Issued in Chinese

- B. The distribution of the 2003 earnings was approved in the shareholders' meeting on June 3, 2004. The distribution resulted from retained earnings of NT\$20,588,763 (US\$605,730) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$26,109) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,697), respectively. The Company declared cash dividends of NT2 dollars (US\$0.06 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 (US\$0.08 dollars) per common share and such dividends were paid on July 11, 2005.
- 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 September 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.

English Translation of Financial Statements Originally Issued in Chinese

17. Treasury stock

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

(Unit: in thousands of shares)

Reason for acquisition	January 1,		September		Per share		Per share		Per share	
	2005	Increase	Decrease	30, 2005	Book value	Book value	(in NT	(in US	(in NT	(in US
					(NT\$)	(US\$)	dollars)	dollars)	dollars)	dollars)
Shares held by										
subsidiaries	\$6,897	\$-	\$6,897	\$-	\$-	\$-	\$-	\$-	\$-	\$-

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

Item	For the nine-month period ended September			For the nine-month period ended September		
	30, 2004			30, 2005		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$16,311,334	\$5,825,786	\$22,137,120	\$45,377,250	\$35,401,097	\$80,778,347
Labor & health insurance expenses	861,574	461,363	1,322,937	2,168,644	1,766,711	3,935,355
Pension expenses	628,717	422,191	1,050,908	392,080	428,302	820,382
Other expenses	794,153	650,244	1,444,397	1,292,692	1,347,354	2,640,046
Depreciation	-	2,121,729	2,121,729	770,103	4,829,726	5,599,829
Depletion	-	-	-	-	-	-
Amortizations	-	272,887	272,887	172	697,620	697,792

Item	For the nine-month period ended September			For the nine-month period ended September		
	30, 2004			30, 2005		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$479,886	\$171,397	\$651,283	\$1,367,608	\$1,066,941	\$2,434,549
Labor & health insurance expenses	25,348	13,573	38,921	65,360	53,246	118,606
Pension expenses	18,497	12,421	30,918	11,817	12,908	24,725
Other expenses	23,364	19,131	42,495	38,960	40,607	79,567
Depreciation	-	62,422	62,422	23,210	145,561	168,771
Depletion	-	-	-	-	-	-
Amortizations	-	8,028	8,028	5	21,026	21,031

English Translation of Financial Statements Originally Issued in Chinese

19. Estimated income taxes

(1) Income tax expenses include the following:

	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Expected income tax expense	\$755,898	\$22,239	\$1,479,313	\$44,585
Plus: Interest income of tax on a separate basis	188,804	5,554	445,070	13,414
Deferred income tax expenses	2,491,968	73,315	415,919	12,535
Extra 10% income tax on undistributed retained earnings	338,048	9,946	372,302	11,221
Less: Income tax credit	(69,137)	(2,034)	(26,371)	(795)
Tax effects under consolidated income tax return	(338,038)	(9,946)	(305,640)	(9,212)
Dissimilitude on estimate tax from prior years	(471,375)	(13,868)	(31,183)	(940)
Total income tax expenses	<u>\$2,896,168</u>	<u>\$85,206</u>	<u>\$2,349,410</u>	<u>\$70,808</u>

The Company in accordance with the Financial Holding Company Act, elected to be the payer of the consolidated income tax and the 10% additional undistributed earnings tax filing the consolidated income tax return which includes all subsidiaries that have twelve months of operations in a taxable year.

(2) Income tax returns:

	September 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 were 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 review, the tax authority 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 2003	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 and after accruing appropriated tax provisions, 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 2004 and 2005, 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 and 2003 tax returns.
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	-
Lucky Bank	through 2002	-

(3) Information related tax imputation:

A. Balance of imputation credit account

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
The Company	\$356,633	\$10,492	\$1,102,086	\$33,215
Cathay Life	98,422	2,896	824,278	24,843
Cathay United Bank (merged)	91,508	2,692	38,417	1,158
Cathy Century	8,799	259	7,548	227
Cathay Securities	1,103	32	4,839	146
Cathay Pacific Venture	-	-	392	12
Cathay Venture	-	-	13,575	409
Cathay II Venture	-	-	3,007	91
Lin Yuan Property Management	-	-	14,381	433
Cathay Futures	-	-	9,462	285
Seaward Leasing	-	-	66,331	1,999
Lucky Bank	-	-	2,960	89

English Translation of Financial Statements Originally Issued in Chinese

B Imputation credit account ratio

	For the nine-month periods ended September 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%
Seaward Leasing	-	-	-	30.55%
Lucky Bank	-	-	-	2.77%

(4) Information relating of undistributed earnings:

Year	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Prior to 1997	\$267,215	\$7,862	\$267,215	\$8,053
After 1998	813,842	23,943	6,359,202	191,658
Total	\$1,081,057	\$31,805	\$6,626,417	\$199,711

The above undistributed earnings do not include the net income for the nine-month periods ended September 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

20. Earnings per share

For the nine-month period ended September 30, 2004					
Amount (Numerator)		Shares (in thousands of shares) (denominator)		EPS	
After income taxes				After income taxes EPS (in dollars)	
NT\$	US\$			NT\$	US\$
Consolidated income					
\$25,420,130	\$747,871				
Primary earnings per share					
Consolidated income for common stock holder					
\$25,420,130	\$747,871	8,027,124		\$3.17	\$0.09
Effect of potentially dilutive common stock					
Convertible notes payable					
481,698	14,172	447,017			
Fully-diluted earnings per share					
Consolidated income for common stock holder & effect of potentially common stock					
\$25,901,828	\$762,043	8,474,141		\$3.06	\$0.09
Income from parent company					
\$25,420,130	\$747,871				
Primary earnings per share					
Income from parent company					
\$25,420,130	\$747,871	8,027,124		\$3.17	\$0.09
Effect of potentially dilutive common stock					
Convertible notes payable					
481,698	14,172	447,017			
Fully-diluted earnings per share					
Income from parent company & effect of potentially common stock					
\$25,901,828	\$762,043	8,474,141		\$3.06	\$0.09
For the nine-month period ended September 30, 2005					
Amount (Numerator)		Shares (in thousands of shares) (denominator)		EPS	
After income taxes				After income taxes EPS (in dollars)	
NT\$	US\$			NT\$	US\$
Consolidated income					
\$27,271,344	\$821,921				
Primary earnings per share					
Consolidated income for common stock holder					
\$27,271,344	\$821,921	8,441,725		\$3.23	\$0.10

English Translation of Financial Statements Originally Issued in Chinese

Effect of potentially dilutive common stock

Convertible notes payable	353,736	10,661	318,736		
Fully-diluted earnings per share					
Consolidated income for common stock holder & effect of potentially common stock	\$27,625,080	\$832,582	8,760,461	\$3.15	\$0.10
Income from parent company	\$27,286,551	\$822,379			
Primary earnings per share					
Income from parent company	\$27,286,551	\$822,379	8,441,725	\$3.23	\$0.10
Effect of potentially dilutive common stock					
Convertible notes payable	353,736	10,661	318,736		
Fully-diluted earnings per share					
Income from parent company & effect of potentially common stock	\$27,640,287	\$833,040	8,760,461	\$3.16	\$0.10

21. Related party transactions

(1) Related parties

Name	Relationship
Cathay Capital Management	Subsidiary of Company
Cathay Pacific Partners	The investee is accounted for using the equity method
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

English Translation of Financial Statements Originally Issued in Chinese

(2) *Significant transactions with related parties:*

A. Beneficiary certificates

Name		September 30,			
		2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities					
Investment Trust Co., Ltd.	Cost	\$5,187,590	\$152,621	\$5,285,150	\$159,287
	Market value	\$5,139,514	\$151,207	\$5,605,939	\$168,955

B. Receivables

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$159,397	\$4,690	\$39,808	\$1,200
Cathay Insurance (Bermuda)	2,867	84	3,798	114
Cathay Capital Management	3	-	5,936	179
Cathay Real Estate Development Co., Ltd.	936	27	1,736	52
Lin Yuan Property Management	25	1	-	-
Seaward Leasing	1,014	30	-	-
Cathay Futures	242	7	-	-
Other	1,058	31	1,417	43
Total	\$165,542	\$4,870	\$52,695	\$1,588

C. Prepayments

Name	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Symphox Information	\$7,779	\$229	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

D. Regular secured loans

As of and for the nine-month period ended September 30, 2004				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General				
Hospital	\$2,192,866	\$2,192,609	2.60%-3.50%	\$36,544
Wu Ming-Yang	2,374	1,680	2.48%	38
Total		<u>\$2,194,289</u>		<u>\$36,582</u>

As of and for the nine-month period ended September 30, 2004				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$64,515	\$64,508	2.60%-3.50%	\$1,075
Wu Ming-Yang	70	49	2.48%	1
Total		<u>\$64,557</u>		<u>\$1,076</u>

As of and for the nine-month period ended September 30, 2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General				
Hospital	\$2,321,146	\$2,320,813	2.60%-2.84%	\$47,480
Wu Ming-Yang	1,651	1,564	2.66%-2.76%	32
Total		<u>\$2,322,377</u>		<u>\$47,512</u>

As of and for the nine-month period ended September 30, 2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$69,956	\$69,946	2.60%-2.84%	\$1,431
Wu Ming-Yang	50	47	2.66%-2.76%	1
Total		<u>\$69,993</u>		<u>\$1,432</u>

English Translation of Financial Statements Originally Issued in Chinese

E. Loans and deposits

September 30,										
	2004					2005				
Account	(NT\$)	(US\$)	% of	Interest revenue (expense)		(NT\$)	(US\$)	% of	Interest revenue (expense)	
			account	(NT\$)	(US\$)			account	(NT\$)	(US\$)
Bills and loans	<u>\$2,454,036</u>	<u>\$72,199</u>	0.24%	<u>\$33,300</u>	<u>\$980</u>	<u>\$1,507,470</u>	<u>\$45,433</u>	0.13%	<u>\$41,651</u>	<u>\$1,255</u>
Deposits	<u>\$4,463,088</u>	<u>\$131,306</u>	0.67%	<u>\$(35,395)</u>	<u>\$(1,041)</u>	<u>\$2,046,950</u>	<u>\$61,692</u>	0.25%	<u>\$(55,518)</u>	<u>\$(1,673)</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.

For the nine-month period ended September 30, 2004			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$6,931	\$204
	Hsinyi District Base-D	20,338	598
	Cathay Information Building	11,567	340
	Ban Ciao Building	208,610	6,138
	Sheraton Taipei Hotel	40,340	1,187
	Sainyang Building	18,362	540
	Xi-Men Building	16,490	485
	Tucheng Office Building	84,728	2,493
	Cathay Golden & Sliver	19,105	562
	Li-Yuan Building	40,045	1,178
Cathay Real Estate Development Co., Ltd.	Other	41,959	1,235
	Ban Ciao Building	1,572	46
Symphox Information	Hsinyi District Base-E	27,000	794
	Other	448	13
	Total	<u>\$537,495</u>	<u>\$15,813</u>

English Translation of Financial Statements Originally Issued in Chinese

For the nine-month period ended September 30, 2005			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$2,769	\$84
	Cathay Golden & Sliver	3,791	114
	Ban Ciao Building	266,182	8,022
	Sheraton Taipei Hotel	44,046	1,328
	Sainyang Bulding	4,222	127
	Cathay Land Mark	3,000	91
	Financial Center Hsinyi-E	2,583	78
	Other	281	8
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	2,062	62
	Cathay Land Mark	1,000	30
	Total	\$329,936	\$9,944

The total amount of contracted projects for real estate as of September 30, 2004 and 2005 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$9,708,892 (US\$285,640) and NT\$1,620,227 (US\$48,831), respectively.

b. Cathay Life disposal of real estate information:

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

Cathay Life did not disposal any real estate to its related parties for the nine-month period ended September 30, 2005.

c. The Company disposal of property and equipment information:

The Company did not disposal any property and equipment to its related parties for the nine-month period ended September 30, 2004.

For the nine-month period ended September 30, 2005					
Name	Item	Amount		Loss	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$2,499	\$75	\$(473)	\$(14)

English Translation of Financial Statements Originally Issued in Chinese

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

Name	Rental income			
	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$17,004	\$500	\$12,370	\$373
Cathay General Hospital	103,002	3,030	99,020	2,984
San Ching Engineering Co., Ltd.	10,770	317	5,677	171
Symphox Information	18,406	542	-	-
Cathay Securities Investment Trust Co., Ltd.	6,454	190	9,009	272
Cathay Securities Investment	3,175	93	2,717	82
Cathay Capital Management	-	-	1,442	43
Taiwan Asset Management Corporation	-	-	10,756	324
Seaward Leasing	1,412	42	-	-
Taipei Smart Card Corp.	4,280	126	4,280	129
Culture and Charity Foundation of CUB	750	22	750	23
Other	404	12	72	2
Total	\$165,657	\$4,874	\$146,093	\$4,403

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 in			
	September			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$5,796	\$171	\$4,286	\$129
Cathay General Hospital	2,354	69	4,509	136
San Ching Engineering Co., Ltd.	6,779	199	2,009	61
Symphox Information	1,394	41	-	-
Cathay Securities Investment Trust Co., Ltd.	2,144	63	2,738	82
Taiwan Asset Management Corporation	-	-	3,477	105
Other	77	2	906	27
Total	\$18,544	\$545	\$17,925	\$540

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

Name	Rental expense			
	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$32,850	\$967	\$32,693	\$985
Lin Yuan Investment Co., Ltd.	5,006	147	2,875	87
Yi Ru Corporation	3,057	90	3,062	92
Seaward Leasing	180	5	-	-
Total	<u>\$41,093</u>	<u>\$1,209</u>	<u>\$38,630</u>	<u>\$1,164</u>

Name	Refundable deposits			
	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,565	\$370	\$12,439	\$375
Yi Ru Corporation	1,190	35	1,190	36
Cathay Capital Management	-	-	8	-
Cathay Securities Investment Trust Co., Ltd.	-	-	47	1
Seaward Leasing (Note)	42,000	1,236	-	-
Cathay Futures	4,072	120	-	-
Lin Yuan Investment Co., Ltd.	1,650	48	628	19
Total	<u>\$61,477</u>	<u>\$1,809</u>	<u>\$14,312</u>	<u>\$431</u>

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

Note: Interest from refundable deposits was used to offset against rental expense payable to Seaward Leasing.

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G. Bonds sold under repurchase agreements

Name	September 30, 2005	For the nine-month period ended September 30, 2005
	Ending balance (NT\$)	Interest expense (NT\$)
Cathay Securities Investment Trust Co., Ltd. — Cathay Bond Fund	\$46,000	\$1,966

Name	September 30, 2005	For the nine-month period ended September 30, 2005
	Ending balance (US\$)	Interest expense (US\$)
Cathay Securities Investment Trust Co., Ltd. — Cathay Bond Fund	\$1,386	\$59

H. Payables

Name	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Symphox Information	\$20,481	\$603	\$-	\$-
Lin Yuan Property Management	45,826	1,348	-	-
Seaward Card	47,829	1,407	85,400	2,574
Cathay Real Estate Development Co., Ltd.	1,800	53	-	-
Total	\$115,936	\$3,411	\$85,400	\$2,574

I. Accounts collected in advance

Name	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$-	\$-	\$16	\$1
Lin Yuan Property Management	10	-	-	-
San Ching Engineering Co., Ltd.	-	-	742	22
Other	466	14	468	14
Total	\$476	\$14	\$1,226	\$37

English Translation of Financial Statements Originally Issued in Chinese

J. Insurance income

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$21,831	\$642	\$23,220	\$700
Seaward Leasing	2,131	63	-	-
Other	8,735	257	5,950	179
Total	<u>\$32,697</u>	<u>\$962</u>	<u>\$29,170</u>	<u>\$879</u>

K. Sales

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Lin Yuan Property Management	\$816	\$24	\$-	\$-
San Ching Engineering Co., Ltd.	731	21	243	7
Cathay Real Estate Development Co., Ltd.	571	17	923	28
Cathay General Hospital	1,245	37	507	15
Cathay Securities Investment Trust Co., Ltd.	332	10	2,146	65
Other	117	3	129	4
Total	<u>\$3,812</u>	<u>\$112</u>	<u>\$3,948</u>	<u>\$119</u>

L. Service Income

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$65,066	\$1,914	\$76,283	\$2,299
San Ching Engineering Co., Ltd.	933	28	822	25
Cathay Securities Investment Trust Co., Ltd.	761	22	1,976	59
Cathay Real Estate Development Co., Ltd.	34,406	1,012	30,271	912
Lin Yuan Investment Co., Ltd.	9,921	292	9,045	273
Lin Yuan Property Management	144	4	-	-
Seaward Leasing	9,676	285	-	-
Other	-	-	153	5
Total	<u>\$120,907</u>	<u>\$3,557</u>	<u>\$118,550</u>	<u>\$3,573</u>

M. Reinsurance income

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	<u>\$57,830</u>	<u>\$1,701</u>	<u>\$78,686</u>	<u>\$2,371</u>

English Translation of Financial Statements Originally Issued in Chinese

N. Reinsurance handling fee income

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$-	\$-	\$7,601	\$229

O. Feature commission revenue

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Futures	\$367	\$11	\$-	\$-

P. Handling fee Income

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Futures	\$2,146	\$63	\$-	\$-

Q. Miscellaneous income

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$4,985	\$147	\$7,102	\$214
Other	199	6	-	-
Total	\$5,184	\$153	\$7,102	\$214

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

R. Commissions expense

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life Insurance Agent	\$207,334	\$6,100	\$146,102	\$4,404
Cathay Property Agent	15,991	470	24,659	743
Total	\$223,325	\$6,570	\$170,761	\$5,147

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S.Reinsurance commissions expense

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$10,681	\$314	\$10,882	\$328

T.Reinsurance claims payment

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$8,397	\$247	\$55,834	\$1,683

U.Reinsurance handling fee expense

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$5,530	\$163	\$-	\$-

V.Operating expense

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Lin Yuan Property Management	\$552,945	\$16,268	\$-	\$-
Cathay Real Estate Development Co., Ltd.	10,858	319	10,244	309
Cathay Securities Investment	39,375	1,159	39,375	1,187
San Ching Engineering Co., Ltd.	4,500	132	5,721	172
Symphox Information	200,950	5,912	-	-
Seaward Card	515,744	15,173	747,391	22,525
Cathy Capital Management	6,000	177	19,383	584
Cathay General Hospital	-	-	268	8
Taiwan Real-estate Management Corp.	-	-	300	9
Other	-	-	413	13
Total	<u>\$1,330,372</u>	<u>\$39,140</u>	<u>\$823,095</u>	<u>\$24,807</u>

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.

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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 September 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.
- 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 (US\$513). Up to September 30, 2005, Seaward Leasing have paid NT\$17,010 (US\$513).
- 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 (US\$7) 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. Seaward Leasing had paid NT\$1,170 (US\$35) for the nine-month period ended September 30, 2005. The Seaward Leasing had made management agreement with the Lin Yuan Property Management, the serve fee were NT\$603 (US\$18) per month on June 2005.
- d. Cathay United Bank (merged) paid project and construction management fees to Taiwan Real-estate Management Corp. in the amount of NT\$217 (US\$6) during the nine-month period ended September 30, 2004.
- e. Cathay United Bank (merged) purchased automated systems for its 24-hour self-service banking centers from Sanching Engineering Co., Ltd. for the amounts of NT\$88,422 (US\$2,601) and NT\$3,820 (US\$115) during the nine-month periods ended September 30, 2004 and 2005, respectively.

22. Pledged assets

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(1) Cathay Life

As of September 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	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Long-term investment in bonds	\$7,936,557	\$233,497	\$8,061,479	\$242,962
Time deposits	303,350	8,925	232,450	7,006
Total	<u>\$8,239,907</u>	<u>\$242,422</u>	<u>\$8,293,929</u>	<u>\$249,968</u>

Pledged assets are based on the carrying amount.

(2) Cathay United Bank (merged)

A. NT\$16,127,907 (US\$474,490) and NT\$17,819,886 (US\$537,067) of the securities purchased as of September 30, 2004 and 2005, respectively, were pledged to other parties as collateral for business reserves and guarantees.

B. As of September 30, 2004 and 2005, NT\$144,746 (US\$4,258) and NT\$499,632 (US\$15,058) of Cathay United Bank's investments in government bonds were pledged to other parties as collateral for business reserves and guarantees.

(3) Cathay Century

Item	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Government bonds	<u>\$356,594</u>	<u>\$10,491</u>	<u>\$357,784</u>	<u>\$10,783</u>

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 of China as capital guarantee deposit.

The pledged assets are disclosed at net carrying amount.

(4) Cathay Securities

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Item	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Restricted assets - time deposits	\$500,000	\$14,710	\$1,300,000	\$39,180

A. As of September 30, 2004 and 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 September 30, 2005, the following assets had been provided as collaterals by Seaward Leasing to guarantee loans, others financing or leasing:

Item	September 30,		Creditor
	2005 (NT\$)	2005 (US\$)	
Property and equipment- Buildings and construction (Book value)	\$1,083,293	\$32,649	Taiwan Finance Corp.

(6) Lucky Bank

A. NT\$12,000 (US\$353) (based on the unreviewed financial statements) and NT\$6,000 (US\$181) of the securities purchased as of September 30, 2004 and 2005, respectively, were pledged to the court as collateral.

B. Lucky Bank had NT\$100,000 (US\$2,942) and NT\$100,000 (US\$3,014) certificate of deposit as restricted assets for correspondent deposit as of September 30, 2004 and 2005, respectively.

22. Other important matters and contingent liabilities

(1) Cathay United Bank (merged)

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

English Translation of Financial Statements Originally Issued in Chinese

	NT\$	US\$
A. Entrusted items and guarantees:		
Trust and security held for safekeeping	\$605,040,013	\$18,235,082
Travelers checks for sale	684,663	20,635
Bills for collection	53,520,165	1,613,025
Guarantees on duties and contracts	14,602,887	440,111
Unused commercial letters of credit	3,723,101	112,209
Irrevocable loan commitments	26,114,029	787,041
Credit card lines	289,177,948	8,715,429
Stamp tax, securities and memorial currency consignments	1,727	52

B. As of September 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 (which merged with Union Bank of Taiwan) in an amount of NT\$600,000 (US\$18,083) for the purchase of a 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. The Chung Shing Bank subsequently filed an appeal to the Supreme Court. Cathay United Bank (merged) obtained a judgment rendered by the Supreme Court in favor of Chung Shing Bank on September 8, 2005. This case is pending as Cathay United Bank (merged) subsequently filed an appeal to the Taiwan High 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\$723) 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) also has 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\$1,814) 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\$753) by one of Cathay United Bank's (merged) employees was brought to the Taipei District Prosecutors Office.

C. As of September 30, 2005, Cathay United Bank (merged) entered into certain contracts to purchase premises and equipment totaling NT\$1,095,887 (US\$33,029) with down payments of NT\$742,285 (US\$22,371).

(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\$75) · NT\$1,658 (US\$50) and NT\$2,796 (US\$84), 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 (US\$513). Up to September 30, 2005, the Seaward Leasing have paid NT\$17,010 (US\$513).

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(4) Indovina Bank

By the date September 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\$
October 01, 2005 ~ September 30, 2006	\$3,907	\$118
October 01, 2006 ~ September 30, 2010	15,099	455
October 01, 2010 ~	3,146	95
Total	<u>\$22,152</u>	<u>\$668</u>

(5) Lucky Bank

As of September 30, 2005, Lucy Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	NT\$	US\$
A. Entrusted items and guarantees:		
Travelers checks for sale	\$33,878	\$1,021
Bills for collection	6,500,032	195,902
Guarantees and commercial letters of credit	559,880	16,874

B. As of September 30, 2005, Lucky Bank had various lawsuits, claims and proceedings. The significant one is summarized below:

In 2003, an employee of Lucky Bank was sued by a third party for a dispute on a land transaction. The case is being tried by the Taichung District Court (the Court). Based on the assessment of the legal counselor of Lucky Bank, Lucky Bank may incur a loss of NT\$22,000 (US\$663) plus interest if an unfavorable determination is made by the Court. However, Lucky Bank may seek reimbursement from the employee or other related persons. Lucky Bank did not accrue the loss as there remains uncertainty with respects to the outcome of the case.

C. According to the effective operating leases agreement, which is already signed, rentals for the next five years are as follows:

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<u>Periods</u>	<u>NT\$</u>	<u>US\$</u>
October 1, 2005~September 30, 2006	\$19,669	\$593
October 1, 2006~September 30, 2007	8,224	248
October 1, 2007~September 30, 2008	7,500	226
October 1, 2008~September 30, 2009	4,560	137
October 1, 2009~September 30, 2010	425	13
Total	<u>\$40,378</u>	<u>\$1,217</u>

23. Serious damages: None.

24. Subsequent events:

Cathay United Bank's issued 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005. The bond has listed at the Luxemburg Stock Exchange. Cathay United Bank can recall the bond after 10 years by exercising the call option.

25. Other important events

(1) Pension related information

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

(2) Derivative financial instruments related information

A. The Company

a. Purpose

As of September 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.

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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.

(b) As of September 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 September 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.

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

(c) As of September 30, 2005:

Counterpart	Effective	Period	Contract amount	Contract value	Fair value
Goldman Sachs International	2005.3.3	2005.3.7-2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>	<u>USD 451,079</u>

f. Foreign currency options

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

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

As of September 30, 2005:

Counterpart	Effective	Period	Contract amount	Contract value	Fair value
Goldman Sachs International	2005.3.3	2005.3.7-2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>	<u>USD 514,500</u>

B. Cathay Life

a. Purpose

As of September 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.

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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

September 30, 2004						
Item	Transaction type	Lot	Contract amount		Net gain/loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas stock futures	Selling out	3,086	\$7,812,121	\$229,836	\$98,019	\$2,884
Overseas bonds futures	Selling out	6,550	24,618,584	724,289	(135,787)	\$(3,995)
September 30, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	1,819	\$2,170,814	\$65,425	\$(46,547)	\$(1,403)

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(b) Forward and CCS contracts

- Ⓐ 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.
- Ⓑ As of September 30, 2004 and 2005, Cathay Life had forward foreign exchange contracts of approximately US\$13,780,800 and US\$13,395,300, respectively, in notional value.

The forward foreign exchange contracts as of September 30, 2004, were due between October 1, 2004 and October 25, 2005. In addition, the forward exchange contracts as of September 30, 2005, were due between October 3, 2005 and June 22, 2006.

Item	Contract amount	September 30, 2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD14,830,800	\$503,479,509	\$14,812,577	\$500,548,772	\$14,726,354

Item	Contract amount	September 30, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD15,560,300	\$511,889,492	\$15,427,652	\$496,235,930	\$14,955,875

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

Net assets	September 30,	
	2004	2005
Short-term and long-term investment	USD14,830,800	USD15,560,300

Losses on the forward foreign exchange and currency swap contracts were NT\$1,150,870 (US\$33,859) and NT\$1,336,143 (US\$40,270), for the nine-month periods ended September 30, 2004 and 2005.

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(c) Interest rate swap agreement (IRS)

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

Category	Currency	Period	Amount	
			NT\$	US\$
IRS	NTD	2002.9.13-2015.4.12	\$33,254,212	\$1,002,237

(d) Option

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

September 30, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	33,470	\$9,822,985	\$296,051	\$(39,724)	\$(1,197)

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

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

English Translation of Financial Statements Originally Issued in Chinese

September 30, 2004			
Derivative financial instruments	Contract (nominal) amount	Credit risk	Fair value
For the purpose of customers' hedging needs or hedging Cathay United Bank's exposures			
Forward foreign exchange contracts	\$2,382,810	\$199,961	\$(3,812)
For trading purpose			
Interest rate swap contracts	314,320	4,384	(10)
Options	90,247	1,797	706
Futures contracts	294	-	(1)
For non-trading purposes			
Interest rate swap contracts	952,991	7,858	25,846
Cross-currency swap contracts	577,707	9,935	7,866
Options	370	-	(52)

September 30, 2005			
Derivative financial instruments	Contract (nominal) amount	Credit risk	Fair value
For the purpose of customers' hedging needs or hedging Cathay United Bank's exposures			
Forward foreign exchange contracts	\$2,598,229	\$18,083	\$45,158
For trading purpose			
Interest rate swap contracts	1,384,413	4,095	(145)
Options	229,067	227	61
Futures	10,494	-	10,429
For non-trading purpose			
Interest rate swap contracts	1,522,017	8,352	(7,046)
Cross-currency swap contracts	573,171	6,618	(7,851)

Credit risk is the risk of loss if a 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.

English Translation of Financial Statements Originally Issued in Chinese

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 September 30, 2005, the maturities of Cathay United Bank's (merged) outstanding interest rate swaps contracts ranged from five months to six years and three months. Those interest rate swap contracts represent agreements between two parties to exchange periodic interest payments, usually fixed versus floating, based on a notional principal amount. Some of them are Euro Convertible Bond related asset swaps.

As of September 30, 2005, Cathay United Bank's (merged) outstanding cross-currency swaps contracts had remaining maturities from four months to five years and ten months. 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.

The futures in the domestic market are wholly traded in Taiwan Futures Exchange and the overseas futures deals are mainly transaction at CBOT that is clearing house. Therefore, there is no counterparty default risk.

b. Market risk

Market risk is the potential loss arising from adverse movement of market rates, such as interest rates 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	September 30,	
	2004	2005
Interest rate risk exposures	\$415,986	\$390,756
Foreign exchange risk exposures	363,700	177,770

The overall market risk exposures from Cathay United Bank's (merged) derivative financial instruments is 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.

English Translation of Financial Statements Originally Issued in Chinese

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 nine-month periods ended	
		September 30,	
		2004	2005
<u>For trading purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest income	\$7,342	\$18,531
-Realized	Interest expense	5,465	7,322
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	685	(296)
-Unrealized	"	31	(172)
Options			
-Realized	"	397	(81)
-Unrealized	"	13	(11)
Futures contracts			
-Realized	"	153	272
-Unrealized	"	(1)	65
<u>For non-trading purpose</u>			
Interest rate swap contracts			
-Realized	Interest income	21,074	28,117
-Realized	Interest expense	7,897	14,738
Cross-currency swap contracts			
-Realized	Interest income	8,145	9,337
-Realized	Interest expense	4,343	12,823

English Translation of Financial Statements Originally Issued in Chinese

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

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

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Irrevocable loan commitments	\$20,186,154	\$593,885	\$26,114,029	\$787,041
Credit card lines	253,783,202	7,466,408	289,177,948	8,715,429
Guarantees and commercial letters of credit	21,975,056	646,515	18,325,988	552,320

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 failed 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 September 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.

English Translation of Financial Statements Originally Issued in Chinese

Item	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Forward exchange contracts				
receivable	\$2,384,052	\$70,140	\$2,946,545	\$88,805
Discount on forward				
exchange contracts	4,783	141	23,487	708
Payables on forward				
exchange purchased	<u>(2,412,864)</u>	<u>(70,988)</u>	<u>(3,030,064)</u>	<u>(91,322)</u>
Net-other receivable				
(Payable)	<u>\$ (24,029)</u>	<u>\$ (707)</u>	<u>\$ (60,032)</u>	<u>\$ (1,809)</u>

- (b) As of September 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 September 30, 2004 were due between October 14, 2004 and May 26, 2005. In addition, the forward contracts as of September 30, 2005 were due between October 12, 2005 and August 31, 2006.

		September 30, 2004			
		Fair value		Due value	
Item	Contract amount	NT\$	US\$	NT\$	US\$
Forward	<u>USD71,000</u>	<u>\$2,412,864</u>	<u>\$70,988</u>	<u>\$2,384,052</u>	<u>\$70,140</u>

		September 30, 2005			
		Fair value		Due value	
Item	Contract amount	NT\$	US\$	NT\$	US\$
Forward	<u>USD91,300</u>	<u>\$3,030,064</u>	<u>\$91,322</u>	<u>\$2,946,545</u>	<u>\$88,805</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\$88 (US\$3) offsets before September 30, 2005, as futures trading loss.
- (b) The Company recognizes NT\$58 (US\$2) offsets before September 30, 2004, as futures trading loss.

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

E. Cathay Securities

a. Structured notes transactions

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

<u>Financial instruments</u>	<u>September 30, 2004</u>		<u>September 30, 2005</u>	
	Nominal principal		Nominal principal	
	<u>/contract amount</u>	<u>Credit risk</u>	<u>/contract amount</u>	<u>Credit risk</u>
<u>For trading purposes</u>				
Equity-linked notes	NT\$-	\$-	NT\$48,200	\$-
	(US\$-)		(US\$1,453)	

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.

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(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.

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

Balance sheet	September 30, 2005			
	Derivative financial instrument assets – GreTai (over-the-counter)		Derivative financial instrument liabilities – GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Equity-linked notes	\$5,505	\$166	\$51,105	\$1,540

Statement of income	For the nine-month period ended September 30, 2005		
	Revenue from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT\$	US\$	NT\$/US\$
Principal guaranteed notes	\$3,911	\$118	Market value method
Equity-linked notes	1,917	58	Market value method
Total	\$5,828	\$176	

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b. Futures and options transactions

As of September 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	375	\$144	\$4	\$100	\$3
Options	TXO-Put	Sell	372	\$170	\$5	\$77	\$2
Options	TXO-Call	Buy	3	\$20	\$1	\$20	\$1
Options	TXO-Put	Buy	3	\$18	\$1	\$5	\$-
Futures	TAIEX futures	Buy	5	\$6,102	\$184	\$6,095	\$184

(a) Nominal principal or contract amount and credit risk

Financial instruments	September 30, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$352(US\$11)	\$-
TAIEX futures	NT\$6,102(US\$184)	\$-

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

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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.

(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 September 30, 2005, the account had NT\$31,100 (US\$937). For the nine-month period ended September 30, 2005, the related gain/loss of futures and options on the statement of income is as follows:

	For the nine-month period ended September 30, 2005	
	NT\$	US\$
Futures		
Gain on futures contracts	\$345	\$10
(Includes unrealized gain on futures contracts of NT\$7 (US\$-))		
Options		
Loss from options transactions	\$279	\$8
(Includes unrealized gains from options transactions of NT\$124 (US\$3))		

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 September 30, 2004 and 2005, Cathy Futures has the non-offset position contract of the above goods transaction as follows:

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(a) Futures

September 30, 2004								
			Contract amount			Net gain/loss of fair value estimated		
Item	Transaction type	Lot	(NT\$)	(US\$)	(JPY)	(NT\$)	(US\$)	(JPY)
TF	Buy in	1	\$927	\$-	\$-	\$18	\$-	\$-
TE	Buy in	2	1,778	-	-	(31)	-	-
TX	Buy in	1	1,179	-	-	(5)	-	-
TX	Selling out	10	11,738	-	-	(40)	-	-
ES	Selling out	3	-	169	-	-	1	-
NQ	Buy in	2	-	57	-	-	(1)	-
STW	Buy in	13	-	315	-	-	4	-
C	Buy in	3	-	34	-	-	(3)	-
TY	Selling out	4	-	447	-	-	(2)	-
YM	Buy in	1	-	50	-	-	-	-
EC	Selling out	1	-	153	-	-	(3)	-
FC	Selling out	1	-	57	-	-	1	-
JY	Buy in	1	-	113	-	-	1	-
SSI	Buy in	4	-	-	21,895	-	-	(145)

September 30, 2005								
			Contract amount			Net gain/loss of fair value estimated		
Item	Transaction type	Lot	(NT\$)	(US\$)	(JPY)	(NT\$)	(US\$)	(JPY)
TF	Buy in	7	\$6,307	\$-	\$-	\$75	\$-	\$-
TE	Buy in	28	28,263	-	-	409	-	-
TX	Selling out	4	4,886	-	-	10	-	-
ES	Selling out	2	-	123	-	-	(1)	-
NQ	Selling out	1	-	32	-	-	-	-
STW	Selling out	45	-	1,138	-	-	(11)	-
JRB	Buy in	2	-	-	1,142	-	-	13

(b) Option

No option transactions were outstanding on September 30, 2004.

English Translation of Financial Statements Originally Issued in Chinese

September 30, 2005

Item	Transaction type	Lot	Contract amount		Net gain of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TXO	Buy in	1,180	2,415	73	73	2
TXO	Selling in	1,012	2,421	73	162	5

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 oversea futures exchange and company policy to ensure the guarantee deposit is sufficient to avoid the risk.

(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.

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c. For the nine-month periods ended September 30, 2004 and 2005, the balance of excess deposit with NT\$51,529 (US\$1,516) and NT\$68,154 (US\$2,054) which is recognized “deposit of futures transaction – Operation Assets” in the Cathy Futures. For the nine-month periods ended September 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:

	September 30, 2004		September 30, 2005	
	NT\$	US\$	NT\$	US\$
Gain on futures contracts – realized	\$75,015	\$2,207	\$23,073	\$695
Gain on option contracts – realized	41,097	1,209	34,200	1,031
Loss on futures contracts – realized	(60,990)	(1,794)	(20,338)	(613)
Loss on option contracts – realized	(28,362)	(835)	(29,439)	(887)
Net income	\$26,760	\$787	\$7,496	\$226

(3) Non-derivative financial instruments related information

A. The Company

	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$353,349	\$353,749	\$10,396	\$10,396
Other receivable	4,674,496	4,674,496	137,526	137,526
Long-term investments in stocks	174,692,729	174,692,729	5,139,533	5,139,533
Deferred charges	108,980	108,980	3,206	3,206
Liabilities				
Other payable	759,343	759,343	22,340	22,340
Bonds payable	25,777,355	25,777,355	758,381	758,381
September 30, 2005				
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$14,142,446	\$14,142,446	\$426,234	\$426,234
Other receivable	2,162,489	2,162,489	65,174	65,174
Long-term investment in stocks	193,693,727	193,693,727	5,837,665	5,837,665
Guarantee deposits paid	2,654,400	2,654,400	80,000	80,000
Deferred charges	132	132	4	4

English Translation of Financial Statements Originally Issued in Chinese

Liabilities				
Shore-term debts	3,600,000	3,600,000	108,499	108,499
Other payable	2,668,066	2,668,066	80,412	80,412
Bonds payable	13,426,490	13,426,490	404,656	404,656

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.

B. Cathay Life

Item	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$186,674,254	\$186,674,254	\$5,492,034	\$5,492,034
Receivables	12,960,369	12,960,369	381,300	381,300
Short-term investments	366,133,359	372,592,573	10,771,796	10,961,829
Long-term investments in stocks	12,312,719	12,312,719	362,245	362,245
Guarantee deposits paid	4,264,723	4,264,723	125,470	125,470
Securities serving as deposits paid-bonds	7,936,557	7,936,557	233,497	233,497
Liabilities				
Payables	74,301	74,301	2,186	2,186
Guarantee deposits received	1,446,017	1,446,017	42,542	42,542

English Translation of Financial Statements Originally Issued in Chinese

Item	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$248,296,689	\$248,296,689	\$7,483,324	\$7,483,324
Receivables	11,964,432	11,964,432	360,592	360,592
Short-term investments	326,140,488	337,163,115	9,829,430	10,161,637
Long-term investments in stocks	23,837,167	23,837,167	718,419	718,419
Guarantee deposits paid	1,997,812	1,997,812	60,211	60,211
Securities serving as deposits paid-bonds	8,061,479	8,061,479	242,962	242,962
<u>Liabilities</u>				
Payables	342,007	342,007	10,307	10,307
Guarantee deposits revived	1,610,004	1,610,004	48,523	48,523

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

- a. The fair value of Cathay Life's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.
- b. The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- c. The fair value of Cathay Life's short-term investments and long-term investments is based on market prices at the reporting date if market prices are available. The fair value of 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 September 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:

English Translation of Financial Statements Originally Issued in Chinese

Financial assets		September 30,							
		2004				2005			
		Carrying value		Fair value		Carrying value		Fair value	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Securities		\$185,864,690	\$5,468,217	\$185,975,328	\$5,471,472	\$193,572,453	\$5,834,010	\$194,330,326	\$5,856,851
purchased									
Long-term		39,702,953	1,168,077	39,729,141	1,168,848	48,533,556	1,462,735	48,538,917	1,462,897
investments									

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 values or other financial sources.

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:

Bills and loans, customers' liabilities under acceptances and guarantees account		September 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Geographic region					
Domestic		\$557,541,494	\$16,403,103	\$603,128,615	\$18,177,475
South East Asia		12,682,716	373,131	10,708,526	322,740
North East Asia		252,133	7,418	28,426	857
North America		8,911,243	262,172	9,660,164	291,144
Others		10,331,077	303,945	15,711,882	473,535
Total		<u>\$589,718,663</u>	<u>\$17,349,769</u>	<u>\$639,237,613</u>	<u>\$19,265,751</u>

English Translation of Financial Statements Originally Issued in Chinese

Industry type				
Manufacturing	\$72,089,905	\$2,120,915	\$75,145,339	\$2,264,778
Financial institutions and insurance	31,623,145	930,366	35,872,369	1,081,144
Leasing and real estate	65,892,910	1,938,597	66,916,303	2,016,766
Individuals	302,959,380	8,913,191	356,220,558	10,736,003
Others	117,153,323	3,446,700	105,083,044	3,167,060
Total	<u>\$589,718,663</u>	<u>\$17,349,769</u>	<u>\$639,237,613</u>	<u>\$19,265,751</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.

D. Cathay Century

	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$3,663,098	\$3,663,098	\$107,770	\$107,770
Short-term investments	1,995,735	2,028,381	58,715	59,676
Receivables	984,452	984,452	28,963	28,963
Claims recoverable from reinsurers	277,624	277,624	8,168	8,168
Due from reinsurers and ceding companies	59,462	59,462	1,749	1,749
Secured loans	823,217	823,217	24,220	24,220
Long-term investment in stocks	319,140	321,216	9,389	9,450
Guarantee deposits paid	16,801	16,801	494	494
Securities serving as deposits paid-bonds	356,594	356,594	10,491	10,491
<u>Liabilities</u>				
Claims outstanding	1,496	1,496	44	44
Due to reinsurers and ceding companies	153,807	153,807	4,525	4,525
Reserve for operations and liabilities	7,055,500	7,055,500	207,576	207,576

English Translation of Financial Statements Originally Issued in Chinese

	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$2,951,595	\$2,951,595	\$88,957	\$88,957
Short-term investments	2,582,177	2,582,177	77,823	77,823
Receivables	1,054,406	1,054,406	31,779	31,779
Claims recoverable from reinsurers	239,265	239,265	7,211	7,211
Due from reinsurers and ceding companies	218,843	218,843	6,596	6,596
Secured loans	1,357,534	1,357,534	40,914	40,914
Long-term investment in stocks	425,024	425,024	12,809	12,809
Guarantee deposits paid	21,924	21,924	661	661
Securities serving as deposits paid-bonds	357,784	357,784	10,783	10,783
<u>Liabilities</u>				
Claims outstanding	466,616	466,616	14,063	14,063
Due to reinsurers and ceding companies	110,781	110,781	3,339	3,339
Reserve for operations and liabilities	7,950,076	7,950,076	239,604	239,604

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

- a. Short-term financial instruments estimate their fair value are stated at carrying amount on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying 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.

English Translation of Financial Statements Originally Issued in Chinese

E. Cathay Securities

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

Assets	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$1,550,942	\$1,550,942	\$46,743	\$46,743
Short-term investments – net	725,027	727,077	21,851	21,913
Investments in bonds with resale agreements	532,067	532,067	16,036	16,036
Operating securities – net	291,332	291,332	8,781	8,781
Receivables – net	164,446	164,446	4,956	4,956
Restricted assets – current	1,300,000	1,300,000	39,180	39,180
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,524	4,524
Settlement and clearance funds	37,435	37,435	1,128	1,128
Guarantee deposits paid	21,560	21,560	650	650

English Translation of Financial Statements Originally Issued in Chinese

Liabilities				
Bonds sold under repurchase agreements	796,707	796,707	24,012	24,012
Payables	39,763	39,763	1,199	1,199

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, securities refinancing margin deposits, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, bonds sold under repurchase agreements securities financing guarantee deposits-in, deposit payable for securities financing and payables.

- b. The fair value of short-term investments, operating securities and long-term investments in stocks are estimated based on market prices or net asset values, if available. If the investment is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.

F. Cathay Futures

Assets	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$149,853	\$149,853	\$4,409	\$4,409
Short-term investments	3,499	3,499	103	103
Customers' margin accounts	844,988	844,988	24,860	24,860
Other receivables (contain transactions with related parties)	6,098	6,098	179	179
Long-term investments	30,500	30,500	897	897
Operating bond	70,000	70,000	2,059	2,059
Settlement and clearance funds	72,000	72,000	2,118	2,118
Refundable deposits	1,363	1,363	40	40

English Translation of Financial Statements Originally Issued in Chinese

Liabilities				
Futures customers' equity	844,255	844,255	24,838	24,838
Payables (contain transactions with related parties)	3,316	3,316	98	98
Receipts under custody	715	715	21	21
Other payable (contain transactions with related parties)	6,543	6,543	192	192
September 30, 2005				
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$142,501	\$142,501	\$4,295	\$4,295
Short-term investments	2,537	2,537	76	76
Customers' margin accounts	733,610	733,610	22,110	22,110
Other receivable (contain transactions with related parties)	1,131	1,131	34	34
Long-term investments	30,500	30,500	919	919
Operating bond	80,000	80,000	2,411	2,411
Settlement and clearance funds	56,000	56,000	1,688	1,688
Refundable deposits	1,817	1,817	55	55
Liabilities				
Futures customers' equity	732,993	732,993	22,091	22,091
Payables (contain transactions with related parties)	1,517	1,517	46	46
Receipts under custody	292	292	9	9
Other payable (contain transactions with related parties)	4,861	4,861	147	147

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.

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- b. The fair value of long-term equity investments and short-term investments is valued at market prices or other financial information when available.

G. Lucky Bank

- a. Fair value of non-derivative financial instruments

As of September 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	September 30,								
	2004				2005				
	Carrying value		Fair value		Carrying value		Fair value		
	NT	US	NT	US	NT	US	NT	US	
Securities									
purchased	\$17,798,033	\$523,626	\$17,798,033	\$523,626	\$22,772,065	\$686,319	\$22,772,065	\$686,319	
Long-term									
Investments	496,108	14,596	496,108	14,596	419,988	12,658	419,988	12,658	

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 values or other financial sources.

- b. Others

Information on concentrations of credit risk

Concentrations of credit risk exist when the counterparty to financial instrument transactions are either concentrated in certain individuals or group of individuals or engaged in business activities in the same industry, which would impair their ability to meet contractual obligations under negative economic or other conditions. Lucky Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, Lucky Bank is likely to be exposed to industry concentration risk. Lucky Bank's information on concentration of credit risk is as follows:

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Item	September 30,			
	2004		2005	
	NT	US	NT	US
Industry type				
Government institution	\$11,750,532	\$345,706	\$8,910,346	\$268,545
Leasing and real estate	1,868,675	54,977	2,857,586	86,124
Manufacturing	3,361,611	98,900	4,125,230	124,329
Individuals	38,545,386	1,134,021	37,259,283	1,122,944
Others	7,540,451	221,843	6,960,494	209,780
Total	<u>\$63,066,655</u>	<u>\$1,855,447</u>	<u>\$60,112,939</u>	<u>\$1,811,722</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.

(4) Discretionary account management

Item	September 30, 2004			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,124,144	\$62,493	\$2,140,945	\$62,987
Repurchase bonds	2,253,090	66,287	2,253,613	66,302
Convertible bonds	737,656	21,702	713,528	20,992
Bonds	5,375,992	158,164	5,381,432	158,324
Cash in banks	496,103	14,595	496,103	14,596
Net other assets less liabilities	(13,711)	(403)	(13,711)	(403)
Total	<u>\$10,973,274</u>	<u>\$322,838</u>	<u>\$10,971,910</u>	<u>\$322,798</u>

Item	September 30, 2005			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,118,959	\$94,001	\$3,299,204	\$99,433
Repurchase bonds	3,977,017	119,862	3,977,937	119,890
Convertible bonds	33,867	1,021	34,776	1,048
Short-term notes	8,054	243	8,054	243
Bonds	4,893,829	147,493	4,907,530	147,906
Cash in banks	171,678	5,174	171,710	5,175
Net other assets less liabilities	(2,265)	(68)	(2,265)	(68)
Total	<u>\$12,201,139</u>	<u>\$367,726</u>	<u>\$12,396,946</u>	<u>\$373,627</u>

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As of September 30, 2004 and 2005, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$10,200,000 (US\$300,088), and NT\$11,050,000 (US\$333,032), 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 US1,000 dollars or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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 US1,000 dollars or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium, 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 September 30, 2005, the Company has converted US\$336,303 convertible notes at conversion price of NT54.15 dollars (US1.63 dollars) or NT51.94 dollars (US1.57 dollars) per share, into 207,510 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$9,067,913 (US\$273,295), which are recognized as capital surplus. As of September 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) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the nine-month period ended September 30, 2004 have been reclassified in order to be comparable with those in the consolidated financial statements for the nine-month period ended September 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's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30, 2005, Cathay Life's remittances to this new company totaled approximately US\$48,330.

27. Segment information: None.

English Translation of Financial Statements Originally Issued in Chinese

(2) Concise income statement :

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)
	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2005
	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS
Operating revenues	\$378,348,650	\$384,642,432	\$30,613,857	\$35,968,630	\$11,108,419	\$13,597,344	\$20,917	\$296,789	\$1,707,945	\$1,589,057	\$349,656	\$415,919	\$283,555
Operating costs & expenses	(364,383,954)	(371,644,715)	(17,041,212)	(23,077,020)	(10,361,500)	(13,004,279)	(46,128)	(216,901)	(1,325,762)	(1,340,160)	(234,984)	(262,152)	(380,584)
Operating income	13,964,696	12,997,717	13,572,645	12,891,610	746,919	593,065	(25,211)	79,888	382,183	248,897	114,672	153,767	(97,029)
Non-operating revenues	1,536,591	3,918,793	1,270,796	52,270	28,411	10,525	8,697	27,901	2,678	22,587	3,294	9,767	-
Non-operating expenses	(1,648,432)	(289,264)	(115,008)	(394,294)	(17,576)	(42,298)	(107)	(2,229)	(3,349)	(364,034)	(8,526)	(25,151)	(14,663)
Operating income before taxes	13,852,855	16,627,246	14,728,433	12,549,586	757,754	561,292	(16,621)	105,560	381,512	(92,550)	109,440	138,383	(111,692)
Net income	14,047,478	17,606,428	11,637,433	9,630,586	598,174	426,299	(14,049)	73,172	443,354	(110,522)	87,400	110,304	(111,692)
Earning per share before taxes (in dollars)	\$2.74	\$3.28	\$3.17	\$2.70	\$3.27	\$2.42	\$(0.05)	\$0.30	\$1.21	\$(0.29)	\$-	\$-	\$-
Earning per share (in dollars)	\$2.78	\$3.47	\$2.51	\$2.07	\$2.58	\$1.84	\$(0.04)	\$0.20	\$1.41	\$(0.35)	\$-	\$-	\$-

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)
	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2004	For the nine-month period ended Sep. 30, 2005	For the nine-month period ended Sep. 30, 2005
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Operating revenues	\$11,131,175	\$11,592,599	\$900,673	\$1,084,046	\$326,813	\$409,805	\$615	\$8,944	\$50,248	\$47,892	\$10,287	\$12,825	\$8,547
Operating costs & expenses	(10,720,328)	(11,200,865)	(501,360)	(695,510)	(304,838)	(391,931)	(1,357)	(6,537)	(39,004)	(40,391)	(6,913)	(8,084)	(11,472)
Operating income	410,847	391,734	399,313	388,536	21,975	17,874	(742)	2,407	11,244	7,501	3,374	4,741	(2,925)
Non-operating revenues	45,208	118,107	37,387	1,575	837	317	256	841	79	681	97	301	-
Non-operating expenses	(48,498)	(8,718)	(3,383)	(11,883)	(518)	(1,274)	(3)	(67)	(99)	(10,971)	(251)	(775)	(442)
Operating income before taxes	407,557	501,123	433,317	378,228	22,294	16,917	(489)	3,181	11,224	(2,789)	3,220	4,267	(3,367)
Net income	413,283	530,634	342,378	290,253	17,599	12,848	(413)	2,205	13,044	(3,331)	2,571	3,401	(3,367)
Earning per share before taxes (in dollars)	\$0.08	\$0.10	\$0.09	\$0.10	\$0.08	\$0.07	\$(0.00)	\$0.01	\$0.04	\$(0.01)	\$-	\$-	\$-
Earning per share (in dollars)	\$0.08	\$0.10	\$0.07	\$0.06	\$0.08	\$0.06	\$(0.00)	\$0.01	\$0.04	\$(0.01)	\$-	\$-	\$-