

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

Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC  
Telephone: 886-2-2708-7698

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

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

We have reviewed the accompanying balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") as of September 30, 2004 and 2005 and the related statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These 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 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 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 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.**

**Unaudited balance sheets**

**September 30, 2004 and 2005**

**(Expressed in thousands of dollars)**

Assets	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
<b>Current assets</b>					
Cash and cash equivalents	2,4	\$353,349	\$10,396	\$14,142,446	\$426,234
Tax refund receivable		611,178	17,981	589,326	17,762
Interest receivable		32,323	951	46,618	1,405
Other receivable		4,674,496	137,526	2,162,489	65,174
Deferred income tax assets-current	2,13	3,958	116	118,154	3,561
Subtotal		5,675,304	166,970	17,059,033	514,136
<b>Long-term investments</b>					
Long-term investments in stocks	2,5				
Long-term investments under equity method		174,707,574	5,139,970	193,606,485	5,835,036
Long-term investments under cost method		100,000	2,942	100,000	3,014
Allowance for valuation loss on long-term investments in stocks		(114,845)	(3,379)	(12,758)	(385)
Subtotal		174,692,729	5,139,533	193,693,727	5,837,665
<b>Property and equipment</b>					
Transportation and communication equipment	2	3,199	94	700	21
Other equipment		3,343	98	4,787	144
Subtotal		6,542	192	5,487	165
Less: Accumulated depreciation		(1,974)	(58)	(2,107)	(63)
Net		4,568	134	3,380	102
<b>Other assets</b>					
Refundable deposits		-	-	2,654,400	80,000
Temporary payments and suspense accounts		-	-	100	3
Deferred income tax assets -noncurrent	2,13	325,947	9,590	193,978	5,846
Deferred charges	2	108,980	3,206	132	4
Subtotal		434,927	12,796	2,848,610	85,853
<b>Total assets</b>		<b>\$180,807,528</b>	<b>\$5,319,433</b>	<b>\$213,604,750</b>	<b>\$6,437,756</b>
<b>Liabilities &amp; stockholders' equity</b>					
<b>Current liabilities</b>					
Short-term debts	6	\$-	\$-	\$3,600,000	\$108,499
Collections for others		886	26	1,035	31
Accrued expenses		27,701	815	77,054	2,322
Income taxes payable		-	-	487,273	14,686
Dividends payable		3,976	117	5,279	159
Other payable		759,343	22,340	2,668,066	80,412
Subtotal		791,906	23,298	6,838,707	206,109
<b>Long-term liabilities</b>					
Bonds payable	2,7,20	25,777,355	758,381	13,426,490	404,656
Accrued pension liabilities		3,691	108	12,919	390
Subtotal		25,781,046	758,489	13,439,409	405,046
<b>Other liabilities</b>					
Temporary receipts and suspense accounts		727	22	1,026	31
Subtotal		727	22	1,026	31
<b>Total liabilities</b>		<b>26,573,679</b>	<b>781,809</b>	<b>20,279,142</b>	<b>611,186</b>
<b>Stockholders' equity</b>					
Capital stock					
Common stock	8	83,074,891	2,444,098	85,242,234	2,569,085
Capital surplus	9				
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	10				
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	2,11	(11,981,151)	(352,490)	-	-
<b>Total stockholders' equity</b>		<b>154,233,849</b>	<b>4,537,624</b>	<b>193,325,608</b>	<b>5,826,570</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$180,807,528</b>	<b>\$5,319,433</b>	<b>\$213,604,750</b>	<b>\$6,437,756</b>

(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 financial statements.**

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

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

**Unaudited 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 \$
<b>Operating revenues</b>	2				
Interest income		\$178,489	\$5,251	\$662,969	\$19,981
Income from long-term equity investments	2,5	25,885,831	761,572	27,671,763	833,989
Other operating income		71,070	2,091	-	-
Subtotal		26,135,390	768,914	28,334,732	853,970
<b>Operating costs</b>	2				
Interest expenses		(643,235)	(18,924)	(871,942)	(26,279)
Provision for securities trading losses reserve		(41,783)	(1,229)	-	-
Subtotal		(685,018)	(20,153)	(871,942)	(26,279)
<b>Operating gross profit</b>		25,450,372	748,761	27,462,790	827,691
<b>Operating expenses</b>					
Administrative and general expenses		(291,146)	(8,566)	(270,641)	(8,157)
<b>Operating income</b>		25,159,226	740,195	27,192,149	819,534
<b>Non-operating revenues</b>					
Gain on foreign exchange		-	-	299,835	9,037
Miscellaneous income		121,497	3,574	8,710	262
Subtotal		121,497	3,574	308,545	9,299
<b>Non-operating expenses</b>					
Loss on foreign exchange		(17,810)	(524)	-	-
Loss on disposal of property and equipment		-	-	(473)	(14)
Subtotal		(17,810)	(524)	(473)	(14)
<b>Income from continuing operations before income taxes</b>		25,262,913	743,245	27,500,221	828,819
<b>Income taxes benefit (expense)</b>	2,13	157,217	4,626	(213,670)	(6,440)
<b>Net income</b>		\$25,420,130	\$747,871	\$27,286,551	\$822,379
<b>Earnings per share(expressed in dollars)</b>	14				
Primary earnings per share:					
Income from continuing operations before income taxes		\$3.15	\$0.09	\$3.26	\$0.10
Net income		\$3.17	\$0.09	\$3.23	\$0.10
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		\$3.06	\$0.09	\$3.19	\$0.10
Net income		\$3.06	\$0.09	\$3.16	\$0.10
<b>Pro-forma information as if subsidiaries' investment in the Company were not treated as treasury stock:</b>					
Income from continuing operations before income taxes		\$25,395,191	\$747,137	\$27,497,262	\$828,730
Net income		\$25,552,408	\$751,763	\$27,283,592	\$822,290
<b>Earnings per share(expressed in dollars)</b>					
Primary earnings per share:					
Income from continuing operations before income taxes		\$3.16	\$0.09	\$3.26	\$0.10
Net income		\$3.18	\$0.09	\$3.23	\$0.10
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		\$3.07	\$0.09	\$3.19	\$0.10
Net income		\$3.07	\$0.09	\$3.15	\$0.09

(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 financial statements.**

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd.**  
**Unaudited 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									
	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		Total	
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
<b>Balance on January 1, 2004</b>	\$83,074,891	\$2,444,098	\$53,651,046	\$1,578,436	\$1,335,046	\$39,278	\$1,833,255	\$53,935	\$16,916,694	\$497,696	\$(136,202)	\$(4,007)	\$176,537	\$5,194	\$(1,971)	\$(58)	\$(15,039,516)	\$(442,469)	\$141,809,780	\$4,172,103
Appropriations and distributions for 2003																				
Legal reserve					1,691,669	49,769			(1,691,669)	(49,769)										
Special reserve							(1,710,602)	(50,326)	1,710,602	50,326										
Cash dividends									(16,105,155)	(473,820)									(16,105,155)	(473,820)
Remuneration paid to directors and supervisors									(5,700)	(168)									(5,700)	(168)
Bonus paid to employees									(1,611)	(48)									(1,611)	(48)
Cash dividends to subsidiaries			22,194	653															22,194	653
Capital surplus			10,124	298															10,124	298
Cumulative conversion adjustments													(672)	(20)					(672)	(20)
Gains on unrealized value recoveries of long-term equity investments											21,357	628							21,357	628
Treasury stock			14,356	422					(9,319)	(274)							3,058,365	89,979	3,063,402	90,127
Net income for the nine-month period ended September 30, 2004									25,420,130	747,871									25,420,130	747,871
<b>Balance on September 30, 2004</b>	<b>\$83,074,891</b>	<b>\$2,444,098</b>	<b>\$53,697,720</b>	<b>\$1,579,809</b>	<b>\$3,026,715</b>	<b>\$89,047</b>	<b>\$122,653</b>	<b>\$3,609</b>	<b>\$26,233,972</b>	<b>\$771,814</b>	<b>\$(114,845)</b>	<b>\$(3,379)</b>	<b>\$175,865</b>	<b>\$5,174</b>	<b>\$(1,971)</b>	<b>\$(58)</b>	<b>\$(11,981,151)</b>	<b>\$(352,490)</b>	<b>\$154,233,849</b>	<b>\$4,537,624</b>
<b>Balance on January 1, 2005</b>	<b>\$83,167,130</b>	<b>\$2,506,544</b>	<b>\$58,958,697</b>	<b>\$1,776,935</b>	<b>\$3,026,715</b>	<b>\$91,221</b>	<b>\$122,653</b>	<b>\$3,697</b>	<b>\$30,640,997</b>	<b>\$923,478</b>	<b>\$(110,435)</b>	<b>\$(3,329)</b>	<b>\$(96,005)</b>	<b>\$(2,893)</b>	<b>\$(5,560)</b>	<b>\$(168)</b>	<b>\$(354,955)</b>	<b>\$(10,698)</b>	<b>\$175,349,237</b>	<b>\$5,284,787</b>
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)	(638,557)
Remuneration paid to directors and supervisors									(5,700)	(172)									(5,700)	(172)
Bonus paid to employees									(2,119)	(64)									(2,119)	(64)
Cash dividends to subsidiaries			8,749	264															8,749	264
Convertible notes converted into common stock	2,075,104	62,541	9,067,913	273,294															11,143,017	335,835
Capital surplus			1,009	30															1,009	30
Cumulative conversion adjustments													221,412	6,673					221,412	6,673
Gains on unrealized value recoveries of long-term equity investments											97,677	2,944							97,677	2,944
Treasury stock			58,154	1,753													354,955	10,698	413,109	12,451
Net income for the nine-month period ended September 30, 2005									27,286,551	822,379									27,286,551	822,379
<b>Balance on September 30, 2005</b>	<b>\$85,242,234</b>	<b>\$2,569,085</b>	<b>\$68,094,522</b>	<b>\$2,052,276</b>	<b>\$6,009,431</b>	<b>\$181,116</b>	<b>\$226,579</b>	<b>\$6,829</b>	<b>\$33,645,753</b>	<b>\$1,014,037</b>	<b>\$(12,758)</b>	<b>\$(385)</b>	<b>\$125,407</b>	<b>\$3,780</b>	<b>\$(5,560)</b>	<b>\$(168)</b>	<b>\$-</b>	<b>\$-</b>	<b>\$193,325,608</b>	<b>\$5,826,570</b>

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

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

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

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

**Unaudited 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 \$
<b>Cash flows from operating activities</b>				
Net income	\$25,420,130	\$747,871	\$27,286,551	\$822,379
Adjustments:				
Amortizations	109,025	3,208	59,248	1,786
Depreciation	771	23	926	28
Losses on disposal of property and equipment			473	14
Investment income recognized by equity method excess of cash dividends received	(13,915,705)	(409,406)	(9,702,315)	(292,414)
Increase in bonds payable redemption premium	642,264	18,896	463,302	13,963
Effects of exchange rate changes	17,810	524	(687,575)	(20,723)
Decrease in short-term investments	2,147,421	63,178	-	-
Increase in tax refund receivable	(611,178)	(17,981)	-	-
Decrease (increase) in interest receivable	10,419	306	(46,325)	(1,396)
Increase in other accounts receivable	(167,852)	(4,938)	(1,577,894)	(47,556)
Decrease in deferred income tax assets-current	17,879	526	31,543	951
Increase in deferred income tax assets-noncurrent	(154,125)	(4,534)	(193,978)	(5,846)
Decrease (Increase) in temporary payments and suspense accounts	167	5	(98)	(3)
(Decrease) increase in collections for others	(10)	-	275	8
(Decrease) increase in accrued expenses	(8,927)	(263)	23,508	709
(Decrease) increase in income taxes payable	(5,600)	(165)	341,558	10,294
Increase in dividends payable	2,499	73	2,963	89
Increase in other accounts payable	759,343	22,340	1,680,166	50,638
Increase accrued pension liabilities	115	3	4,882	147
Increase in temporary receipts and suspense accounts	33	1	318	10
Decrease in deferred income tax liabilities-noncurrent	-	-	(49,794)	(1,501)
<b>Net cash provided by operating activities</b>	<b>14,264,479</b>	<b>419,667</b>	<b>17,637,734</b>	<b>531,577</b>
<b>Cash flows from investing activities</b>				
Acquisition of long-term investments in stocks	(4,116,560)	(121,111)	(4,744,726)	(143,000)
Disposal of property and equipment	-	-	950	29
Acquisition of property and equipment	(669)	(19)	(907)	(27)
Decrease in deferred charges	13,577	399	7,246	218
Increase in refundable deposits	-	-	(2,654,400)	(80,000)
<b>Net cash used in investing activities</b>	<b>(4,103,652)</b>	<b>(120,731)</b>	<b>(7,391,837)</b>	<b>(222,780)</b>
<b>Cash flows from financing activities</b>				
Increase in short-term debts	-	-	3,600,000	108,499
Increase in bonds payable	-	-	331,644	9,995
Remuneration paid to directors and supervisors	(5,700)	(168)	(5,700)	(172)
Bonus paid to employees	(1,611)	(47)	(2,119)	(64)
Cash dividends	(16,105,155)	(473,820)	(21,187,334)	(638,557)
<b>Net cash used in financing activities</b>	<b>(16,112,466)</b>	<b>(474,035)</b>	<b>(17,263,509)</b>	<b>(520,299)</b>
<b>Effects of exchange rate changes</b>	<b>(17,810)</b>	<b>(524)</b>	<b>687,575</b>	<b>20,723</b>
<b>Decrease in cash and cash equivalents</b>	<b>(5,969,449)</b>	<b>(175,623)</b>	<b>(6,330,037)</b>	<b>(190,779)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>6,322,798</b>	<b>186,019</b>	<b>20,472,483</b>	<b>617,013</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$353,349</b>	<b>\$10,396</b>	<b>\$14,142,446</b>	<b>\$426,234</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$971	\$29	\$363,249	\$10,948
Interest paid (excluding capitalized interest)	\$971	\$29	\$363,249	\$10,948
Income tax paid	\$3,727	\$110	\$21,401	\$645
<b>Investing and financing activities with no cash flow effects</b>				
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 financial statements.**

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

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

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

**1. Organization and business scope**

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 Depositary 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 statement 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:



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

### *(1) Distinguish assets and liabilities, current and non-current*

Current assets are assets that 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, which do not belong to current liabilities, are called non-current liabilities.

### *(2) 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.

### *(3) Long - term investments*

#### A. Long-term investments in stocks

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

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

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

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.

The cost of the disposal of an investment is determined by the weighted-average method.

### **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.

#### *(4) Property and equipment*

Property and equipment are stated at cost or cost plus appreciation. 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 the 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 "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the ROC. 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.

*(5) 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.

*(6) 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).

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### *(7) 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.

### *(8) 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 investment in foreign currency is accounted for as cumulative translation adjustments and is 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.

### *(9) Derivative financial instruments*

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

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.

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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.

### *(10) 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.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date when the stockholders resolve the appropriation of earnings.

*(11) 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.

*(12) Treasury stock*

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

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

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

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

### *(13) 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.

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

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

### *(15) Convenience conversion 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.

### **3. Accounting changes: None**

### **4. Cash and cash equivalents**

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Petty cash	\$60	\$2	\$60	\$2
Cash in banks	5,520	162	7,046,287	212,365
Time deposits	144,234	4,244	7,093,108	213,777
Cash equivalents	203,535	5,988	2,991	90
Total	<u>\$353,349</u>	<u>\$10,396</u>	<u>\$14,142,446</u>	<u>\$426,234</u>



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

Name of investee	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Under the equity method:				
Cathay Life	\$89,068,742	\$2,620,440	\$97,281,334	\$2,931,927
Cathay United Bank (merged)	77,845,327	2,290,242	83,752,348	2,524,182
Cathay Century	2,926,203	86,090	3,030,663	91,340
Cathay Securities	3,485,951	102,558	4,031,605	121,507
Cathay Pacific Venture Capital Co., Ltd.	586,017	17,241	558,053	16,819
Cathay Venture Capital Co., Ltd.	75,173	2,212	228,045	6,873
Cathay II Venture Capital Co., Ltd.	594,419	17,488	595,274	17,941
Cathay Capital Management Inc.	10,897	320	34,853	1,050
Lucky Bank	-	-	4,081,552	123,012
Subtotal	<u>174,592,729</u>	<u>5,136,591</u>	<u>193,593,727</u>	<u>5,834,651</u>
Under the cost method:				
Debt Instrument Depository and Clearing Co., Ltd. Taiwan	100,000	2,942	100,000	3,014
Total	<u>\$174,692,729</u>	<u>\$5,139,533</u>	<u>\$93,693,727</u>	<u>\$5,837,665</u>

(1) Changes in long-term investments under the equity method are summarized as follows:

	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Balance on January 1	\$157,950,702	\$4,646,976	\$178,404,731	\$5,376,875
Add: Investment gains under equity method recognized	25,885,831	761,572	27,671,763	833,989
Add: Increment of investment	4,116,560	121,111	4,744,726	143,000
Add: Cash dividends to subsidiaries	22,194	653	8,749	264
Add: Capital surplus under equity method recognized	10,124	298	1,009	30
(Less) add :Cumulative conversion adjustments under equity method recognized	(672)	(20)	221,412	6,673
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	3,063,402	90,126	413,109	12,451
Add: Gains on unrealized value recoveries of long-term equity investments under equity method recognized	21,357	628	97,677	2,944
Less: Cash dividends received	(16,476,769)	(484,753)	(17,969,449)	(541,575)
Balance on September 30	<u>\$174,592,729</u>	<u>\$5,136,591</u>	<u>\$193,593,727</u>	<u>\$5,834,651</u>

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(2) The investment gains (losses) account for by the equity method for the nine-month periods ended September 30, 2004 and 2005 are listed below:

Name of Investee	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$13,814,723	\$406,435	\$17,530,740	\$528,353
Cathay United Bank (merged)	11,548,860	339,772	9,609,672	289,622
Cathay Century	546,582	16,080	443,591	13,369
Cathay Securities	(14,049)	(413)	73,172	2,205
Cathay Pacific Venture Capital Co., Ltd.	(6,862)	(202)	(26,453)	(797)
Cathay Venture Capital Co., Ltd.	1,421	42	8,425	254
Cathay II Venture Capital Co., Ltd.	(5,581)	(164)	9,328	281
Cathay Capital Management Inc.	737	22	30,908	932
Lucky Bank	-	-	(7,620)	(230)
Total	<u>\$25,885,831</u>	<u>\$761,572</u>	<u>\$27,671,763</u>	<u>\$833,989</u>

- A. Except that of the Cathay Venture Capital Co., Ltd., Cathay II Venture Capital Co., Ltd., Cathay Capital Management Inc. which were based on the unreviewed financial statements for the nine-month period ended September 30, 2004. The investment gains/losses for the nine-month period ended September 30, 2005 of the subsidiaries were based on the investees' reviewed financial statements.
- B. Combined with the voting rights of its subsidiaries, the Company had significant influence on Cathay Venture Capital Co., Ltd. Thus the investment gains of Cathay Venture Capital Co., Ltd. for the nine-month period ended September 30, 2004 was recognized upon equity method based on the unreviewed financial statements in the same period. The investment gains of Cathay Venture Capital Co., Ltd. for the nine-month period ended September 30, 2005 was recognized upon equity method based on the reviewed financial statements in the same period.
- C. We did not review the financial statements of Cathay Pacific Venture Capital Co., Ltd. for the nine-month periods ended September 30, 2004 and 2005. Cathay Pacific Venture Capital Co., Ltd. was reviewed by other auditors with unqualified review report. In accordance with other auditors' report of its investee, it recognized its losses on investments in accordance with the statements reviewed by other auditors.

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- (3) 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 statement. 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 Cathay Pacific Venture Capital Co., Ltd., Cathay II Venture Capital Co., Ltd., Cathay Capital Management Inc. because its total assets and operating revenues were less than 10% of the total assets and operating revenues of the Company.
- (4) As of and for the nine-month period ended September 30, 2005, the consolidated financial statements include the Company, Cathay Life, Cathay United Bank (merged), Cathay Century, Cathay Securities, Cathay Pacific Venture Capital Co., Ltd., Cathay II Venture Capital Co., Ltd., Cathay Venture Capital Co., Ltd., Cathay Life Insurance Ltd. (Shanghai), Lin Yuan Property Management Co., Ltd., Symphox Information Co., Ltd., Cathay Futures Corp., Seaward Leasing Ltd., Lucky Bank and Indovina Bank. The consolidated financial statements of the Company as of and for the nine-month period ended September 30, 2005 excluded Cathay Capital Management Inc., Cathay Bank Life Insurance Agency of Association, Seaward Card Co., Ltd., Cathay Insurance (Bermuda) Co., Ltd., Cathay Securities Investment Co., Ltd., Cathay Pacific Partners Co., Ltd., Cathay Bank Property Agency of Association and China England Co., Ltd. because their total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
- (5) As of September 30, 2004 and 2005 , the Company didn’t provide collateral or guarantee on long-term investments.

### **6. Short-term debts**

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Bank loan	\$-	\$-	\$3,600,000	\$108,499

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### 7. 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	1,984,355	58,381	1,441,973	43,459
Total	\$25,777,355	\$758,381	\$13,426,490	\$404,656

Please see note 20(3), “Zero coupon convertible notes related information” for details.

### 8. 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 (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depositary Shares (GDSs).

### 9. 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.

## **10. Retained earnings**

### **(1) Legal reserve**

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

### **(2) Unappropriated retained earnings**

- A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.
- B. The distribution of the 2003 earnings was approved in the shareholders' meeting on June 3, 2004. The distribution resulted from retained earnings of NT\$20,588,763 (US\$605,730) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$26,109) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,697), respectively. The Company declared cash dividends of NT2 dollars (US0.06 dollars) on each common share and such dividends were paid on July 9, 2004.
- C. On June 3, 2005, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2004. The Company declared cash dividends and cash bonus of NT2.5 dollars (US0.08 dollars) per common share and such dividends were paid on July 11, 2005.

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- 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.

## 11. 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)										
						Per share	Per share	Per share	Per share	
						Book value	Book value	Market value	Market value	
				January 1,	September	Book value	Book value	(in NT	(in US	(in NT
				2005	30, 2005	(NT\$)	(US\$)	dollars)	dollars)	dollars)
Reason for acquisition	Increase	Decrease								
Shares held by										
subsidiaries	6,897	-	6,897	-	\$-	\$-	\$-	\$-	\$-	\$-

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**12. Personnel, depreciation, depletion and amortization expenses**

Item	For the nine-month period ended September 30,2004 (NT\$)			For the nine-month period ended September 30,2005 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$57,631	\$57,631	\$-	\$130,515	\$130,515
Labor & health Insurance expenses	-	2,270	2,270	-	2,810	2,810
Pension expenses	-	2,765	2,765	-	5,501	5,501
Other expenses	-	29,021	29,021	-	1,101	1,101
Depreciation	-	771	771	-	926	926
Depletion	-	-	-	-	-	-
Amortizations	-	109,025	109,025	-	59,248	59,248

Item	For the nine-month period ended September 30,2004 (US\$)			For the nine-month period ended September 30,2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$1,696	\$1,696	\$-	\$3,934	\$3,934
Labor & health Insurance expenses	-	67	67	-	85	85
Pension expenses	-	81	81	-	166	166
Other expenses	-	854	854	-	33	33
Depreciation	-	23	23	-	28	28
Depletion	-	-	-	-	-	-
Amortizations	-	3,208	3,208	-	1,786	1,786

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**13. Estimated income taxes**

(1) Income tax expenses for the nine-month periods ended September 30, 2004 and 2005 are estimated as follows:

	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Income before income taxes	\$25,262,913	\$743,245	\$27,500,221	\$828,819
Adjustments:				
Interest income of tax on a separate basis	(18,637)	(548)	(51,483)	(1,552)
Investment gains recognized by equity method	(25,885,831)	(761,572)	(27,671,763)	(833,989)
Unrealized bonds payable redemption premium	642,264	18,896	471,647	14,215
Realized bonds payable redemption premium	-	-	(8,345)	(251)
Unrealized exchange (gain) loss	(446)	(13)	261,565	7,883
Realized exchange (loss) gain	(19,647)	(578)	1,167,715	35,193
Unrealized loss on market price recovery of short-term investment	(71,071)	(2,091)	-	-
Others	(9,469)	(279)	(7,207)	(217)
Taxable income	(99,924)	(2,940)	1,662,350	50,101
Times: Taxes rate	25%-10	25%	25%-10	25%
Subtotal	(24,991)	(735)	415,578	12,525
Add: Tax on a separate basis	3,727	109	10,296	310
Deferred income tax benefit	(136,246)	(4,008)	(212,229)	(6,396)
Dissimilitude on estimate tax after time	293	8	25	1
Income taxes (benefit) expense	\$(157,217)	\$(4,626)	\$213,670	\$6,440

(2) Deferred income tax liabilities and assets are as follows:

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
A. Total deferred income tax liabilities	\$176,861	\$5,203	\$169,865	\$5,120
B. Total deferred income tax assets	\$506,766	\$14,909	\$481,997	\$14,527



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	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized redemption premium payable of convertible notes	\$1,984,354	\$58,381	\$1,441,973	\$43,459
b. Deductible temporary difference from organization costs amortization into 5 years	36,620	1,077	20,344	613
c. Deductible temporary difference from pension expenses	6,091	179	9,330	281
d. Taxable temporary difference from unrealized gain on foreign exchange	(707,446)	(20,813)	(679,459)	(20,478)
e. Deductible temporary difference from unrealized loss on foreign exchange	-	-	456,342	13,754
Total	<u>\$1,319,619</u>	<u>\$38,824</u>	<u>\$1,248,530</u>	<u>\$37,629</u>
D. Deferred income tax assets-current	\$4,069	\$119	\$118,154	\$3,561
Deferred income tax liabilities-current	(111)	(3)	-	-
Net offset balance of deferred income tax assets (liabilities)-current	<u>\$3,958</u>	<u>\$116</u>	<u>\$118,154</u>	<u>\$3,561</u>
E. Deferred income tax assets-noncurrent	\$502,697	\$14,790	\$363,843	\$10,966
Deferred income tax liabilities- noncurrent	(176,750)	(5,200)	(169,865)	(5,120)
Net offset balance of deferred income tax assets (liabilities)-noncurrent	<u>\$325,947</u>	<u>\$9,590</u>	<u>\$193,978</u>	<u>\$5,846</u>

(3) The tax authorities have examined and cleared income tax returns of the Company through 2001.

(4) Under a Article 49 of the Financial Holding Company Act, a financial holding company and its subsidiaries issued by the financial holding company for 12 months within the same tax year, may choose to adopt the consolidated income tax return.

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(5) Information related tax imputation:

	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Balance of imputation credit account	\$356,633	\$10,492	\$1,102,086	\$33,215
For the nine-month periods ended September 30,				
	2004 (Actual)		2005 (Actual)	
Imputation credit account ratio	19.17%		7.58%	

(6) Information relating of undistributed earnings:

Year	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.

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### 14. Earnings per share

For the nine-month period ended September 30, 2004									
	Amount (Numerator)				Shares	EPS			
					(in thousands	Before income taxes		After income taxes	
					of shares)	EPS (in dollars)		EPS (in dollars)	
	Before income taxes		After income taxes		(denominator)	NT\$	US\$	NT\$	US\$
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Net Income	<u>\$25,262,913</u>	<u>\$743,245</u>	<u>\$25,420,130</u>	<u>\$747,871</u>					
<b>Primary earnings per share</b>									
Net income for common stock holder	\$25,262,913	\$743,245	\$25,420,130	\$747,871	8,027,124	<u>\$3.15</u>	<u>\$0.09</u>	<u>\$3.17</u>	<u>\$0.09</u>
<b>Effect of potentially dilutive common stock</b>									
Convertible notes payable	<u>642,264</u>	<u>18,896</u>	<u>481,698</u>	<u>14,172</u>	<u>447,017</u>				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	<u>\$25,905,177</u>	<u>\$762,141</u>	<u>\$25,901,828</u>	<u>\$762,043</u>	<u>8,474,141</u>	<u>\$3.06</u>	<u>\$0.09</u>	<u>\$3.06</u>	<u>\$0.09</u>

For the nine-month period ended September 30, 2005									
	Amount (Numerator)				Shares	EPS			
					(in thousands	Before income taxes		After income taxes	
					of shares)	EPS (in dollars)		EPS (in dollars)	
	Before income taxes		After income taxes		(denominator)	NT\$	US\$	NT\$	US\$
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Net Income	<u>\$27,500,221</u>	<u>\$828,819</u>	<u>\$27,286,551</u>	<u>\$822,379</u>					
<b>Primary earnings per share</b>									
Net income for common stock holder	\$27,500,221	\$828,819	\$27,286,551	\$822,379	8,441,725	<u>\$3.26</u>	<u>\$0.10</u>	<u>\$3.23</u>	<u>\$0.10</u>
<b>Effect of potentially dilutive common stock</b>									
Convertible notes payable	<u>471,647</u>	<u>14,215</u>	<u>353,736</u>	<u>10,661</u>	<u>318,736</u>				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	<u>\$27,971,868</u>	<u>\$843,034</u>	<u>\$27,640,287</u>	<u>\$833,040</u>	<u>8,760,461</u>	<u>\$3.19</u>	<u>\$0.10</u>	<u>\$3.16</u>	<u>\$0.10</u>

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The changes of the above weighted-average outstanding number of shares are shown below:

(in thousands of shares)	For the nine-month periods end September 30,	
	2004	2005
Shares at the beginning of year	7,989,322	8,309,816
Add: The subsidiaries were sold The Company's stock	37,802	2,660
Convertible notes conversion	-	129,248
Total	<u>8,027,124</u>	<u>8,441,724</u>

The pro forma earnings per shares of Company that the subsidiaries held as short-term investments were not treated as treasury stock:

	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Income before income taxes	<u>\$25,395,191</u>	<u>\$747,137</u>	<u>\$27,497,262</u>	<u>\$828,730</u>
Net income after income taxes	<u>\$25,552,408</u>	<u>\$751,763</u>	<u>\$27,283,592</u>	<u>\$822,290</u>
Before income taxes primary earnings per share (expressed in dollars)	<u>\$3.16</u>	<u>\$0.09</u>	<u>\$3.26</u>	<u>\$0.10</u>
After income taxes primary earnings per share (expressed in dollars)	<u>\$3.18</u>	<u>\$0.09</u>	<u>\$3.23</u>	<u>\$0.10</u>
Before income taxes fully – diluted earnings per share (expressed in dollars)	<u>\$3.07</u>	<u>\$0.09</u>	<u>\$3.19</u>	<u>\$0.10</u>
After income taxes fully – diluted earnings per shares (expressed in dollars)	<u>\$3.07</u>	<u>\$0.09</u>	<u>\$3.15</u>	<u>\$0.09</u>

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**15. Related party transactions**

*(1) Related parties*

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay II Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Capital Management Inc.	Subsidiary of the Company
Lucky Bank	Subsidiary of the Company
Cathay Venture Capital Co., Ltd.	The investee is accounted for using the equity method
Lin Yuan Property Management Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Life Insurance Ltd. (Shanghai)	Subsidiaries' investee is accounted for using the equity method
Symphox Information Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Securities Investment Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Bank Life Insurance Agency of Association (merged with Seaward Insurance Agent Corp. on February 5, 2004, Cathay Bank Life Insurance Agency of Association was the surviving company)	Subsidiaries' investee is accounted for using the equity method
Cathay Futures Corp.	Subsidiaries' investee is accounted for using the equity method
Cathay General Hospital	Their chairman is the Company's chairman
Seaward Leasing Ltd.	Subsidiaries' investee is accounted for using the equity method

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Seaward Card Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Indovina Bank	Subsidiaries' investee is accounted for using the equity method
Cathay Bank Property Agency of Association	Subsidiaries' investee is accounted for using the equity method
China England Co., Ltd.	Investee company of Seaward Leasing Ltd.
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Cathay Real Estate Development Co., Ltd.	Affiliate

*(2) Significant transactions with related parties:*

A. Cash in bank

		As of and for the nine-month period ended September 30, 2004		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$44,234	1.00%	\$5,635
	Cash in bank	5,492	0.10%	511
	Total	<u>\$49,726</u>		

		As of and for the nine-month period ended September 30, 2004		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$1,301	1.00%	\$166
	Cash in bank	162	0.10%	15
	Total	<u>\$1,463</u>		

		As of and for the nine-month period ended September 30, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$6,878,086	3.50%	\$58,914
	Cash in bank	9,029	0.10%	27
	Total	<u>\$6,887,115</u>		

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Name	Item	As of and for the nine-month period ended September 30, 2005		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$207,296	3.50%	\$1,776
	Cash in bank	272	0.10%	1
	Total	\$207,568		

B. Interest receivable

Name	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay United Bank (merged)	\$43	\$1	\$10,810	\$326

C. Other accounts receivable

Name	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$4,500,243	\$132,399	\$-	\$-
Cathay United Bank (merged)	100,582	2,959	2,057,131	61,999
Cathay Century	73,671	2,168	79,058	2,383
Cathay Capital Management Inc.	-	-	5,903	178
Cathay Securities	-	-	19,447	586
Total	\$4,674,496	\$137,526	\$2,161,539	\$65,146

D. Disposal of property and equipment information:

For the nine-month period ended September 30, 2004: None.

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

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E. Other accounts payable

Name	September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$187,737	\$5,523	\$2,086,204	\$62,875
Cathay United Bank (merged)	571,606	16,817	571,606	17,228
Cathay Pacific Venture Corp.	-	-	7,962	240
Cathay II Venture Capital Co., Ltd.	-	-	2,294	69
<b>Total</b>	<b>\$759,343</b>	<b>\$22,340</b>	<b>\$2,668,066</b>	<b>\$80,412</b>

F. Operating expense

Name	For the nine-month periods ended September 30,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$6,528	\$192	\$7,522	\$227
Cathay Century	79	2	60	2
Lin Yuan Property Management Co., Ltd.	269	8	117	3
Symphox Information Co., Ltd.	204	6	356	11
Seaward Leasing Ltd.	-	-	677	20
Seaward Card Co., Ltd.	-	-	335	10
Cathay General Hospital	-	-	56	2
Lucky Bank	-	-	1,900	57
<b>Total</b>	<b>\$7,080</b>	<b>\$208</b>	<b>\$11,023</b>	<b>\$332</b>

**16. Pledged assets: None.**

**17. Other important matters and contingent liabilities: None.**



**18. Serious damages: None.**

**19. Subsequent events: None.**

**20. 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) Financial instruments related information

A. Derivative financial instruments related information:

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.

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.

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### 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>USD700,000</u>	<u>USD700,000</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.

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

(c) As of September 30, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>	<u>Fair value</u>
Goldman Sachs International	2005.3.3	2005.3.7- 2010.3.7	<u>USD500,000</u>	<u>USD500,000</u>	<u>USD451,079</u>

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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	USD500,000	USD500,000	USD514,500

B. Non-derivative financial instruments related information

	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$353,349	\$353,349	\$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
<b>Liabilities</b>				
Other payable	759,343	759,343	22,340	22,340
Bonds payable	25,777,355	25,777,355	758,381	758,381
<b>September 30, 2005</b>				
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
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
Refundable deposits	2,654,400	2,654,400	80,000	80,000
Deferred charges	132	132	4	4

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Liabilities				
Short-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 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.

### (3) 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.

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### Conversion rights:

Subject to certain conditions, each holder of the notes (the “Holder”) has the right during the conversion period to convert its notes (or any portion thereof being US1,000 dollars in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period.

### Repurchase at the option of the holder:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium. The redemption premium is the amount payable at the issue price on the original issue date, plus a compound yield rate of 2.75% per annum (computed on a semi-annual note equivalent basis).

### Repurchase in the event of desisting:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Company’s common shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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Repurchase in the event of change of control:

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

Redemption at the option of the Company:

The notes may be redeemed at the option of the Company, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that (a) the closing price (translated into US dollars at the prevailing rate) of the common shares for a period of 30 consecutive trading days (including trading days that fall within a closed period), the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the exchange rate, as defined in the indenture for the notes) and (b) the applicable redemption date does not fall within a closed period. Notwithstanding the foregoing, the Company may redeem, in whole but not in part, the notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that the applicable redemption date does not fall within a closed period.

Tax redemption:

If, as a result of certain changes relating to the ROC tax laws or such other jurisdiction in which the Company is then organized, the Company becomes obligated to pay certain additional amounts, the notes may be redeemed at the option of the Company, in whole but not in part, at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on such redemption date.

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Redemption amount at maturity:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, the Company will redeem the notes on the maturity date at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Negative pledge:

Subject to certain exceptions, the Company will not, and will procure that none of its principal subsidiaries will, create or permit to subsist any lien to secure for the benefit of the holders of any international investment securities any sum owing in respect thereof or any guarantee or indemnity thereof without making effective provision to secure the notes (a) equally and ratably with such international investment securities with a similar lien or (b) with such other security as shall be approved by Holders of not less than a majority in aggregate principal amount of the outstanding notes.

Further issues:

The Company may create and issue further securities with the same terms and conditions from time to time without the consent of the Holders of the notes so that such further issuance shall be consolidated and form a single series with the notes.

Governing law:

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

Status quo:

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.

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(4) Material contract: None.

(5) Presentation of financial statements:

Certain accounts in financial statements for the nine-month period ended September 30, 2004 have been reclassified in order to be comparable with those in the financial statements for the nine-month period ended September 30, 2005.

### **21. Information for 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.

### **22. Segment information: None.**



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

(1) Concise balance sheets :

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Indovina Bank		Cathay Life Insurance Ltd.
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	(Shanghai)
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Current assets	\$581,059,842	\$621,238,357	\$307,058,912	\$323,428,666	\$7,088,439	\$7,117,965	\$3,339,640	\$4,602,981	\$23,213,009	\$28,050,321	\$1,492,372	\$1,599,324	\$1,992,783
Exchange bills negotiated, discounted, and loan:	456,958,880	443,836,359	566,324,853	617,430,382	823,217	1,357,534	-	-	62,461,126	59,540,049	5,953,144	6,244,606	-
Funds and long-term investments	479,772,810	638,488,922	39,702,953	48,533,556	2,739,718	3,464,807	18	18	496,108	419,988	-	-	670,147
Fixed assets	15,297,952	14,232,645	25,663,377	24,917,361	65,739	65,327	13,179	101,664	2,109,661	1,693,117	40,019	60,156	25,571
Other assets(including intangible assets)	48,151,597	88,227,819	4,459,099	3,725,830	468,022	575,903	236,541	228,589	1,037,644	873,741	28,812	50,954	673,683
Current liabilities	14,354,602	28,531,763	830,490,537	909,828,693	916,146	1,495,066	102,842	891,331	84,826,192	86,571,619	6,284,695	6,574,703	11,651
Long-term liabilities	1,252,595	1,595,817	-	-	18,966	10,648	-	-	305,878	285,191	-	-	-
Other liabilities	1,476,565,141	1,678,615,187	34,409,555	24,454,754	7,110,933	8,045,158	585	10,315	3,452	3,515	171,828	330,273	229,571
Capital stocks	50,686,158	50,686,158	43,182,407	46,420,518	2,317,006	2,317,006	3,500,000	3,700,000	3,146,000	3,146,000	846,750	829,875	3,281,040
Capital surplus	12,591	13,153	13,463,074	13,463,713	1,909	2,021	-	258,434	463,482	463,482	113,724	127,829	-
Retained earnings	38,385,188	46,580,645	21,589,072	23,745,999	818,915	711,102	(14,049)	73,172	572,544	163,132	97,351	92,360	(160,078)
Equity adjustments	(15,194)	1,379	74,549	122,118	1,260	535	-	-	-	(55,723)	-	-	-
Treasury stocks	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$1,581,241,081	\$1,806,024,102	\$943,209,194	\$1,018,035,795	\$11,185,135	\$12,581,536	\$3,589,378	\$4,933,252	\$89,317,548	\$90,577,216	\$7,514,347	\$7,955,040	\$3,362,184
Total liabilities	\$1,492,172,338	\$1,708,742,767	\$864,900,092	\$934,283,447	\$8,046,045	\$9,550,872	\$103,427	\$901,646	\$85,135,522	\$86,860,325	\$6,456,523	\$6,904,976	\$241,222
Total stockholders' equity	\$89,068,743	\$97,281,335	\$78,309,102	\$83,752,348	\$3,139,090	\$3,030,664	\$3,485,951	\$4,031,606	\$4,182,026	\$3,716,891	\$1,057,825	\$1,050,064	\$3,120,962

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Indovina Bank		Cathay Life Insurance Ltd.
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	(Shanghai)
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Current assets	\$17,095,023	\$18,723,278	\$9,033,801	\$9,747,700	\$208,545	\$214,526	\$98,252	\$138,728	\$682,937	\$845,399	\$44,062	\$48,180	\$60,060
Exchange bills negotiated, discounted, and loan:	13,443,921	13,376,623	16,661,514	18,608,511	24,220	40,914	-	-	1,837,632	1,794,456	175,765	188,119	-
Funds and long-term investments	14,115,117	19,243,186	1,168,078	1,462,735	80,604	104,424	1	1	14,596	12,658	-	-	20,197
Fixed assets	450,072	428,953	755,027	750,975	1,933	1,969	388	3,064	62,067	51,028	1,182	1,812	771
Other assets(including intangible assets)	1,416,640	2,659,066	131,189	112,291	13,769	17,357	6,960	6,889	30,528	26,333	851	1,535	20,304
Current liabilities	422,318	859,908	24,433,379	27,420,997	26,954	45,059	3,026	26,864	2,495,623	2,609,151	185,553	198,063	351
Long-term liabilities	36,852	48,096	-	-	558	321	-	-	8,999	8,595	-	-	-
Other liabilities	43,441,163	50,591,175	1,012,343	737,033	209,206	242,470	17	311	101	106	5,073	9,949	6,919
Capital stocks	1,491,208	1,527,612	1,270,445	1,399,051	68,167	69,831	102,971	111,513	92,557	94,816	25,000	25,000	98,886
Capital surplus	371	396	396,089	405,778	56	61	-	7,789	13,636	13,969	3,358	3,851	-
Retained earnings	1,129,308	1,403,878	635,159	715,672	24,093	21,432	(413)	2,205	16,844	4,916	2,874	2,782	(4,824)
Equity adjustments	(447)	41	2,194	3,681	37	16	-	-	-	(1,679)	-	-	-
Treasury stocks	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$46,520,773	\$54,431,106	\$27,749,609	\$30,682,212	\$329,071	\$379,190	\$105,601	\$148,682	\$2,627,760	\$2,729,874	\$221,860	\$239,646	\$101,332
Total liabilities	\$43,900,333	\$51,499,179	\$25,445,722	\$28,158,030	\$236,718	\$287,850	\$3,043	\$27,175	\$2,504,723	\$2,617,852	\$190,626	\$208,012	\$7,270
Total stockholders' equity	\$2,620,440	\$2,931,927	\$2,303,887	\$2,524,182	\$92,353	\$91,340	\$102,558	\$121,507	\$123,037	\$112,022	\$31,232	\$31,633	\$94,062

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
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
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)	(3,349)	(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	\$0.08	\$0.10	\$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)	\$-	\$-	\$-