

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated financial statements**  
**Together with**  
**Independent auditors' report**  
**December 31, 2004 and 2005**

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

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2004 and 2005 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of December 31, 2004 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2005 in conformity with generally accepted accounting principles in the Republic of China, "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies."

Diwan, Ernst & Young  
Taipei, Taiwan  
The Republic of China  
January 27, 2006

**Notice to Readers**

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated balance sheets

December 31, 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	\$372,869,091	\$11,747,608	\$421,429,289	\$12,848,454
Due from Central Bank and call loans to banks		60,813,048	1,915,975	65,776,927	2,005,394
Short-term investments	2, 5	385,852,704	12,156,670	452,502,313	13,795,802
Other financial assets-current		-	-	6,350,512	193,613
Receivables	2	101,561,714	3,199,802	98,282,772	2,996,426
Inventories	2	-	-	1,524,240	46,471
Construction in Progress		-	-	789,122	24,059
Prepayments		1,322,453	41,665	1,515,333	46,199
Restricted assets-current		-	-	1,300,000	39,634
Deferred income tax assets-current	2	198,506	6,254	57,706	1,759
Asset of disposal subsidiaries		-	-	186,004	5,671
Subtotal		922,617,516	29,067,974	1,049,714,218	32,003,482
<b>Bills and loans-net</b>	2, 6	1,032,935,426	32,543,649	1,117,998,081	34,085,308
<b>Long-term investments in stock, bonds and real estate</b>					
Long-term investments in stocks	2, 7				
Long-term investments under equity method		10,203,705	321,478	3,336,070	101,710
Long-term investments under cost method		16,189,092	510,053	27,045,207	824,549
Long-term investments in bonds	2, 8	450,545,469	14,194,879	579,768,208	17,675,860
Investments in real estate	2, 9	101,449,737	3,196,274	102,899,975	3,137,194
Other long-term investments		400,000	12,603	549,730	16,760
Less: Accumulated impairment		-	-	(196,952)	(6,005)
Subtotal		578,788,003	18,235,287	713,402,238	21,750,068
<b>Property and equipment</b>	2				
Land		19,023,094	599,341	20,691,090	630,826
Buildings and construction		20,273,128	638,725	22,173,577	676,024
Furniture and fixtures		3,662,697	115,397	3,916,717	119,412
Transportation and communication equipment		192,629	6,069	151,901	4,631
Other equipment		8,747,721	275,606	10,314,049	314,453
Subtotal		51,899,269	1,635,138	57,247,334	1,745,346
Less: Accumulated depreciation		(12,936,630)	(407,581)	(14,679,473)	(447,545)
Less: Accumulated impairment		-	-	(245,199)	(7,476)
Construction in progress		793,202	24,990	936,637	28,556
Net		39,755,841	1,252,547	43,259,299	1,318,881
<b>Intangible assets</b>		83,941	2,645	1,174,900	35,820
<b>Other assets</b>					
Idled assets	2	2,714,309	85,517	1,431,909	43,656
Refundable deposits		26,647,813	839,566	31,376,291	956,594
Deferred charges	2	606,112	19,096	670,694	20,448
Investment-linked products assets		37,399,668	1,178,313	95,450,418	2,910,074
Deferred income tax assets -noncurrent	2	940,001	29,616	3,118,656	95,081
Other assets-others		7,589,794	239,124	7,685,373	234,310
Less: Accumulated impairment		-	-	(358,424)	(10,928)
Subtotal		75,897,697	2,391,232	139,374,917	4,249,235
<b>Total assets</b>		\$2,650,078,424	\$83,493,334	\$3,064,923,653	\$93,442,794
<b>Liabilities &amp; stockholders' equity</b>					
<b>Current liabilities</b>					
Short-term debts		\$-	\$-	\$1,311,366	\$39,981
Bonds sold under repurchase agreement		49,254,355	1,551,807	33,864,935	1,032,468
Due to Central Bank and commercial banks		80,179,515	2,526,134	72,006,109	2,195,308
Payables		26,600,461	838,074	35,696,055	1,088,294
Accounts collected in advance		392,214	12,357	895,227	27,293
Liabilities of disposal subsidiaries		-	-	127,287	3,881
Others current liabilities		442,800	13,951	735,190	22,414
Subtotal		156,869,345	4,942,323	144,636,169	4,409,639
<b>Deposits and remittances</b>	10	709,087,840	22,340,512	874,847,607	26,672,183
<b>Financial debentures payable</b>	11	48,550,000	1,529,616	68,456,297	2,087,082
<b>Bankers acceptances and funds borrowed</b>		1,414,687	44,571	1,132,010	34,513
Bonds payable	2, 12	23,774,560	749,041	13,405,171	408,694
<b>Other liabilities</b>					
Reserve for operations and liabilities	2, 13	1,490,717,276	46,966,518	1,659,217,789	50,585,908
Accrued pension liabilities		1,446,767	45,581	1,944,612	59,287
Investment-linked products liabilities		37,399,668	1,178,314	95,450,418	2,910,074
Guarantee deposits in		2,228,195	70,201	2,281,216	69,549
Other liabilities-others		3,240,849	102,106	12,391,357	377,786
Subtotal		1,535,032,755	48,362,720	1,771,285,392	54,002,604
<b>Total liabilities</b>		2,474,729,187	77,968,783	2,873,762,646	87,614,715
<b>Stockholders' Equity</b>					
Capital stock					
Common stock	14	83,167,130	2,620,262	85,242,234	2,598,849
Capital surplus	15				
Additional paid-in capital		53,524,308	1,686,336	62,592,220	1,908,299
Treasury stock transactions		5,424,265	170,897	5,491,169	167,414
Others		10,124	319	11,696	357
Retained earnings	16				
Legal reserve		3,026,715	95,360	6,009,431	183,214
Special reserve		122,653	3,864	226,579	6,908
Unappropriated retained earnings		30,640,997	965,375	28,146,255	858,117
Equity adjustments					
Unrealized valuation losses on long-term equity investments		(110,435)	(3,479)	(68,263)	(2,081)
Cumulative conversion adjustments		(96,005)	(3,025)	81,154	2,474
Net loss not yet recognized as net pension cost		(5,560)	(175)	(1,837)	(56)
Treasury stock	2, 17	(354,955)	(11,183)	-	-
Minority interests		-	-	3,430,369	104,584
<b>Total stockholders' equity</b>		175,349,237	5,524,551	191,161,007	5,828,079
<b>Total liabilities and stockholders' equity</b>		\$2,650,078,424	\$83,493,334	\$3,064,923,653	\$93,442,794

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of income**  
**For the years ended December 31, 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		\$84,082,332	\$2,649,097	\$96,681,909	\$2,947,619
Premiums income		289,831,277	9,131,420	284,882,621	8,685,446
Claims recovered from reinsures		1,369,061	43,134	3,402,756	103,742
Recovered premiums reserve		145,377,625	4,580,265	119,930,893	3,656,430
Recovered special reserve		263,301	8,296	1,073,003	32,713
Commission and handling fee earned		7,715,740	243,092	9,143,755	278,773
Gain on disposal of investments		20,072,740	632,411	21,490,568	655,200
Income from long-term equity investments		496,823	15,653	344,848	10,514
Investment-linked products revenues		29,866,689	940,980	71,581,378	2,182,359
Gains on foreign exchange		1,264,421	39,837	409,629	12,489
Other operating income		9,616,928	302,990	17,190,976	524,115
Subtotal		<u>589,956,937</u>	<u>18,587,175</u>	<u>626,132,336</u>	<u>19,089,400</u>
<b>Operating costs</b>	2				
Interest expenses		(8,849,029)	(278,797)	(14,687,532)	(447,791)
Insurance expenses		(3,599,161)	(113,395)	(3,100,469)	(94,526)
Brokerage expenses		(24,333,563)	(766,653)	(25,930,484)	(790,564)
Commissions expenses		(791,369)	(24,933)	(631,202)	(19,244)
Insurance claims payment		(165,275,069)	(5,207,154)	(143,231,933)	(4,366,827)
Provision for premiums reserve		(282,467,467)	(8,899,416)	(287,251,424)	(8,757,665)
Provision for special reserve		(3,923,117)	(123,602)	(1,963,634)	(59,867)
Handling fee paid		(1,882,690)	(59,316)	(2,384,396)	(72,695)
Provision for possible losses		(2,555,113)	(80,501)	(15,445,575)	(470,902)
Investment-linked products expenses		(29,866,689)	(940,980)	(71,581,377)	(2,182,359)
Operating expenses		(24,071,595)	(758,399)	(35,103,193)	(1,070,219)
Impairment loss		-	-	(1,119,307)	(34,125)
Other operating cost		(8,852,536)	(278,908)	(1,471,013)	(44,848)
Subtotal		<u>(556,467,398)</u>	<u>(17,532,054)</u>	<u>(603,901,539)</u>	<u>(18,411,632)</u>
<b>Income from continuing operations before income taxes</b>		<u>33,489,539</u>	<u>1,055,121</u>	<u>22,230,797</u>	<u>677,768</u>
<b>Income taxes</b>	2, 19	<u>(3,662,384)</u>	<u>(115,387)</u>	<u>(471,572)</u>	<u>(14,377)</u>
<b>Consolidated income</b>		<u>\$29,827,155</u>	<u>\$939,734</u>	<u>\$21,759,225</u>	<u>\$663,391</u>
<b>Attributable to :</b>					
<b>Equity holder of parent company</b>		\$29,827,155	\$939,734	\$21,787,053	\$664,239
<b>Minority interest</b>		-	-	(27,828)	(848)
<b>Consolidated income</b>		<u>\$29,827,155</u>	<u>\$939,734</u>	<u>\$21,759,225</u>	<u>\$663,391</u>
<b>Earnings per share (expressed in dollars)</b>	20				
Primary earnings per share:					
Consolidated income		\$3.70	\$0.12	\$2.57	\$0.08
Minority interest		-	-	-	-
Income from equity holder of parent company		<u>\$3.70</u>	<u>\$0.12</u>	<u>\$2.57</u>	<u>\$0.08</u>
Fully-diluted earnings per share:					
Consolidated income		\$3.57	\$0.11	\$2.53	\$0.08
Minority interest		-	-	0.01	-
Income from equity holder of parent company		<u>\$3.57</u>	<u>\$0.11</u>	<u>\$2.54</u>	<u>\$0.08</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries  
**Consolidated statements of changes in stockholders' equity**  
 For the years ended December 31, 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 \$
<b>Balance on January 1, 2004</b>	\$83,074,891	\$2,617,356	\$53,651,046	\$1,690,329	\$1,335,046	\$42,062	\$1,833,255	\$57,759	\$16,916,694	\$532,977	\$(136,202)	\$(4,291)	\$176,537	\$5,562	\$(1,971)	\$(62)	\$(15,039,516)	\$(473,835)	\$-	\$-	\$141,809,780	\$4,467,857
Appropriations and distributions for 2003																						
Legal reserve					1,691,669	53,298			(1,691,669)	(53,298)												
Special reserve							(1,710,602)	(53,895)	1,710,602	53,895												
Cash dividends									(16,105,155)	(507,409)											(16,105,155)	(507,409)
Remuneration paid to directors and supervisors									(5,700)	(179)											(5,700)	(179)
Bonus paid to employees									(1,611)	(51)											(1,611)	(51)
Convertible notes converted into common stock	92,239	2,906	422,591	13,314																	514,830	16,220
Cash dividends to subsidiaries																					22,194	699
Capital surplus			10,124	319																	10,124	319
Cumulative conversion adjustments												(272,542)	(8,587)								(272,542)	(8,587)
Gain on unrealized loss recoveries on long-term equity investments											25,767	812									25,767	812
Disposal of treasury stock			4,737,927	149,273													11,450,763	360,768			16,188,690	510,041
Treasury stock			114,815	3,618					(9,319)	(294)							3,233,798	101,884			3,339,294	105,208
Parent company income for the year ended December 31, 2004									29,827,155	939,734											29,827,155	939,734
Net loss not yet recognized as net pension cost																					(3,589)	(113)
<b>Balance on December 31, 2004</b>	\$83,167,130	\$2,620,262	\$58,958,697	\$1,857,552	\$3,026,715	\$95,360	\$122,653	\$3,864	\$30,640,997	\$965,375	\$(110,435)	\$(3,479)	\$(96,005)	\$(3,025)	\$(5,560)	\$(175)	\$(354,955)	\$(11,183)	\$-	\$-	\$175,349,237	\$5,524,551
<b>Balance on January 1, 2005</b>	\$83,167,130	\$2,535,583	\$58,958,697	\$1,797,521	\$3,026,715	\$92,278	\$122,653	\$3,739	\$30,640,997	\$934,177	\$(110,435)	\$(3,367)	\$(96,005)	\$(2,927)	\$(5,560)	\$(170)	\$(354,955)	\$(10,822)	\$-	\$-	\$175,349,237	\$5,346,012
Minority interests -first time inclusion of subsidiaries																					\$3,458,197	\$105,433
Appropriations and distributions for 2004																						
Legal reserve					2,982,716	90,936			(2,982,716)	(90,936)												
Special reserve							103,926	3,169	(103,926)	(3,169)												
Cash dividends									(21,187,334)	(645,955)											(21,187,334)	(645,955)
Remuneration paid to directors and supervisors									(5,700)	(174)											(5,700)	(174)
Bonus paid to employees									(2,119)	(65)											(2,119)	(65)
Convertible notes converted into common stock	2,075,104	63,266	9,067,913	276,461																	11,143,017	339,727
Cash dividends to subsidiaries																					8,749	267
Capital surplus			1,572	48																	1,572	48
Cumulative conversion adjustments													177,159	5,401							177,159	5,401
Gain on unrealized loss recoveries on long-term equity investments											42,172	1,286									42,172	1,286
Treasury stock			58,154	1,773													354,955	10,822			413,109	12,595
Parent company income for the year ended December 31, 2005									21,787,053	664,239											21,787,053	664,239
Minority interests loss																					(27,828)	(849)
Net loss not yet recognized as net pension cost																					3,723	114
<b>Balance on December 31, 2005</b>	\$85,242,234	\$2,598,849	\$68,095,085	\$2,076,070	\$6,009,431	\$183,214	\$226,579	\$6,908	\$28,146,255	\$858,117	\$(68,263)	\$(2,081)	\$81,154	\$2,474	\$(1,837)	\$(56)	\$-	\$-	\$3,430,369	\$104,584	\$191,161,007	\$5,828,079

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

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

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

**Consolidated statements of cash flows**

**For the years ended December 31, 2004 and 2005**

**(Expressed in thousands of dollars)**

	2004		2005	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated income	\$29,827,155	\$939,734	\$21,759,225	\$663,391
Adjustments:				
Net loss before acquisitions of the subsidiaries	-	-	(124,217)	(3,787)
Recovered bad debt	(106,611)	(3,359)	(1,337,280)	(40,771)
Amortizations and depreciation expenses	3,338,809	105,192	3,953,948	120,547
Provision for reserve for operations	147,064,675	4,633,418	187,793,850	5,725,422
Recovered reserve for operations	(3,732,626)	(117,600)	(4,432,992)	(135,152)
(Gain) loss on disposal of long-term investments	(527,441)	(16,618)	785,001	23,933
Gain on disposal of property and equipment	(1,130,332)	(35,612)	(8,650,950)	(263,748)
Impairment loss	-	-	1,119,307	34,125
Amortization long-term investments in bonds	71,868	2,264	250,125	7,626
Investment income recognized by equity method excess of cash dividends received	(192,793)	(6,074)	(6,732)	(205)
Increase in bonds payable redemption premium	716,398	22,571	569,524	17,364
Effects of exchange rate changes	624,751	19,683	(529,653)	(16,148)
Decrease (increase) in short-term investments	34,395,571	1,083,666	(157,308,425)	(4,795,989)
Increase other financial assets-current	-	-	(6,237,044)	(190,154)
Decrease (increase) in receivables	6,526,394	205,621	(11,530,030)	(351,525)
Decrease in inventories	-	-	50,243	1,532
Decrease in prepayments	655,057	20,638	12,255,625	373,647
(Increase) decrease in deferred income tax assets-current	(125,011)	(3,938)	149,976	4,572
Decrease (increase) in deferred income tax assets-noncurrent	74,237	2,339	(287,251)	(8,758)
Increase in other assets	(9,670,794)	(304,688)	(410,462)	(12,514)
Increase in payables	884,325	27,862	9,024,148	275,126
Decrease in accounts collected in advance	(873,104)	(27,508)	(375,432)	(11,446)
Increase (decrease) in other liabilities	24,883,815	783,989	(5,502,702)	(167,765)
<b>Net cash provided by operating activities</b>	<b>232,704,343</b>	<b>7,331,580</b>	<b>40,977,802</b>	<b>1,249,323</b>
<b>Cash flows from investing activities</b>				
Decrease in short-term investment for non-trading purposes	65,412,516	2,060,886	16,127,835	491,702
Increase in bills and loans	(52,022,314)	(1,639,014)	(26,324,392)	(802,573)
Acquisition of long-term investments in stocks	(52,602,829)	(1,657,304)	(30,666,297)	(934,948)
Disposal of long-term investments in stocks	10,042,564	316,401	7,813,085	238,204
(Increase) decrease investment in real estate	(7,876,632)	(248,161)	7,337,657	223,709
Increase in long-term investments in bonds	(19,226,217)	(605,741)	(28,513,827)	(869,324)
Disposal of property and equipment	1,793,526	56,507	459,916	14,022
Increase restricted assets-current	(500,000)	(15,753)	(800,000)	(24,390)
Acquisition of property and equipment	(1,838,024)	(57,909)	(2,493,834)	(76,031)

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

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

**Consolidated statements of cash flows**

**For the years ended December 31, 2004 and 2005**

**(Expressed in thousands of dollars)**

	2004		2005	
	NT \$	US \$	NT \$	US \$
Decrease in deferred charges	(181,232)	(5,710)	(358,330)	(10,925)
Decrease (increase) in refundable deposits	1,774,623	55,911	(2,781,131)	(84,790)
Decrease (increase) miscellaneous assets	33,473	1,054	(254,319)	(7,754)
Increase in due from Central Bank and call loans to banks	(1,293,009)	(40,737)	(1,515,287)	(46,198)
<b>Net cash used in investing activities</b>	<b>(56,483,555)</b>	<b>(1,779,570)</b>	<b>(61,968,924)</b>	<b>(1,889,296)</b>
<b>Cash flows from financing activities</b>				
Decrease in short-term debts	-	-	(3,329,454)	(101,508)
Increase in due to Central Bank and commercial banks	(6,028,843)	(189,944)	(9,868,816)	(300,878)
Increase in deposits and remittances payables	49,630,920	1,563,671	76,755,853	2,340,118
(Decrease) increase in banker's acceptances and funds borrowed	(338,838)	(10,675)	40,825	1,245
(Decrease) increase in bonds payable	(1,562,099)	(49,216)	204,104	6,223
Increase in financial debentures payable	23,500,000	740,391	19,906,296	606,899
Increase (decrease) in guarantee deposits in	201,528	6,349	(12,652)	(386)
Disposal of treasury stock	19,212,336	605,304	-	-
Capital increase from cash	-	-	150,000	4,573
Remuneration paid to directors and supervisors	(5,700)	(180)	(21,700)	(662)
Bonus paid to employees	(227,707)	(7,174)	(12,172)	(371)
Cash dividends	(16,082,962)	(506,710)	(21,545,662)	(656,880)
<b>Net cash provided by financing activities</b>	<b>68,298,635</b>	<b>2,151,816</b>	<b>62,266,622</b>	<b>1,898,373</b>
<b>Effects of exchange rate changes</b>	<b>(722,744)</b>	<b>(22,771)</b>	<b>690,764</b>	<b>21,060</b>
<b>Cash and cash equivalents - first time inclusion of subsidiaries</b>	<b>-</b>	<b>-</b>	<b>6,677,893</b>	<b>203,594</b>
<b>Cash of disposal subsidiary exclude from consolidated financial statements</b>	<b>-</b>	<b>-</b>	<b>(83,959)</b>	<b>(2,560)</b>
<b>Increase in cash and cash equivalents</b>	<b>243,796,679</b>	<b>7,681,055</b>	<b>48,560,198</b>	<b>1,480,494</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>129,072,412</b>	<b>4,066,553</b>	<b>372,869,091</b>	<b>11,367,960</b>
<b>Cash and cash equivalents at the end of year</b>	<b>\$372,869,091</b>	<b>\$11,747,608</b>	<b>\$421,429,289</b>	<b>\$12,848,454</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the year	\$8,004,269	\$252,182	\$13,396,173	\$408,420
Interest paid (excluding capitalized interest)	\$8,004,269	\$252,182	\$13,396,173	\$408,420
Income tax paid	\$1,361,444	\$42,894	\$2,519,444	\$76,812
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$514,830	\$16,220	\$11,143,016	\$339,726

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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



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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to consolidated financial statements**  
**(Expressed in thousands of dollars except**  
**for share and per share data and unless otherwise stated)**  
**December 31, 2004 and 2005**

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations 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 December 31, 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 December 31, 2004 and 2005, the total numbers of employees were 59 and 64, 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 “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”. A summary of significant accounting policies 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 the 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 year ended December 31, 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 December 31, 2004 exclude other subsidiaries, because their total assets and operating revenues were less than 10% of the total assets and operating revenues of the Company (10% exception rule). Effective from January 1, 2005, the Company adopted SFAS No. 7 “Consolidated Financial Statements” which was revised on December 9, 2004 and 10% exception rule has been deleted.

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As of and for the year ended December 31, 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 December 31, 2004 and 2005, the total numbers of employees were 26,555 and 26,486, 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 December 31, 2004 and 2005, the total numbers of employees were 4,050 and 4,190, 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 originally name was renamed “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on August 2, 2002. As of December 31, 2004 and 2005, the total numbers of employees were 880 and 866, respectively.

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Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Securities	Securities	100%	Cathay Securities was incorporated on May 12, 2004, under 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 December 31, 2004 and 2005, the total numbers of employees were 96 and 147, respectively.
The Company	Cathay Pacific Venture Capital Co., Ltd. ("Cathay Pacific Venture")	Venture capital investment	100%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Law. As of December 31, 2004 and 2005, the total numbers of employees 2 were and 0, respectively.
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 on September 13, 2000, under the Company Law.
The Company	Cathay II Venture Capital Co., Ltd. ("Cathay II Venture")	Venture capital investment	100%	Cathay II Venture was incorporated on April 12, 2004, under 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 December 31, 2004 and 2005, the total numbers of employees were 802 and 720, respectively.

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Investors	Investees	Business	Ownership interest	Notes
Cathay Life	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”) )	Life insurance	50%	Cathay Life (Shanghai) acquired an operation license of an enterprise as a juristic person on December 29, 2004. Cathay Life (Shanghai) and China Eastern Airlines Corporation Limited ownership interest are 50% of the common stock, respectively. As of December 31, 2004 and 2005, the total number of employees was 175 and 288, respectively.
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 on December 12, 1999, under the Company Law. Cathay Life and Cathay Venture’s ownership interest are 60.12% and 39.41% of the common stock, respectively. As of December 31, 2004 and 2005, the total numbers of employees were 88 and 140, respectively.
Cathay Life	Lin Yuan Property Management Co., Ltd. (“Lin Yuan Property Management”)	Property management services	90%	Lin Yuan Property Management was incorporated on July 1, 1990, under 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 December 31, 2004 and 2005, the total numbers of employees were 252 and 275, respectively.
Cathay United Bank(merged)	Cathay Futures Corp. (“Cathay Futures”)	Time-bargain, self-support and further consulting	99.99%	Cathay Futures was incorporated on December 29, 1993 under the Company Law. Cathay Futures originally named Seaward Futures Agency Co., Ltd. was renamed to Seaward Futures Corp. on March 6, 1998 and changed its name to Cathy Futures Corp. on December 24, 2003. As of December 31, 2004 and 2005, the total numbers of employees were 47 and 56, respectively.

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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 on February, 1996, under the Company Law. As of December 31, 2004 and 2005, the total numbers of employees were 15 and 13, respectively.
Cathay United Bank(merged)	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50%	Indovina Bank Limited was incorporated in Vietnam on October 29, 1992. As of December 31, 2004 and 2005, the total numbers of employees were 190 and 230, respectively.
Lucky Bank	Pao shin Securities Co., Ltd. (“Pao shin securities”)	Securities	38.35%	Pao shin securities was incorporated on September 9, 1988, under the Company Law. As of December 31, 2004 and 2005, the total numbers of employees were both 51.

As of and for the year ended December 31, 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 year ended December 31, 2005 excluded Cathay Capital Management because its total assets and operating revenues were insignificant to the Company.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Class3 general business insurers and a long-term insurer	100%	The consolidated financial statements of the Company as of and for the year ended December 31, 2005 excluded Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the Company.

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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 year ended December 31, 2005 excluded Cathay Securities Investment because its total assets and operating revenues were insignificant to the Company.
Cathay United Bank(merged)	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100%	The consolidated financial statements of the Company as of and for the year ended December 31, 2005 excluded Cathay Life Insurance Agent because its total assets and operating revenues were insignificant to the Company.
Cathay United Bank(merged)	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100%	The consolidated financial statements of the Company as of and for the year ended December 31, 2005 excluded Cathay Property Insurance Agent because its total assets and operating revenues were insignificant to 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 year ended December 31, 2005 excluded Seaward Card because its total assets and operating revenues were insignificant to 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 year ended December 31, 2005 excluded Cathay Pacific Partners because its total assets and operating revenues were insignificant to the Company.
Seaward Leasing	China England Co., Ltd. (“China England”)	Accreditation, load and securities investment	100%	The consolidated financial statements of the Company as of and for the year ended December 31, 2005 excluded China England because its total assets and operating revenues were insignificant to the Company.

These consolidated financial statements exclude important inter-company transactions.

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### *(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 non-current assets. Current liabilities are debts which must be paid-off within one year. Debts that do not belong to current liabilities are 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. 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 include cash on hand, unrestricted bank deposits and all highly liquid investments with maturities of less than three months.

### *(5) Short-term investments*

- A. Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income but treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.
- B. Beneficiary certificates are stated at cost. The cost and gain/loss of beneficiary certificates sold are determined based on the weighted-average cost method.
- C. Bonds and convertible bonds repaid (converted) when due or sold before maturity are recorded at cost. The cost and gain/loss of these bonds sold is determined based on the weighted-average cost method. At the end of the reporting period, bonds are stated at the lower of cost or market value or at cost if there is no market value available.
- D. Overseas investment trust funds are investments in foreign securities made through financial institutions with pre-determined purposes. The trust funds are recorded at the amount originally remitted and stated at the lower of cost or market value at each balance date. Realized interest, dividends, and disposal gain which are remitted back are



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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 recovers, the gain is offset against the provision to the extent of the provision made previously.

When stocks and mutual funds are sold, the cost is calculated based on the weighted-average method. For other securities, the cost is calculated using specific identification method.

Securities purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and securities sold under repurchase agreements are presented as part of "Other liabilities". Interest income from securities purchased under resell agreements and interest expense from securities sold under repurchase agreements are recognized on an accrual basis.

- G. Investment in bonds with resale agreements / Bonds sold under repurchase agreements are recorded at the amount of cash received or paid at the transaction date. 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.

According to an explanatory letter of the Securities and Futures Bureau ("SFB"), investments in bonds with resale agreements – securities financing, in conjunction with operating securities – dealing, are valued at the lower of aggregate cost or market value at the balance sheet date. Gains or losses should be recognized at the date the bonds were repurchased.

- 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.

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

### *(6) Allowance for bad and doubtful debts*

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

For Cathay United Bank (merged) 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.

### *(7) 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.

### *(8) 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.

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### *(9) 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 has significant 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". If there is any insufficiency in the capital surplus account, the difference will be debited to 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.

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### 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.

### *(10) Property and equipment*

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “capital surplus”, according to applicable regulations. The capital surplus can only be used for making up operating losses and for capital increase.

Major improvements, additions, and renewals 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

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estimated remaining useful lives.

The definition of property, plant and equipment by Cathay Life (Shanghai) are the service lives of building, equipment and transportation which are over one year and a unit price is over RMB 2,000. The property, plant and equipment are stated at cost. In addition, by the next month the depreciation would be calculated using the straight-line method. The residual values of the property, plant and equipment are recognized of 10% at the acquisition costs.

### *(11) Idle assets*

Idle assets are valued at the lower of net realizable value or net carrying amount.

### *(12) 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.

### *(13) Investment-linked products*

Cathay Life and Cathay Life (shanghai) 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”.

### *(14) Impairment of assets*

Pursuant to SFAS No. 35, the Company assesses indicators of 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

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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).

### *(15) Real Estate Investment Trust (REIT)*

Cathay Life has adopted “Accounting Treatment under Real Estate Securitization” with the Accounting Research and Development Foundation.

Once the sales process is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under “total amount accrual method”.

If the promoter and its related parties do not participate in the initial offering but subsequently acquire the REIT beneficiary securities less than 20% of its outstanding shares from the TSE at fair market value within three months after the issue date, the transfer and purchase transaction are deemed two independent transactions due to the

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subsequent purchase transaction has no significant influence over the transfer transaction. However, if the promoter and its related parties subsequently acquire the REIT beneficiary securities over 20% of its outstanding shares within three months after the issue date, the subsequently acquired portion is not deemed a sale and therefore gain or loss on disposal of real estate for the promoter related to the subsequently acquired portion shall be deferred.

### *(16) 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.

### *(17) 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 United Bank (merged), Cathay Securities, Lucky Bank and Pao Shin 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\$6.10 million). The reserve cannot be used for other purposes except to offset trading losses.

According to the Regulations Governing Securities Firms, a securities firm trading securities for customer accounts shall allocate 0.0028% of the transaction price of the traded securities on a monthly basis as a reserve for default losses. The reserve for

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default losses referred to in the preceding paragraph shall only be used for covering losses caused by breach of contract for trading on customer accounts or for purposes approved by the SFB, Financial Supervisory Commission. When the accumulated reserve for breach of contract losses reaches NT\$200 million (US\$6.10 million), reserving will be suspended.

Reserves for losses on guarantees are provided at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for customers' duties, commodity taxes and contracts performance obligations.

### C. 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.

### D. Cathay Life (Shanghai)

The reserves for operations which include unearned premium reserve, claim reserve, special reserve, and reserve for life insurance are in compliance with the Insurance Law of the People's Republic of China.

The special reserves which are remedying security fund for policyholder and policy Transferee company are recognized by the insurance protection fund of Insurance Law of the People's Republic of China. When the insurance company was revoked, bankruptcy or liquidated, the liquidated property is unavailable to refund the policy profit as well as according to the No.18 at the Administration of Insurance Protection Fund by China Insurance Regulatory Commission. According to the No.6 and 8 of the Administration of Insurance Protection Fund, The insurance business within insurance protection fund should be paid as following percentage of insurance protection fund: Accidental death & disability insurance and Short-term health insurance were paid 1% of reinsurance; Long-term life insurance which was guaranteed rate and Long-term health insurance with 0.15%; Long-term life insurance without guaranteed rate at 0.05%, and others were referred to China Insurance Regulatory Commission. When the payment of insurance protection fund is 1% of capital asset, it could be suspended for paying insurance protection fund.

### E. Cathay Futures



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

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

### *(18) Treasury stock*

The stock that the Company repurchases is recorded in the “treasury stock account”. The book value of the treasury stock is determined based on the reason of purchase and stock type (common or preferred stock) using the weighted average method. At the time of writing off treasury stock, the Company should debit common stock and capital surplus premium on stock issuance proportionally. As long as the book value of the retired treasury stock is higher than the sum of its par value and capital surplus-premium of common shares, the excess should be debited to other capital surplus or retained earnings when capital surplus treasury stock is insufficient. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus-premium of common shares, the difference is credited to capital surplus-treasury stock.

According to the Ministry of Finance-securities and Future Commission (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 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.

### *(19) 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.

### *(20) Insurance premium income and expenses*

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

Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end based on past experience.

### *(21) Pension plan*

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.

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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.

### *(22) 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. Assets and liabilities denominated in foreign currencies are restated at the balance sheet date exchange rate, and resulting gains or losses 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 translation adjustments” under stockholders’ equity.

#### B. Conversion of foreign subsidiaries’ statements

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

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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.

### *(23) 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. An allowance is provided under assessment of the realizability of deferred tax assets. Adjustment of prior years’ income tax payable are included in current income tax expense.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries adopt the linked-tax system for tax filings 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 linked-tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

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

The Company adopted SFAS No. 12, “Accounting for Income Tax Credits,” for deductible income tax. The deductible income tax resulting from the expenditure on the purchase of equipment, research and development, education, training and investment in equity is accounted for under the current recognition method.

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

### *(24) Capital expenditure expenses*

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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 as incurred.

### *(25) 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 each period-ended, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and any gains or losses are credited or charged to current income. The net value of receivables and payables of the forward 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 exchange contracts are credited or charged to current income in the year of settlement.

### B. Structured notes transactions

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

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as “Liabilities for equity-linked notes-fixed-income products” and “Liabilities for equity-linked notes-option premium”. The former amortizes its interest expense over the contract period using the straight-line method 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

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amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss 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.
- 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 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 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.

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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. Interest rate swaps for trading purposes do not involve the exchange of nominal principal and are recorded by memorandum entries at the contract dates. The difference between interest received and paid at the settlement date and balance sheet date is recognized as “gain (loss) from derivative financial instruments”. Interest rate swaps are valued at fair value on the balance sheet date.

### *(26) Contingencies*

A loss is recognized if it is probable that an asset will be impaired or 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.

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

The financial statements are stated in NT dollars. Conversion of the December 31, 2004 and 2005 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$31.74 and NT\$32.80 to US\$1.00 on December 31, 2004 and 2005, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as representation that the NT dollars amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

## **3. Accounting changes**

The Company and its subsidiaries adopted the ROC Statement of Financial Accounting Standards No. 35, “Accounting for Asset Impairment” (“SFAS No.35”) on January 1, 2005. No retroactive adjustment is required under SFAS No. 35. The goodwill, investments in real estate, property and equipment and non-operating assets of the Company and its subsidiaries decreased NT\$311,442 (US\$9,495), NT\$196,952 (US\$6,005), NT\$245,199 (US\$7,476) and NT\$358,424 (US\$10,928) as of December 31, 2005, respectively, due to the change of accounting principles under SFAS 35. Net income of the Company decreased NT\$1,112,017 (US\$33,903) for the year ended December 31, 2005. Such effect is deemed insignificant by the Company.

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

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securities” to recognize investment income in the following year when investee’s audited financial statement 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\$109,641 (US\$3,343), cumulative conversion adjustments increased by NT\$3,970 (US\$121), capital surplus increased by NT\$639 (US\$19) and unrealized valuation losses on long-term equity investments decreased by NT\$30,405 (US\$927) as of December 31, 2005 and net income increased by NT\$74,784 (US\$2,280) for the year ended December 31, 2005, respectively. Such effect is deemed insignificant by the Company.

Several non-listed subsidiaries adopted the ROC Statement of Financial Accounting Standards (“SFAS”) No.18 “Accounting for pensions” in 2005. The net pension cost was recognized on January 1, 2006. Under SFAS No.18, the deferred pension cost and accrued pension liabilities were both NT\$48,703 (US\$1,485) as of December 31, 2005. Such effect is deemed insignificant by the Company.

Since January 1, 2005, The Company adopted the ROC Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements” (“SFAS No. 7”) which applied “essential controlling interest to identify subsidiaries to be consolidated”. This modification has no effect on the Company’s basic and dilated (if we’re not using basic and dilated EPS. Please let me know) earnings per share for the year ended December 31, 2005.

#### 4. Cash and cash equivalents

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Petty cash and cash on hand	\$8,418,213	\$265,224	\$10,968,506	\$334,406
Cash in banks	15,139,324	476,979	4,056,686	123,679
Time deposits	271,115,964	8,541,776	342,662,739	10,447,035
Cash equivalents	73,584,401	2,318,349	53,112,343	1,619,279
Checks for clearance	4,611,189	145,280	10,629,015	324,055
Total	<u>\$372,869,091</u>	<u>\$11,747,608</u>	<u>\$421,429,289</u>	<u>\$12,848,454</u>



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**5. Short-term investments**

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Common stock	\$70,495,911	\$2,221,043	\$114,031,491	\$3,476,570
Beneficiary certificates	35,136,436	1,107,008	44,339,150	1,351,804
Government bonds and corporate bonds	73,262,117	2,308,195	83,733,032	2,552,836
Overseas investments	115,955,643	3,653,297	118,390,290	3,609,460
Designated purpose trust fund	32,953,427	1,038,230	27,957,811	852,372
Financial debentures	34,517,082	1,087,495	48,195,838	1,469,385
Short-term notes	15,829,846	498,735	14,780,810	450,635
Securities purchased under agreements to resell	7,522,036	236,989	1,192,252	36,349
Operating securities	296,047	9,328	125,362	3,822
Subtotal	385,968,545	12,160,320	452,746,036	13,803,233
Less: Allowance for valuation loss	(115,841)	(3,650)	(243,723)	(7,431)
Total	\$385,852,704	\$12,156,670	\$452,502,313	\$13,795,802

As of December 31, 2004 and 2005, certain of the Cathay United Bank's investments in securities purchase were pledged under repurchase agreements with notional amounts of NT\$38,039,900 (US\$1,198,485) and NT\$28,439,300 (US\$867,052), respectively. Such repurchase agreements amounting to NT\$40,360,354 (US\$1,271,593) and NT\$29,784,935 (US\$908,077), respectively, were posed to the "other liabilities" account on the balance sheets. Repurchase agreements entered prior to December 31, 2004 and 2005 were settled at NT\$40,411,884 (US\$1,273,216) and NT\$29,841,045 (US\$909,788) prior to June 29, 2005 and June 28, 2006, respectively.

**6. Bills and loans-net**

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Exchange bills negotiated discounted	\$1,193,966	\$37,617	\$65,715,363	\$2,003,517
Short-term loans and overdrafts	207,818,327	6,547,521	206,735,430	6,302,910
Short-term secured loans and overdrafts	95,328,330	3,003,413	87,012,423	2,652,818
Medium-term loans	95,376,492	3,004,931	103,377,146	3,151,742
Medium-term secured loans	130,454,300	4,110,091	122,607,200	3,738,024
Long-term loans	19,794,808	623,655	25,902,111	789,699
Long-term secured loans	488,809,750	15,400,433	518,919,640	15,820,721
Subtotal	1,038,775,973	32,727,661	1,130,269,313	34,459,431
Less: Allowance for bad debts	(5,840,547)	(184,012)	(12,271,232)	(374,123)
Total	\$1,032,935,426	\$32,543,649	\$1,117,998,081	\$34,085,308

(1) For Cathay Life and Cathay Century, secured loans are secured by government bonds,

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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 December 31, 2004 and 2005, the accounts with no interest accrued were NT\$6,306,697 (US\$198,699) and NT\$9,122,549 (US\$278,126), respectively. The non-accrued interest on such accounts amounted to NT\$95,596 (US\$3,012) and NT\$170,837 (US\$5,208) for the years ended December 31, 2004 and 2005, respectively.

### 7. Long-term investments in stocks

Investee	December 31,			
	2004(NT\$) Carrying value	2004(US\$) Carrying value	2005(NT\$) Carrying value	2005(US\$) Carrying value
Under the equity method:				
Cathay Pacific Venture	\$583,715	\$18,390	\$-(note)	\$-
Cathay Venture	514,555	16,212	-(note)	-
Cathay II Venture	586,314	18,472	-(note)	-
Lin Yuan Property Management	34,124	1,075	-(note)	-
Seaward Leasing	2,247,640	70,814	-(note)	-
Cathay futures	722,812	22,773	-(note)	-
Indovina Bank	500,047	15,754	-(note)	-
Symphox Information	265,822	8,375	-(note)	-
Cathay Life (Shanghai)	1,526,654	48,099	-(note)	-
WK Technology Fund VI Co., Ltd	377,149	11,882	384,610	11,726
Vista Technology Venture Capital Corp.	68,776	2,167	55,308	1,686
Omnitek Venture Capital Corp.	152,081	4,791	169,019	5,153
Wa Tech Venture Capital Co., Ltd.	178,895	5,636	155,291	4,735
Cathay Securities Investment	25,662	809	93,736	2,858
Cathay Capital Management	19,445	613	40,077	1,222
Seaward Card	70,031	2,206	52,847	1,611
Taiwan Real-estate Management Corp.	51,947	1,637	15,734	480
Taiwan Finance Corp.	1,353,601	42,647	1,391,169	42,414
Cathay Property Insurance Agent	10,676	336	10,774	328
Cathay Life Insurance Agent	160,941	5,071	123,627	3,769
IBT Venture Capital Corp.	502,290	15,825	564,610	17,214
Cathay Insurance (Bermuda)	59,635	1,879	67,504	2,058
Cathay Securities Investment Trust Co., Ltd.	222,741	7,018	253,915	7,741
Subtotal	10,235,553	322,481	3,378,221	102,995
Less: Unrealized gain from intercompany transactions	(31,848)	(1,003)	(42,151)	(1,285)
Under the equity method	10,203,705	321,478	3,336,070	101,710
Under the cost method	16,189,092	510,053	27,045,207	824,549
Net	<u>\$26,392,797</u>	<u>\$831,531</u>	<u>\$30,381,277</u>	<u>\$926,259</u>

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

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financial statements of the Company as of and for the year ended December 31, 2005 include Cathay Pacific Venture, Cathay Venture, Cathay II Venture, Lin Yuan Property Management, Symphox Information, Seaward Leasing, Cathay Futures, Cathay Life (Shanghai) and Indovina Bank. In addition, initial adoption of this revised article was not required to restate prior period consolidated financial statements. As such, the aforementioned subsidiaries were still recorded as long-term investment in stock as of December 31, 2004.

### 8. Long-term investments in bonds

Long-term investments in bonds consist mainly of the government bonds and oversea bonds. As of December 31, 2004 and 2005, long-term investments in bonds amounted to NT\$450,545,469 (US\$14,194,879) and NT\$579,768,208 (US\$17,675,860), respectively.

### 9. Investment in real estate

		December 31, 2004								
Item	Cost		Revaluation surplus		Accumulated depreciation		Net value			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Investments in										
real estate	\$110,896,032	\$3,493,889	\$4,566	\$144	\$(13,078,641)	\$(412,056)	\$97,821,957	\$3,081,977		
Construction	3,627,780	114,297	-	-	-	-	3,627,780	114,297		
Total	<u>\$114,523,812</u>	<u>\$3,608,186</u>	<u>\$4,566</u>	<u>\$144</u>	<u>\$(13,078,641)</u>	<u>\$(412,056)</u>	<u>\$101,449,737</u>	<u>\$3,196,274</u>		
		December 31, 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	\$109,289,194	\$3,331,988	\$4,563	\$139	\$(13,000,846)	\$(396,367)	\$(196,952)	\$(6,005)	\$96,095,959	\$2,929,755
Construction	1,675,244	51,074	-	-	-	-	-	-	1,675,244	51,074
Prepayments										
for buildings										
and land	3,808,047	116,099	-	-	-	-	-	-	3,808,047	116,099
Rental assets	<u>1,155,884</u>	<u>35,240</u>	<u>-</u>	<u>-</u>	<u>(32,111)</u>	<u>(979)</u>	<u>-</u>	<u>-</u>	<u>1,123,773</u>	<u>34,261</u>
Total	<u>\$115,928,369</u>	<u>\$3,534,401</u>	<u>\$4,563</u>	<u>\$139</u>	<u>\$(13,032,957)</u>	<u>\$(397,346)</u>	<u>\$(196,952)</u>	<u>\$(6,005)</u>	<u>\$102,703,023</u>	<u>\$3,131,189</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.

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- (3) No investments in real estate were pledged as collateral. Investments in real estate were fully insured.
- (4) Cathay Life securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Zhong Hwa Building in 2005. The accounting treatment of these transactions is conformed to the regulation of the Accounting Research and Development Foundation. The relative information was disclosure as following.

Cathay Life transferred the risk and returns of the ownership of the real estate property to the transferee and the gain on disposal of the real estate under “total amount accrual method” was NT\$8,627,731 (US\$263,041).

After the REIT were issued, the sponsor and related parties of Cathay Life did not participate in the original offering. Instead, Cathay Life bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding securities. Thus, it should be treated as a part of unsold real estate. Cathay Life had deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by Cathay Life. As of December 31, 2005, the amount of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,083).

### **10. Deposits and remittances**

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Check deposits	\$11,171,200	\$351,960	\$14,401,830	\$439,080
Demand deposits	120,994,141	3,812,040	130,959,490	3,992,667
Savings deposits	451,837,992	14,235,602	555,879,245	16,947,538
Time deposits	124,644,039	3,927,033	172,974,020	5,273,598
Remittances payable	440,468	13,877	633,022	19,300
Total	<u>\$709,087,840</u>	<u>\$22,340,512</u>	<u>\$874,847,607</u>	<u>\$26,672,183</u>

### **11. Financial debentures payable:**

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Financial debentures payable	\$36,200,000	\$1,140,517	\$39,700,000	\$1,210,366
Subordinate financial debentures payable	12,350,000	389,099	28,756,297	876,716
Total	<u>\$48,550,000</u>	<u>\$1,529,616</u>	<u>\$68,456,297</u>	<u>\$2,087,082</u>

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On May 23, 2002, Cathay United Bank (merged) issued five-year subordinated financial debentures totaling NT\$5,000,000 (US\$152,439) 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\$152,439) 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\$71,646) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

Cathay United Bank (merged) issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semi-annually. Cathay United Bank (merged) can recall the bond after 10 years by exercising the call option.

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\$152,439) 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\$97,561), NT\$2,700,000 (US\$82,317) and NT\$1,800,000 (US\$54,878), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank (merged) issued six-year financial debentures totaling NT\$2,000,000 (US\$60,976) 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\$30,488), NT\$3,500,000 (US\$106,707), NT\$2,000,000 (US\$60,976), and NT\$1,000,000 (US\$30,488), 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\$76,220), NT\$1,500,000 (US\$45,732), NT\$1,500,000 (US\$45,732), NT\$2,500,000 (US\$76,220), NT\$1,500,000 (US\$45,732), NT\$2,500,000 (US\$76,220), NT\$1,000,000

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(US\$30,488) and NT\$1,000,000 (US\$30,488), NT\$2,000,000 (US\$60,976), NT\$1,500,000 (US\$45,732), 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).

### 12. Bonds payable

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Zero coupon convertible notes	\$21,759,548	\$685,556	\$11,865,321	\$361,747
Redemption premium payable	2,015,012	63,485	1,539,850	46,947
Total	\$23,774,560	\$749,041	\$13,405,171	\$408,694

Please see note 26(5) “Zero coupon convertible notes related information” for details.

### 13. Reserve for operations and liabilities

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Unearned premium reserve	\$13,517,802	\$425,892	\$14,662,678	\$447,033
Reserve for life insurance	1,456,702,273	45,894,842	1,622,772,457	49,474,770
Special reserve	19,302,572	608,146	20,193,001	615,640
Claims reserve	982,207	30,945	1,360,663	41,483
Reserves for losses on guarantees	28,573	900	28,688	875
Reserves for losses on stock brokerage transactions	1,585	50	48,931	1,492
Reserves for losses on trading securities	132,470	4,174	150,646	4,593
Bad debt loss reserve	-	-	725	22
Deferred income tax liabilities	49,794	1,569	-	-
Total	\$1,490,717,276	\$46,966,518	\$1,659,217,789	\$50,585,908

### 14. Common stock

As of December 31, 2004 and 2005, the numbers of common with a par value of NT\$10 (US\$0.3) shares issued, were 8,316,713 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\$58,958,697 (US\$1,857,552) and NT\$68,095,085 (US\$2,076,070) as of December 31, 2004 and 2005. Before conversion into a financial holding company, NT\$267,215 (US\$8,147) 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.

B. The distribution of the 2003 earnings was approved in the shareholders' meeting on June 3, 2004. The distribution resulted from retained earnings of NT\$20,588,763 (US\$648,669) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$27,960) and the disposition of fixed assets from

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subsidiaries which amounted to NT\$57,683 (US\$1,817), 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.

D. Cathay Life originally held 156,927 thousand shares of the Company. After conversion into a financial holding company, Cathay Life's treasury stock has been treated as the Company's treasury stock without any stockholder rights. As of December 31, 2005, 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 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, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The cost of these shares are exempted from distributing 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.

I. In 2005, pursuant to SFC, the information regarding the appropriation of employees, directors and supervisors, and estimate earnings per share will be available on the website of "Market Observation Post System" immediately after the meeting of directors.

In accordance with SFC regulations, the Company should assume that the dividends of year 2004 would be appropriated to the employees, directors and supervisors, and pro forma earnings per share for the current year.



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Name of Investee	For the year ended December 31,	
	2004(NT\$)	2004(US\$)
a. Distributions		
Bonus paid to employees-cash	\$2,119	\$67
Bonus paid to employees-stock	-	-
Remuneration paid to directors and supervisors	5,700	180
b. After income taxes earnings per share:		
(expressed in dollars)	\$3.70	\$0.12
Pro forma earnings per share:		
(expressed in dollars)	\$3.70	\$0.12
Pro forma earnings per share =	$\frac{\text{Net income-Bonus paid to employees-Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$	

### 17. Treasury stock

(1) The following is a summary of the movement of treasury stock for the year ended December 31, 2005.

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2005		December 31, 2005		Book value (NT\$)	Book value (US\$)	Per share Book value (in NT dollars)	Per share Book value (in US dollars)	Per share Market value (in NT dollars)	Per share Market value (in US dollars)
	Increase	Decrease	Increase	Decrease						
Shares held by subsidiaries	6,897	-	6,897	-	\$-	\$-	\$-	\$-	\$-	\$-

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

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2004		December 31, 2004		Book value (NT\$)	Book value (US\$)	Per share Book value (in NT dollars)	Per share Book value (in US dollars)	Per share Market value (in NT dollars)	Per share Market value (in US dollars)
	Increase	Decrease	Increase	Decrease						
Subsidiaries										
transferred shares										
to employees	51,551	-	51,551	-	\$-	\$-	\$-	\$-	\$-	\$-
The Company that the subsidiaries held were treated										
	11,705	-	4,808	6,897	354,955	11,183	51.47	1.62	63.00	1.98

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as treasury stock

Subsidiaries' stocks

held by the

Company after

conversion which

are treated as

treasury stock	254,911	-	254,911	-	-	-	-	-	-
Total	318,167	-	311,270	6,897	\$354,955	\$11,183			

(3) As of December 31, 2004, the Companies' stocks held by subsidiaries are illustrated as follows:

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

### (4) Cathay Life

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

(Unit: in thousands of shares)				
Reason for acquisition	January 1, 2004	Increase	Decrease	December 31, 2004
Transferred to employees	51,551	-	51,551	-

B. Cathay Life transferred 51,551,000 shares to its employees at a price of NT\$58.83 per share (US\$1.85 dollars/share), and was approved by the SFC on March 13, 2004. After the transfer transaction, the treasury stock holding of Cathay Life has been reduced to 0 share.

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

Item	For the year ended December 31 ,2004 (NT\$)			For the year ended December 31 ,2005 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$21,235,911	\$7,827,191	\$29,063,102	\$23,397,585	\$8,360,003	\$31,757,588
Labor & health insurance expenses	1,131,378	673,996	1,805,374	1,047,939	757,015	1,804,954
Pension expenses	837,119	550,602	1,387,721	564,652	513,896	1,078,548
Other expenses	1,036,315	844,879	1,881,194	1,020,360	921,736	1,942,096
Depreciation	-	3,180,871	3,180,871	53,478	3,685,296	3,738,774
Depletion	-	-	-	-	-	-
Amortizations	-	157,938	157,938	5,098	210,076	215,174

Item	For the year ended December 31 ,2004 (US\$)			For the year ended December 31 ,2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$669,058	\$246,604	\$915,662	\$713,341	\$254,878	\$968,219
Labor & health insurance expenses	35,645	21,235	56,880	31,949	23,080	55,029
Pension expenses	26,375	17,347	43,722	17,215	15,668	32,883
Other expenses	32,650	26,619	59,269	31,108	28,102	59,210
Depreciation	-	100,216	100,216	1,631	112,357	113,988
Depletion	-	-	-	-	-	-
Amortizations	-	4,976	4,976	155	6,405	6,560

**19. Estimated income taxes**

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Expected income tax expense	\$1,285,596	\$40,504	\$1,817,983	\$55,426
Plus: Interest income of tax on a separate basis	288,383	\$9,086	674,650	20,569
Deferred income tax expenses (benefits)	2,170,346	68,379	(2,105,016)	(64,177)
Extra 10% income tax on undistributed retained earnings	338,048	10,650	372,329	11,351

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Less: Income tax credit	(73,320)	(2,310)	(60,640)	(1,849)
Tax effects under consolidated				
income tax return	(338,038)	(10,650)	(298,343)	(9,096)
Dissimilitude on estimate tax from				
prior years	(8,631)	(272)	49,650	1,514
Operating loss carryforwards	-	-	20,959	639
Total income tax expenses	<u>\$3,662,384</u>	<u>\$115,387</u>	<u>\$471,572</u>	<u>\$14,377</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:

	December 31, 2005	
	Income tax returns assessed	Notes
The Company	through 2001	-
Cathay Life	through 2001	-
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.
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,

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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 2003	-
Lin Yuan Property Management	through 2003	-
Cathay Futures	through 2003	-
Seaward Leasing	through 2003	-
Lucky Bank	through 2003	-
Cathay venture	through 2003	-
Pao shin Securities	through 2003	-

### (3) Information related tax imputation:

#### A. Balance of imputation credit account

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
The Company	\$362,239	\$11,413	\$1,681,979	\$51,280
Cathay Life	1,257,227	39,610	998,420	30,440
Cathay United Bank (merged)	126,066	3,972	71,196	2,171
Cathy Century	9,468	298	8,898	271
Cathay Securities	1,136	36	6,385	195
Cathay Pacific Venture	-	-	392	12
Cathay Venture	-	-	15,545	474
Cathay II Venture	-	-	4,473	136
Lin Yuan Property Management	-	-	17,333	528
Cathay Futures	-	-	11,772	359
Seaward Leasing	-	-	76,640	2,337
Lucky Bank	-	-	264	8

#### B Imputation credit account ratio

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	For the years ended December 31,	
	2004 (Actual)	2005 (Estimate)
The Company	7.58%	7.62%
Cathay Life	9.52%	5.57%
Cathay United Bank (merged)		
-cash dividends	1.04%	-
-stock dividends	3.28%	-
Cathy Century	1.83%	1.51%
Cathay Securities	-	13.09%
Cathay II Venture	-	33.33%
Lin Yuan Property Management	-	33.99%

### (4) Information relating of undistributed earnings:

Year	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Prior to 1997	\$267,215	\$8,419	\$267,215	\$8,147
After 1998	30,640,997	965,375	28,146,255	858,117
Total	\$30,908,212	\$973,794	\$28,413,470	\$866,264

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.

## 20. Earnings per share

	For the year ended December 31, 2004				
			Shares		
			(in thousands of		
			shares)		
	Amount (Numerator)	(denominator)		EPS	
	After income taxes		After income taxes EPS		
			(in dollars)		
	NT\$	US\$	NT\$	US\$	
Consolidated income	\$29,827,155	\$939,734			
<b>Primary earnings per share</b>					
Consolidated income for common stock holder	29,827,155	939,734	8,064,662	\$3.70	\$0.12
<b>Effect of potentially dilutive common stock</b>					
Convertible notes payable	537,299	16,928	446,119		
<b>Fully-diluted earnings per share</b>					

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Consolidated income for common stock holder & effect of potentially common stock	\$30,364,454	\$956,662	\$8,510,781	\$3.57	\$0.11
Income from parent company	\$29,827,155	\$939,734			
<b>Primary earnings per share</b>					
Income from parent company	\$29,827,155	\$939,734	8,064,662	\$3.70	\$0.12
<b>Effect of potentially dilutive common stock</b>					
Convertible notes payable	537,299	16,928	446,119		
<b>Fully-diluted earnings per share</b>					
Income from parent company & effect of potentially common stock	\$30,364,454	\$956,662	\$8,510,781	\$3.57	\$0.11

For the year ended December 31, 2005

	Amount (Numerator)		Shares (in thousands of shares) (denominator)	EPS After income taxes EPS (in dollars)	
	NT\$	US\$		NT\$	US\$
Consolidated income	\$21,759,225	\$663,391			
<b>Primary earnings per share</b>					
Consolidated income for common stock holder	21,759,225	663,391	8,462,518	\$2.57	\$0.08
<b>Effect of potentially dilutive common stock</b>					
Convertible notes payable	427,143	13,023	299,010		
<b>Fully-diluted earnings per share</b>					
Consolidated income for common stock holder & effect of potentially common stock	\$22,186,368	\$676,414	8,761,528	\$2.53	\$0.08
Income from parent company	\$21,787,053	\$664,239			
<b>Primary earnings per share</b>					
Income from parent company	\$21,787,053	\$664,239	8,462,518	\$2.57	\$0.08
<b>Effect of potentially dilutive common stock</b>					
Convertible notes payable	427,143	13,023	299,010		
<b>Fully-diluted earnings per share</b>					
Income from parent company & effect of potentially common stock	\$22,214,196	\$677,262	8,761,528	\$2.54	\$0.08

## 21. Related party transactions

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(1) Related parties

Name	Relationship
Cathay Capital Management	Subsidiary of the 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
Name	Relationship
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
Taiwan Real-estate Management Corp.	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 Charity Foundation	Cathay Life is the major sponsor of the foundation
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
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
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the subsidiaries' chairman
Wu Ming-Yang	Senior manager of Cathay Century
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Taiwan Asset Management Corporation	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Industrial and Commercial Bank of Vietnam	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliate
China Eastern Aviation IMP./EXP. Corp	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Corporation. Limited.	Affiliate



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(2) *Significant transactions with related parties:*

A. Beneficiary certificates

Name	December 31,				
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)	
Cathay Securities					
Investment Trust Co., Ltd.	Cost	\$5,567,590	\$175,412	\$6,024,150	\$183,663
	Market value	\$5,587,952	\$176,054	\$6,509,531	\$198,461

B. Receivables

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$291	\$9	\$9,006	\$275
Cathay Insurance (Bermuda)	16,044	505	17,491	533
Cathay Capital Management	-	-	7,782	237
Cathay Real Estate Development Co., Ltd.	-	-	909	28
Seaward Leasing	60	2	-	-
Cathay Futures	144	5	-	-
Symphox Information	501	16	-	-
Cathay Securities Investment Trust Co., Ltd.	-	-	397	12
Total	\$17,040	\$537	\$35,585	\$1,085

C. Prepayments

Name	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Symphox Information	\$8,159	\$257	-	-

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D. Regular secured loans

As of and for the year ended December 31, 2004				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,192,866	\$2,192,411	2.60%-3.50%	\$50,795
Wu Ming-Yang	2,374	1,651	2.60%	48
Total		<u>\$2,194,062</u>		<u>\$50,843</u>

As of and for the year ended December 31, 2004				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$69,088	\$69,074	2.60%-3.50%	\$1,600
Wu Ming-Yang	75	52	2.60%	2
Total		<u>\$69,126</u>		<u>\$1,602</u>

As of and for the year ended December 31, 2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,656,679	\$2,650,612	2.60%-3.09%	\$66,678
Wu Ming-Yang	1,651	1,536	2.97%	43
Total		<u>\$2,652,148</u>		<u>\$66,721</u>

As of and for the year ended December 31, 2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$80,996	\$80,811	2.60%-3.09%	\$2,033
Wu Ming-Yang	50	47	2.97%	1
Total		<u>\$80,858</u>		<u>\$2,034</u>

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### E. Loans and deposits

December 31,										
2004						2005				
Account	(NT\$)	(US\$)	% of account	Interest revenue (expense)		(NT\$)	(US\$)	% of account	Interest revenue (expense)	
				(NT\$)	(US\$)				(NT\$)	(US\$)
Bills and loans	\$1,997,390	\$62,930	0.19%	\$32,619	\$1,028	\$1,047,932	\$31,949	0.09%	\$35,605	\$1,086
Deposits	\$3,339,191	\$105,205	0.47%	\$(251,452)	\$(7,922)	\$4,282,808	\$130,573	0.49%	\$28,863	\$(880)

As of and for the year ended December 31, 2005				
Name	Ending balance (NT\$)	Interest revenue (expense) (NT\$)	Ending balance (US\$)	Interest revenue (expense) (US\$)
Due from commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$253	\$3	\$8	\$-
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$2,978	\$(17,066)	\$91	\$(520)
Bank overdraft				
Industrial and Commercial				
Bank of Vietnam	\$144,630	Note	\$4,409	Note

Note: The interest expenses from due to commercial banks and bank overdraft were recorded together.

### 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 year ended December 31, 2004			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Hsinyi Oistrict Base-E	\$18,766	\$591
	Tainmu Jung Cheng-A	4,272	135
	Tainmu Jung Cheng-B	4,315	136
	Hsinyi District Base-D	20,338	641

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Ban Ciao Building	254,236	8,010
Sheraton Taipei Hotel	57,234	1,803
Cathay General Hospital	8,585	271
Sainyang Building	30,033	946
Cosmos Building	7,020	221
Cathay Golden & Sliver Bldg	27,276	859
Xi-Men Bldg	16,490	520
Tainmu Shopping Mall-B	9,441	297
Taipei Financial Center Building	5,528	174

For the year ended December 31, 2004

Name	Item	NT\$	US\$
	Li-Yuan Building	52,309	1,648
	Lin Yuan Building	510	16
	Tainmu Base-A	1,242	39
	Cathay Information Building	11,567	364
	Cathay Life Insurance Building	1,757	55
	Tucheng office Building	98,430	3,101
	Jhunan Building	11,192	353
	Keelung Second Building	6,777	214
	Taitung Siwei Building	685	22
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	3,340	105
	Hsinyi District Base-D	332	10
	Tucheng Office Building	116	4
Symphox Information Co., Ltd.	Hsinyi District Base-E	27,000	851
	Total	<u>\$678,791</u>	<u>\$21,386</u>

For the year ended December 31, 2005

Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$2,769	\$84
	Cathay Golden & Slivr	3,791	116
	Ban Ciao Building	359,060	10,947
	Sheraton Taipei Building	53,742	1,638
	Sainyang Building	4,222	129
	Cathay Land Mark	3,000	91
	Financial Center Hsing-E	2,609	80

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		For the year ended December 31, 2005	
Name	Item	NT\$	US\$
	Other	293	9
Cathay Real Estate	Ban Ciao Building	3,537	108
Development Co., Ltd.	Cathay Land Mark	1,000	30
	Total	\$434,023	\$13,232

The total amount of the contracted projects for real estate as of December 31, 2004 and 2005 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$9,873,635 (US\$311,079) and NT\$1,620,227 (US\$49,397), respectively.

### b. Cathay Life disposal of real estate information:

		For the year ended December 31, 2004			
		Sales amount		Loss on disposal assets	
Name	Item	NT\$	US\$	NT\$	US\$
Cathay General Hospital	No 678 Sec. 2				
	Chung-Hwa Rd. Hsinchu	\$1,520,000	\$47,889	\$(8,390)	\$(264)

Cathay Life did not sell any real estate to its related parties for the year ended December 31, 2005.

### c. Cathay Life purchased of real estate information:

Cathay Life did not purchase any real estate from its related parties for the year ended December 31, 2004.

		For the year ended December 31, 2005			
		Contract Price		Prepayments for buildings and land	
Name	Item	NT\$	US\$	NT\$	US\$
Wan Pao Development Co., Ltd.	No. 65 Simen Rd, Tainan City.	\$5,290,000	\$161,280	\$2,581,601	\$78,707
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	\$2,470,000	\$75,305	\$1,226,446	\$37,392

### d. The Company and Cathay Life disposal of property and equipment information:

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The Company and Cathay Life did not sell any property and equipment to its related parties for the year ended December 31, 2004.

		For the year ended December 31, 2005			
Name	Item	Sales amount		Loss on disposal assets	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$1,300	\$40	\$(792)	\$(24)

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

Name	Rental income			
	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$21,568	\$680	\$16,877	515
Cathay General Hospital	134,315	4,232	133,356	4,066
San Ching Engineering Co., Ltd.	12,906	407	7,569	231
Symphox Information	24,390	768	-	-
Cathay Securities Investment Trust Co., Ltd.	8,830	278	12,118	369
Cathay Securities Investment	4,136	130	3,639	111
Cathay Capital Management	160	5	1,928	59
Taiwan Asset Management Corporation	-	-	14,342	437
Seaward Leasing	1,482	47	-	-
Taipei Smart Card Corp.	5,707	180	5,707	174
Culture and Charity Foundation of CUB	1,000	31	1,000	30
Total	\$214,494	\$6,758	\$196,536	\$5,992

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			
	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$4,286	\$135	\$3,645	\$111
Cathay General Hospital	2,354	74	4,509	137
San Ching Engineering Co., Ltd.	1,895	60	2,009	61
Symphox Information	1,394	44	-	-

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Cathay Securities Investment Trust Co., Ltd.	2,738	86	2,738	84
Cathay securities Investment	877	28	877	27
Cathay Capital Management	479	15	479	15
Taiwan Asset Management Corporation	-	-	3,477	106
Total	<u>\$14,023</u>	<u>\$442</u>	<u>\$17,734</u>	<u>\$541</u>

f. Real estate rental expense from Cathay Life, Cathay United Bank (merged), Cathay Century and Cathay Securities.

Name	Rental expense			
	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$43,466	\$1,369	\$43,470	\$1,325
Lin Yuan Investment Co., Ltd.	6,680	211	3,476	106
Yi Ru Corporation	-	-	4,082	125
Seaward Leasing	108	3	-	-
Total	<u>\$50,254</u>	<u>\$1,583</u>	<u>\$51,028</u>	<u>\$1,556</u>

Name	Refundable deposits			
	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,565	\$396	\$12,426	379
Yi Ru Corporation	-	-	1,190	36
Seaward Leasing (Note)	42,000	1,323	-	-
Cathay Futures	5,492	173	-	-
Lin Yuan Investment Co., Ltd.	1,650	52	628	19
Total	<u>\$61,707</u>	<u>\$1,944</u>	<u>\$14,244</u>	<u>\$434</u>

According to the contracts, the 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.

g. The Company and Cathay Securities acquisition for property and equipment

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information:

Name	Description	December 31,			
		2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Symphox Information	Leasehold improvement- IT infrastructure	\$8,000	\$252	\$-	\$-
Cathay Real Estate Development Co., Ltd	Transportation and Communication equipment	-	-	1,850	56
Total		<u>\$8,000</u>	<u>\$252</u>	<u>\$1,850</u>	<u>\$56</u>

### G. Bonds sold under repurchase agreements

Name	December 31			
	Ending balance			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.-Cathay Bond Fund	<u>\$78,816</u>	<u>\$2,483</u>	<u>\$-</u>	<u>\$-</u>

Name	For the year ended December 31,			
	Interest expenses			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.-Cathay Bond Fund	<u>\$250</u>	<u>\$8</u>	<u>\$1,988</u>	<u>\$61</u>

### H. Payables

Name	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Pacific Venture	\$5,906	\$186	\$-	\$-
San Ching Engineering Co., Ltd.	42,028	1,324	54,164	1,651
Symphox Information	20,453	644	-	-
Seaward Card	92,394	2,911	42,461	1,295
Cathay Real Estate Development Co., Ltd.	909	29	947	29
Total	<u>\$161,690</u>	<u>\$5,094</u>	<u>\$97,572</u>	<u>\$2,975</u>



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I. Insurance income

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$5,248	\$165	\$28,486	\$869
Seaward Leasing	2,601	82	-	-
Shanghai China Eastern Media Co., Ltd.	-	-	1,457	44
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	-	-	368	11
China Eastern Aviation IMP./EXP. Corp	-	-	1,757	54
CEA Futures Brokerage Co., Ltd.	-	-	2,672	82
CEA Finance Holding Co., Ltd.	-	-	2,587	79
CEA Finance Co., Ltd.	-	-	4,736	144
China Eastern Airlines Corporation Limited	-	-	198,583	6,054
Cathay Futures	2,214	70	-	-
Cathay Real Estate Development Co., Ltd.	1,147	36	2,627	80
San Ching Engineering Co., Ltd.	470	15	2,801	85
Cathay Securities Investment Trust Co., Ltd.	-	-	817	25
Lin Yuan Investment Co., Ltd.	216	7	329	10
Lin Yuan Property Management	85	2	-	-
Total	<u>\$11,981</u>	<u>\$377</u>	<u>\$247,220</u>	<u>\$7,537</u>

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J. Sales

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	\$-	\$-	\$923	28
Cathay General Hospital	-	-	586	18
Cathay Securities Investment Trust Co., Ltd.	-	-	4,706	143
Total	\$-	\$-	\$6,215	\$189

K. Service Income

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay General Hospital	\$-	\$-	\$99,412	\$3,031
San Ching Engineering Co., Ltd.	-	-	1,933	59
Cathay Securities Investment Trust Co., Ltd.	-	-	2,097	64
Cathay Real Estate Development Co., Ltd.	-	-	37,841	1,154
Lin Yuan Investment Co., Ltd.	-	-	11,954	364
Cathay Securities Investment	-	-	355	11
Total	\$-	\$-	\$153,592	\$4,683

L. Reinsurance income

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$95,492	\$3,009	\$139,957	\$4,267

M. Reinsurance handling fee income

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$-	\$-	\$4,779	\$146

N. Feature commission revenue

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Futures	\$862	\$27	\$-	\$-

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### O.Handling fee Income

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Futures	\$2,146	\$68	\$-	\$-
Cathay Life Insurance Agent	-	-	1,914	58
Total	<u>\$2,146</u>	<u>\$68</u>	<u>\$1,914</u>	<u>\$58</u>

### P.Miscellaneous income

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$7,617</u>	<u>\$240</u>	<u>\$11,378</u>	<u>\$347</u>

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

### Q.Commissions expense

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life Insurance Agent	\$287,969	\$9,073	\$185,278	\$5,649
Cathay Property Insurance Agent	-	-	32,968	1,005
Total	<u>\$287,969</u>	<u>\$9,073</u>	<u>\$218,246</u>	<u>\$6,654</u>

### R.Reinsurance commissions expense

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	<u>\$18,243</u>	<u>\$575</u>	<u>\$18,355</u>	<u>\$560</u>

### S.Reinsurance claims payment

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	<u>\$22,143</u>	<u>\$698</u>	<u>\$68,743</u>	<u>\$2,096</u>

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### T.Reinsurance handling fee expense

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Insurance (Bermuda)	\$7,665	\$241	\$-	\$-

### U.Operating expense

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Lin Yuan Property Management	\$736,109	\$23,192	\$-	\$-
Cathay Real Estate Development Co., Ltd.	14,390	453	14,463	441
Cathay Securities Investment	52,500	1,654	52,500	1,601
San Ching Engineering Co., Ltd.	7,589	239	7,127	217
Symphox Information	255,370	8,046	-	-
Seaward Leasing	204	7	-	-
Seaward Card	740,597	23,333	930,561	28,371
Cathy Capital Management	-	-	57,383	1,749
Cathay Lin Yuan Security Co., Ltd.	-	-	826	25
Total	<u>\$1,806,759</u>	<u>\$56,924</u>	<u>\$1,062,860</u>	<u>\$32,404</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 the 4<sup>th</sup> quarter, 2004 to comply with peer prices.

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

### V.Others

- a. As of the December 31, 2004 and 2005, Seaward Leasing borrowed loans and lines of credit from financial institutions on behalf of China England. Seaward not only guaranteed the loans or lines of credit but also provided lands, houses and buildings as collaterals. Furthermore, a portion of the credit lines of Seaward Leasing and China England were jointly liable.
- b. As of December 26, 2001, Seaward Leasing signed a construction management services contracts with the Taiwan Real-estate Management Corp for the purchased

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Taichung Jing T'ang Building (Renamed the Taichung Cathay financial buildings) which was still in construction. The amount of contract was NT\$17,010 (US\$519) and payments were based on percentage of completion. Seward Leading has paid in full as of December 31, 2005.

c. On May 7, 2003, Seward Leasing appointed San Ching Engineering, a related party of the Company, as the consultant of construction manage from May 15, 2003 to December 31, 2004. The monthly fee was NT\$234(US\$7). However, due to the delay of the construction progress, the monthly fees were paid through the end of May, 2005 without subjoined contract. Seward Leasing has paid NT\$2,925(US\$92) and NT\$3,114(US\$95) in fiscal 2004 and 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\$7) in fiscal 2004 and 2005.

e.Cathay United Bank (merged) purchased automated systems in its 24-hour self-service banking centers from Sanching Engineering Co., Ltd. for the amounts of NT\$88,575 (US\$2,791) and NT\$3,820 (US\$116) during fiscal 2004 and 2005, respectively.

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

## **22. Pledged assets**

### **(1) Cathay Life**

As of December 31, 2004 and 2005, Cathay Life provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Law, Cathay Life is required to deposit long-term investment in bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

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Item	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Long-term investment				
in bonds	\$8,090,599	\$254,902	\$8,047,275	\$245,344
Time deposits	338,907	10,678	235,250	7,172
Total	<u>\$8,429,506</u>	<u>\$265,580</u>	<u>\$8,282,525</u>	<u>\$252,516</u>

The pledged assets are disclosed based on the carrying amount.

(2) Cathay United Bank (merged)

A. NT\$16,001,506 (US\$504,143) and NT\$16,833,168 (US\$513,206) of the securities purchased as of December 31, 2004 and 2005, respectively, were pledged to other parties as collateral for business reserves and guarantees.

B. As of December 31, 2004 and 2005, NT\$205,439(US\$6,473) and NT\$501,941 (US\$15,303) 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	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Government bonds	<u>\$359,937</u>	<u>\$11,340</u>	<u>\$356,051</u>	<u>\$10,855</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 on the carrying amount.

(4) Cathay Securities

Item	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Restricted assets - time deposits	<u>\$500,000</u>	<u>\$15,753</u>	<u>\$1,300,000</u>	<u>\$39,634</u>

A. As of December 31, 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.

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B. The restricted assets - time deposits are disclosed on the carrying amount.

(5) Seaward Leasing

As of December 31, 2004 and 2005, the following assets had been provided as collaterals by Seaward Leasing to guarantee loans, others financing or leasing:

Item	December 31,				Creditor
	2004 (NT\$)	2004 (US\$)	2005 (NT\$)	2005 (US\$)	
Property and equipment-Buildings and construction (Book value)	\$1,125,769	\$35,468	\$1,511,524	\$46,083	Taiwan Finance Corp.
Property and equipment-Land	639,832	20,159	824,643	25,142	Taiwan Finance Corp. and Cathay United Bank(merged)
<b>Total</b>	<b>\$1,765,601</b>	<b>\$55,627</b>	<b>\$2,336,167</b>	<b>\$71,225</b>	

(6) Lucky Bank

A. NT\$10,000 (US\$315) and NT\$0 (US\$0) of the securities purchased as of December 31, 2004 and 2005, respectively, were pledged to the court as collateral.

B. Lucky Bank had NT\$100,000 (US\$3,151) and NT\$100,000 (US\$3,049) certificate of deposit as restricted assets for correspondent deposit as of December 31, 2004 and 2005, respectively.

(7) Pao Shin Securities

As of December 31, 2004 and 2005, the following asset has provided as collaterals by Pao Shin Securities.

Item	Guarantee purpose	Book value			
		2004(NT\$)	2004(US\$)	2004(NT\$)	2004(US\$)
Others restricted assets (Other financial assets - current)	The guarantee of withholding and pay out by bank was pledged in the En Tie bank.	\$-	\$-	\$10,000	\$305
Time deposits (operating deposits)	The operating deposit was pawned in the Cathay United Bank(merged).	85,000	2,678	85,000	2,591
<b>Total</b>		<b>\$85,000</b>	<b>\$2,678</b>	<b>\$95,000</b>	<b>\$2,896</b>

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### 23. Other disclosure information, commitment and contingent liabilities

#### (1) Cathay United Bank (merged)

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

	NT\$	US\$
A. Entrusted items and guarantees:		
Trust and security held for safekeeping	\$549,209,361	\$16,744,188
Travelers checks for sale	620,290	18,911
Bills for collection	51,854,375	1,580,926
Guarantees on duties and contracts	14,588,644	444,776
Unused commercial letters of credit	3,302,943	100,699
Irrevocable loan commitments	26,034,126	793,723
Credit card lines	290,194,193	8,847,384
Stamp tax, securities and memorial currency consignments	1,727	53

B. As of December 31, 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\$18,293) 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 unjustified benefits. 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. On September 8, 2005 the Supreme Court rendered a judgment in favor of Chung Shing bank. This lawsuit 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\$732) 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) subsequently appealed and the case is



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being reviewed by the High Court. Cathay United Bank (merged) also filed claim (the claim) against Taiwan Secom Co., Ltd. in relation to the loss mentioned above. The High Court has suspended the claim until the High Court has a determination on the lawsuit.

- c. In 2001, embezzlement and illegal acts involving the amount of NT\$60,204 (US\$1,835) was committed by one of Cathay United Bank's (merged) employees. Cathay United Bank (merged) has filed a motion of injunction against the employee's personal properties. The Central Insurance Co., Ltd. has compensated for the loss in the amount of NT\$39,900 (US\$1,216). The District prosecutors office has take a public prosecution. Cathay United Bank (merged) filed an incidental civil procedures.
- d. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank (merged) believe a breach of Pacific SOGO's co-branded card contract with Cathay United Bank (merged) exist. 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. The lawsuit is pending in the Taipei District Court. Cathay United Bank (merged) also has filed an incidental civil procedures and claimed against Pacific SOGO.
- e. On December 25, 2004, a charge of embezzlement in the amount of NT\$79,000 (US\$2,409) by one of Cathay United Bank's (merged) employees was brought to the Taipei District Prosecutors Office. NT\$54,029(US\$1,647) has been recovered.

C. As of December 31, 2005, Cathay United Bank (merged) entered into certain contracts to purchase premises and equipment totaling NT\$1,045,485 (US\$31,875) with down payments of NT\$791,605 (US\$24,134).

### (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 2002, 2001 and 1999 tax returns, amounting to NT\$1,944 (US\$59), NT\$2,988 (US\$91) and NT\$3,112 (US\$95), 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) Indovina Bank

As of December 31, 2005, Indovina Bank has signed several significant rental contracts for the branches. The estimated rents for the next five years are as follows:

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Period	Amount	
	NT\$	US\$
January 1, 2006 ~ December 31, 2006	\$6,265	\$191
January 1, 2007 ~ December 31, 2011	14,498	442
January 1, 2012 ~	2,066	63
Total	\$22,829	\$696

(4) Lucky Bank

As of December 31, 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	\$23,735	\$724
Bills for collection	6,799,472	207,301
Guarantees and commercial letters of credit	494,343	15,071
Loan commitments	15,768,868	480,758

B. As of December 31, 2005, Lucky Bank had various lawsuits, claims and proceedings. The significant ones are summarized below:

- a. In 2003, Lucky Bank together with an employee of Lucky Bank were jointly and severally sued by a third party related to a land transaction. The plaintiff sought to economic damages of NT\$22,000 (US\$671) plus interest. The lawsuit has been dismissed by Taiwan High Court. The plaintiff, however, appealed. The lucky Bank and its attorney are “cautiously optimistic” about the outcome. In the worst case scenario, Lucky Bank may still seek reimbursement from the employee who was jointly and severally being sued. Accordingly, Lucky Bank did not make any accrual.
- b. In July 2005, an ex-employee of Lucky Bank filed an action against Lucky Bank in the Taichung District Court, seeking pension and wage payments of NT\$10,945 (US\$334) plus interest. Lucky Bank is cautiously optimistic about the outcome due to Lucky Bank found the ex-employee neglect of duty. Accordingly, Lucky Bank did not provide any accrual related to this lawsuit.

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

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Periods	NT\$	US\$
January 1, 2006~December 31, 2006	\$17,666	\$539
January 1, 2007~December 31, 2007	7,740	236
January 1, 2008~December 31, 2008	6,940	211
January 1, 2009~December 31, 2009	3,700	113
January 1, 2010~December 31, 2010	-	-
Total	<u>\$36,046</u>	<u>\$1,099</u>

**24. Serious damages:** None.

**25. Subsequent events:** None.

**26. Other important events**

(1) Pension related information

According to the ROC SFAS No.18 “Accounting for Pensions” the actuarial report disclosure of pension information for the years ended December 31, 2004 and 2005 was as follows:

A. The Company

a. Pension funded status

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$(3,668)	\$(116)	\$(5,350)	\$(163)
(b) Non-vested benefit obligation	(4,785)	(151)	(6,726)	(205)
(c) Accumulated benefit obligation	(8,453)	(267)	(12,076)	(368)
(d) Additions benefits based on future salaries	(4,548)	(143)	(6,095)	(186)
(e) Projected benefit obligation	(13,001)	(410)	(18,171)	(554)
(f) Fair value of plan assets	416	13	1,112	34
(g) Funded status=(e)+(f)	(12,585)	(397)	(17,059)	(520)
(h) Unrecognized pension loss	10,108	319	7,931	242
(i) Additional accrued pension liability	(5,560)	(175)	(1,837)	(56)
(j) Accrued pension liability	<u>\$(8,037)</u>	<u>\$(253)</u>	<u>\$(10,965)</u>	<u>\$(334)</u>

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= (g)+(h)+(i)				
(k) Vested benefit	\$9,173	\$289	\$14,041	\$428

b. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.00%	3.00%
(b) Expected rate of increase in salaries	3.00%	3.00%
(c) Expected long-term rate of return on plan assets	3.00%	3.00%

B. Cathay Life

a. Pension funded status

	December 31,			
	2004 (NT\$)	2004 (US\$)	2005 (NT\$)	2005 (US\$)
(a) Vested benefit obligation	\$(5,712,528)	\$(179,979)	\$(5,852,955)	\$(178,444)
(b) Non-vested benefit obligation	(3,073,193)	(96,824)	(2,774,358)	(84,584)
(c) Accumulated benefit obligation	(8,785,721)	(276,803)	(8,627,313)	(263,028)
(d) Additional benefits based on future salaries	(2,059,182)	(64,877)	(2,668,181)	(81,347)
(e) Projected benefit obligation	(10,844,903)	(341,680)	(11,295,494)	(344,375)
(f) Fair value of plan assets	12,042,436	379,409	10,512,569	320,505
(g) Funded status = (e) + (f)	1,197,533	37,729	(782,925)	(23,870)
(h) Unrecognized transitional net assets	(2,272,193)	(71,588)	(1,893,495)	(57,728)
(i) Unrecognized prior service cost	362,134	11,409	310,401	9,464
(j) Unrecognized pension gain and loss	(715,184)	(22,532)	738,701	22,521
(k) Accrued pension liability = (g)+(h)+(i)+(j)	\$(1,427,710)	\$(44,982)	\$(1,627,318)	\$(49,613)
(l) Vested benefit	\$(7,980,112)	\$(251,421)	\$(8,174,936)	\$(249,236)

b. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.00%	3.00%
(b) Expected rate of increase in salaries	3.00%	3.00%
(c) Expected long-term rate of return on plan assets	3.00%	3.00%

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C. Cathay United Bank (merged)

a. Pension funded status

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$ (1,433,581)	\$ (45,167)	\$ (790,898)	\$ (24,113)
(b) Non-vested benefit obligation	(68,439)	(2,156)	(100,555)	(3,066)
(c) Accumulated benefit obligation	(1,502,020)	(47,323)	(891,453)	(27,179)
(d) Additions benefits based on future salaries	(1,531,928)	(48,265)	(684,088)	(20,856)
(e) Projected benefit obligation	(3,033,948)	(95,588)	(1,575,541)	(48,035)
(f) Fair value of plan assets	2,887,610	90,977	901,328	27,480
(g) Funded status=(e)+(f)	(146,338)	(4,611)	(674,213)	(20,555)
(h) Unrecognized transitional net benefit obligation	183,324	5,776	150,826	4,598
(i) Unrecognized pension gain and loss	(36,986)	(1,165)	533,666	16,270
(j) Prepaid pension cost=(g)+(h)+(i)	\$-	\$-	\$10,279	\$313

Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.50%	3.50%
(b) Expected rate of increase in salaries	4.00%	3.00%
(c) Expected long-term rate of return on plan assets	3.50%	3.50%

D. Cathay Century

a. Pension funded status

	December 31,			
	2004 (NT\$)	2004 (US\$)	2005 (NT\$)	2005 (US\$)
(a) Vested benefit obligation	\$ (38,680)	\$ (1,219)	\$ (49,136)	\$ (1,498)
(b) Non-vested benefit obligation	(131,823)	(4,153)	(141,786)	(4,323)
(c) Accumulated benefit obligation	(170,503)	(5,372)	(190,922)	(5,821)
(d) Additional benefits based on future salaries	(87,443)	(2,755)	(65,708)	(2,003)
(e) Projected benefit obligation	(257,946)	(8,127)	(256,630)	(7,824)
(f) Fair value of plan assets	164,201	5,173	184,053	5,611
(g) Funded status=(e)+(f)	(93,745)	(2,954)	(72,577)	(2,213)
(h) Unrecognized transitional net benefit obligation	8,123	256	7,543	230
(i) Unrecognized pension loss	85,622	2,698	61,629	1,879
(j) Additional accrued pension liability	(6,302)	(199)	(3,464)	(105)

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(k) Accrued pension liability =(g)+(h)+(i)+(j)	\$(6,302)	\$(199)	\$(6,869)	\$(209)
(l) Vested benefit	\$142,586	\$4,492	\$165,592	\$5,049

### b. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.70%	3.70%
(b) Expected rate of increase in salaries	1.08%~8.69%	1.08%~8.69%
(c) Expected long-term rate of return on plan assets	3.70%	3.70%

## E. Cathay Securities

### a. Pension funded status

	December 31,			
	2004(NT\$)	2004(US\$)	2005 (NT\$)	2005 (US\$)
(a) Vested benefit obligation	\$(163)	\$(5)	\$(849)	\$(26)
(b) Non-vested benefit obligation	(1,517)	(48)	(3,057)	(93)
(c) Accumulated benefit obligation	(1,680)	(53)	(3,906)	(119)
(d) Additional benefits based on future salaries	(1,355)	(43)	(2,484)	(76)
(e) Projected benefit obligation	(3,035)	(96)	(6,390)	(195)
(f) Fair value of plan assets	-	-	1,575	48
(g) Funded status=(e)+(f)	(3,035)	(96)	(4,815)	(147)
(h) Unrecognized transitional net obligation	3,035	96	2,897	88
(i) Unrecognized pension gain	-	-	(668)	(20)
(j) Additional accrued pension liability	(1,810)	(57)	-	-
(k) Prepaid pension cost = (g)+(h)+(i)+(j)	\$(1,810)	\$(57)	\$(2,586)	\$(79)

### b. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.00%	3.00%
(b) Expected rate of increase in salaries	3.00%	3.00%
(c) Expected long-term rate of return on plan assets	3.00%	3.00%

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F. Symphox Information

a. Pension funded status

	December 31,	
	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$ (2,557)	\$ (78)
(b) Non-vested benefit obligation	(1,802)	(55)
(c) Accumulated benefit obligation	(4,359)	(133)
(d) Additions benefits based on future salaries	(1,273)	(39)
(e) Projected benefit obligation	(5,632)	(172)
(f) Fair value of plan assets	5,300	162
(g) Funded status=(e)+(f)	(332)	(10)
(h) Unrecognized transitional net benefit obligation	332	10
(i) Accrued pension liability=(g)+(h)	\$-	\$-
(j) Vested benefit	<u>\$4,105</u>	<u>\$125</u>

b. Actuarial assumptions

	For the year ended December 31,	
	2005	
(a) Discount rate	3.00%	
(b) Expected rate of increase in salaries	2.00%	
(c) Expected long-term rate of return on plan assets	3.00%	

G. Lin Yuan Property Management

a. Pension funded status

	December 31,	
	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$ (16,405)	\$ (500)
(b) Non-vested benefit obligation	(35,817)	(1,092)
(c) Accumulated benefit obligation	(52,222)	(1,592)
(d) Additions benefits based on future salaries	(3,553)	(108)
(e) Projected benefit obligation	(55,775)	(1,700)
(f) Fair value of plan assets	5,817	177
(g) Funded status=(e)+(f)	(49,958)	(1,523)
(h) Unrecognized transitional net benefit obligation	49,958	1,523
(i) Additional accrued pension liability	(46,405)	(1,415)
(j) Accrued pension liability=(g)+(h)+(i)	<u>\$ (46,405)</u>	<u>\$ (1,415)</u>
(k) Vested benefit	<u>\$65,466</u>	<u>\$1,996</u>

b. Actuarial assumptions

For the year ended December 31,	
2005	

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(a) Discount rate	3.00%
(b) Expected rate of increase in salaries	0.50%
(c) Expected long-term rate of return on plan assets	3.00%

### H. Seaward Leasing

#### a. Pension funded status

	December 31,	
	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$(957)	\$(29)
(b) Non-vested benefit obligation	(867)	(27)
(c) Accumulated benefit obligation	(1,824)	(56)
(d) Additions benefits based on future salaries	(821)	(25)
(e) Projected benefit obligation	(2,645)	(81)
(f) Fair value of plan assets	-	-
(g) Funded status=(e)+(f)	(2,645)	(81)
(h) Unrecognized transitional net benefit obligation	347	11
(i) Accrued pension liability)=(g)+(h)	\$(2,298)	\$(70)

#### b. Actuarial assumptions

	For the year ended December 31,	
	2005	
(a) Discount rate	3.00%	
(b) Expected rate of increase in salaries	3.00%	
(c) Expected long-term rate of return on plan assets	3.00%	

### I. Cathay Futures

#### a. Pension funded status

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$(755)	\$(24)	\$(1,259)	\$(38)
(b) Non-vested benefit obligation	(4,098)	(129)	(4,299)	(131)
(c) Accumulated benefit obligation	(4,853)	(153)	(5,558)	(169)
(d) Additions benefits based on future salaries	(3,980)	(125)	(3,629)	(111)
(e) Projected benefit obligation	(8,833)	(278)	(9,187)	(280)
(f) Fair value of plan assets	3,006	94	3,596	110
(g) Funded status=(e)+(f)	(5,827)	(184)	(5,591)	(170)
(h) Unrecognized transitional net assets	(39)	(1)	(33)	(1)
(i) Unrecognized pension gain	(2,453)	(77)	(1,031)	(32)
(j) Prepaid pension cost=(g)+(h)+(i)	\$(8,319)	\$(262)	\$(6,655)	\$(203)

#### b. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.50%	3.50%
(b) Expected rate of increase in salaries	3.00%	3.00%



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(c) Expected long-term rate of return on plan assets	3.50%	3.50%
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### J. Lucky Bank

#### a. Pension funded status

	December 31,			
	2004 (NT\$)	2004 (US\$)	2005 (NT\$)	2005 (US\$)
(a) Vested benefit obligation	\$(123,204)	\$(3,882)	\$(145,169)	\$(4,426)
(b) Non-vested benefit obligation	(207,967)	(6,552)	(176,630)	(5,385)
(c) Accumulated benefit obligation	(331,171)	(10,434)	(321,799)	(9,811)
(d) Additions benefits based on future salaries	(52,484)	(1,653)	(33,313)	(1,016)
(e) Projected benefit obligation	(383,655)	(12,087)	(355,112)	(10,827)
(f) Fair value of plan assets	39,165	1,234	44,892	1,369
(g) Funded status=(e)+(f)	(344,490)	(10,853)	(310,220)	(9,458)
(h) Unrecognized transitional net benefit obligation	135,811	4,279	129,638	3,952
(i) Unrecognized pension gain	(42,488)	(1,339)	(55,998)	(1,707)
(j) Additional accrued pension liability	(40,839)	(1,287)	(40,327)	(1,229)
(k) Accrued pension liability=(g)+(h)+(i)+(j)	\$(292,006)	\$(9,200)	\$(276,907)	\$(8,442)

#### b. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(a) Discount rate	3.50%	3.50%
(b) Expected rate of increase in salaries	1.00%	1.00%
(c) Expected long-term rate of return on plan assets	3.50%	3.50%

### K. Pao Shin Securities

#### a. Pension funded status

	December 31,	
	2005(NT\$)	2005(US\$)
(a) Vested benefit obligation	\$(1,224)	\$(37)
(b) Non-vested benefit obligation	(5,858)	(179)
(c) Accumulated benefit obligation	(7,082)	(216)
(d) Additions benefits based on future salaries	(1,738)	(53)
(e) Projected benefit obligation	(8,820)	(269)
(f) Fair value of plan assets	-	-
(g) Funded status=(e)+(f)	(8,820)	(269)
(h) Unrecognized transitional net benefit obligation	314	10
(i) Unrecognized prior service cost	668	20
(j) Unrecognized pension gain	(3,175)	(97)
(k) Accrued pension liability=(g)+(h)+(i)+(j)	\$(11,013)	\$(336)
(l) Vested benefit	\$1,224	\$37

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### b. Actuarial assumptions

	For the year ended December 31,
	2005
(a) Discount rate	3.75%
(b) Expected rate of increase in salaries	2.75%
(c) Expected long-term rate of return on plan assets	2.50%

## (2) Derivative financial instruments related information

### A. The Company

#### a. Purpose

As of December 31, 2004 and 2005, the Company held the following derivative financial instruments: interest rate swaps, cross-currency swaps and foreign currency options. The primary objective of interest rate swaps, cross-currency swaps and foreign currency options is to limit interest rate and exchange rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments, and bearing fixed interest rates. None of them was for trading purposes.

#### b. Credit and market risks

The counterparties for all of the Company's interest rate swaps, cross-currency swaps and foreign currency options are international financial organization with superior credit ratings. In addition, the Company worked with several other financial institutions to diversify its risks. The Company believes that the possibility of a breach of contract was quite low. Moreover, if there is a breach, the Company believes that it would not encounter major loss due to the nature of the investments. Further, the Company was exposed to various exchange rate risks but the possible loss can be balanced out by gain/loss from hedging transactions.

#### c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of a forward contract, no demand for substantial cash flow is expected in connection with such transactions.

#### d. Interest rate swaps (IRS)

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

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(b) As of December 31, 2004:

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

As of December 31, 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 December 31, 2004: None.

(c) As of December 31, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>	<u>Fair value</u>
Goldman Sachs International	2005.3.3	2005.3.7- 2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>	<u>USD 450,342</u>

f. Foreign currency options

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

(b) As of December 31, 2004: None.

As of December 31, 2005:

<u>Counterpart</u>	<u>Effective</u>	<u>Period</u>	<u>Contract amount</u>	<u>Contract value</u>	<u>Fair value</u>
Goldman Sachs International	2005.3.3	2005.3.7- 2010.3.7	<u>USD 500,000</u>	<u>USD 500,000</u>	<u>USD 514,800</u>

B. Cathay Life

a. Purpose

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As of December 31, 2004 and 2005, Cathay Life held the following derivative financial instruments: futures contracts, forward foreign exchange contracts and interest rate swaps. Futures contracts are entered into to hedge against risks of stock price fluctuations; forward contracts are entered into to hedge against risks of foreign currency and exchange rate fluctuations; interest rate swaps are entered into to hedge against risk of interest rate fluctuations. None of them was for trading purposes.

### b. Credit and market risks

The counterparties for all of Cathay Life's futures contracts, forward foreign exchange contracts, and interest rate swaps are international financial organization with superior credit ratings. In addition, Cathay Life worked with several other financial institutions to diversify its risks. Cathay Life believes that the possibility of a breach of contract was quite low. Moreover, if there is a breach, Cathay Life believes that it would not encounter major loss due to the nature of the investments. Further, Cathay Life was exposed to various exchange rate risks but the possible loss can be balanced out by gain/loss from hedging transactions.

### c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of a forward contract, no demand for substantial cash flow is expected in connection with such transactions.

### d. Product type and condition

#### (a) Futures

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

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December 31, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	3,754	\$4,823,481	\$147,057	\$(128,045)	\$(3,904)
Overseas bonds futures	Selling out	400	9,637,487	293,826	(27,364)	(834)

(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 December 31, 2004 and 2005, Cathay Life had forward foreign exchange contracts of approximately US\$15,036,800 and US\$21,072,827, respectively, in notional value.

The forward foreign exchange contracts as of December 31, 2004, were due between January 5, 2005 and December 13, 2005. In addition, the forward exchange contracts as of December 31, 2005, were due between January 3, 2006 and September 11, 2006.

December 31, 2004					
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD15,036,800	\$480,851,885	\$15,149,713	\$497,959,345	\$15,688,700

December 31, 2005					
Item	Contract amount	Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD21,072,827	\$689,496,446	\$21,021,233	\$690,876,142	\$21,063,297

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

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Net assets	December 31,	
	2004	2005
Short-term and long-term investment	USD15,036,800	USD21,072,827

Losses on the forward foreign exchange and currency swap contracts were NT\$1,111,561 (US\$35,021) and NT\$2,032,118 (US\$61,955), for the years ended December 31, 2004 and 2005.

(c) Interest rate swap agreement (IRS)

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

Category	Currency	Period	Amount	
			NT\$	US\$
IRS	NTD	2002.9.13-2015.4.12	\$62,325,449	\$1,900,166

(d) Option

December 31, 2004						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	4,268	\$1,263,225	\$39,799	\$(13,436)	\$(423)

  

December 31, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	6,945	\$2,115,600	\$64,500	\$(8,786)	\$(268)

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)

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Derivative financial instruments	December 31, 2004		
	Contract (nominal) amount	Credit risk	Fair value
For the purpose of customers' hedging needs or hedging Cathay United Bank's (merged) exposures			
Forward foreign exchange contracts	\$4,851,586	\$84,465	\$356,599
For trading purpose			
Interest rate swap contracts	337,934	3,170	(45)
Options	109,409	779	396
For non-trading purposes			
Interest rate swap contracts	1,505,642	12,426	37,242
Cross-currency swap contracts	573,171	11,182	15,355
Derivative financial instruments	December 31, 2005		
	Contract (nominal) amount	Credit risk	Fair value
For the purpose of customers' hedging needs or hedging Cathay United Bank's (merged) exposures			
Forward foreign exchange contracts	\$4,122,206	\$14,026	\$19,221
For trading purpose			
Interest rate swap contracts	2,510,472	6,378	(67)
Options	539,116	53	15
Futures	6,645	-	7,066
For non-trading purpose			
Interest rate swap contracts	2,038,442	10,191	(10,663)
Cross-currency swap contracts	573,171	6,562	(10,351)

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.

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

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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.

As of December 31, 2005, the maturities of Cathay United Bank's (merged) outstanding interest rate swaps contracts ranged from five months to nine years and nine 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 December 31, 2005, Cathay United Bank's (merged) outstanding cross-currency swaps contracts had remaining maturities from one year and eight months to five years and seven 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.

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.



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### 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	December 31,	
	2004	2005
Interest rate risk exposures	\$451,984	\$404,658
Foreign exchange risk exposures	92,093	462,577

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. 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)

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	Account	For the years ended December 31,	
		2004	2005
<u>For trading purpose</u>			
Forward foreign exchange contracts			
-Realized	Interest income	\$10,046	\$28,253
-Realized	Interest expense	7,400	13,737
Interest rate swap contracts			
-Realized	Gain (loss) of derivative financial instruments	711	(307)
-Unrealized	"	(46)	(22)
Options			
-Realized	"	230	(322)
-Unrealized	"	16	(5)
Futures contracts			
-Realized	"	118	(576)
-Unrealized	"	-	(422)
<u>For non-trading purpose</u>			
Interest rate swap contracts			
-Realized	Interest income	30,662	43,615
-Realized	Interest expense	12,324	30,334
Cross-currency swap contracts			
-Realized	Interest income	12,500	12,289
-Realized	Interest expense	7,572	18,729

### 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:

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	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Irrevocable loan commitments	\$29,325,137	\$923,917	\$26,034,126	\$793,723
Credit card lines	279,345,149	8,801,044	290,194,193	8,847,384
Guarantees and commercial letters of credit	20,820,593	655,973	17,891,587	545,475

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 December 31, 2005, Cathay Century enters into forward foreign exchange contracts and futures contracts. The former were to hedge against risks of foreign currency and net assets exchange rate fluctuations while the latter were mainly to hedge against the volatile risks of stock quotes decline. For the purpose of hedging the maximum market risks, Cathay Century adopted those financial derivative instruments highly relevant to the hedged items and assessed its strategies on a regular basis.

#### 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.

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

### c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward and futures contracts, no demand for substantial cash flow is expected in connection with such transactions.

### d. Forward foreign exchange contracts

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

Item	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Forward exchange contracts				
receivable	\$2,317,142	\$73,004	\$3,129,960	\$95,425
Discount on forward				
exchange contracts	12,392	390	18,099	552
Payables on forward				
exchange purchased	(2,266,107)	(71,396)	(3,150,315)	(96,046)
Net-other receivable				
(Payable)	\$63,427	\$1,998	\$(2,256)	\$(69)

(b) As of December 31, 2004 and 2005, Cathay Century has forward exchange contracts of approximately US\$71,000 and US\$95,900, respectively, in notional value. The forward foreign exchange contracts as of December 31, 2004 were due between February 25, 2005 and October 19, 2005. In addition, the forward contracts as of December 31, 2005 were due between January 6, 2006 and August 31, 2006.

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

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Item	Contract amount	December 31, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	US\$95,900	\$3,150,315	\$96,046	\$3,129,960	\$95,426

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\$80 (US\$3) and NT\$426 (US\$13) offsets before December 31, 2004 and 2005, as futures trading loss (NT\$75 (US\$2) and NT\$85 (US\$3) unrealized future contract loss included).

(b)

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

The Futures contract mentioned above is to hedge the volatility.

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

All futures transaction had offset on December 31, 2005.

E. Cathay Securities

a. Derivative financial instruments-Gre Tai (over-the-counter)

(a) Structured notes transactions

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① Nominal principal or contract amount and credit risk:

	December 31, 2004		December 31, 2005	
	Nominal principal		Nominal principal	
Financial instruments	<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\$58,200 (US\$1,774)	\$-
Principal guaranteed	NT\$225,100 (US\$7,092)	\$-	\$-	\$-

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

② 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.

③ 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.

④ Types, purposes, and strategies for financial derivatives:

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

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

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

### (b) Interest rate swaps

Cathay Securities has entered into interest rate swap contracts for trading purposes. As of December 31, 2005, all interest rate swap contracts have been settled.

### (c) Financial statement presentation of derivative financial instruments:

As of December 31, 2004 and 2005, the disclosure of interest rate swap and structured notes transactions on the balance sheet and statement of income is summarized as follows:

Balance sheet	December 31, 2004			
	Derivative financial instrument assets – GreTai (over-the-counter)		Derivative financial instrument liabilities – GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Principal guaranteed notes	\$-	\$-	\$226,285	\$7,129

  

Statement of income	May 12 to December 31, 2004		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT\$	US\$	
Principal guaranteed notes	\$132	\$4	Market value method

  

Balance sheet	December 31, 2005			
	Derivative financial instrument assets – Gre Tai (over-the-counter)		Derivative financial instrument liabilities – GreTai (over-the-counter)	
	NT\$	US\$	NT\$	US\$
Equity-linked notes	\$5,245	\$160	\$61,163	\$1,865

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Statement of income	For the year ended December 31, 2005		
	Gain (loss) from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT\$	US\$	
	Interest rate swaps	\$(790)	\$(24)
Principal guaranteed notes	3,911	119	Market value method
Equity-linked notes	1,234	38	Market value method
<b>Total</b>	<b>\$4,355</b>	<b>\$133</b>	

b. Futures and options transactions

As of December 31, 2005, Cathay Securities' unexercised futures and 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	14
Options	TXO-Put	Sell	826	\$217	\$7	\$128	\$4
Futures	TAIEX futures	Buy	35	\$46,420	\$1,415	\$46,165	\$1,407

(a) Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$224(US\$7)	\$-
TAIEX futures	NT\$46,420(US\$1,415)	\$-

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 December 31, 2005, Cathay Securities' market risk from futures and options transactions arose from the purchase and sale of futures and options and the volatility



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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 December 31, 2005, Cathay Securities' unexercised options could all be liquidated at reasonable prices in the market. As a result liquidity risk is low.

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

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

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

### (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 December 31, 2005, the account had NT\$61,813 (US\$1,885). For the year ended December 31, 2005, the related gain/loss of futures and options on the statement of income is as follows:

	For the year ended December 31, 2005	
	NT\$	US\$
Futures		
Gain on futures contracts	\$1,110	\$34
(Includes unrealized loss on futures contracts of NT\$255(US\$8))		
Options		
Gain from options transactions	\$236	\$7
(Includes unrealized gain from options transactions of NT\$90 (US\$3))		

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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 December 31, 2004 and 2005, Cathy Futures expects insignificant exposure to credit risks.

b. Cathy Futures risk evaluation and control of the above operation transaction is as following:

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. For the years ended December 31, 2004 and 2005, the balance of excess deposit with NT\$58,738 (US\$1,851) and NT\$72,219 (US\$2,202) which is recognized “deposit of futures transaction – Operation Assets” in the Cathy Futures. For the years ended December 31, 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:

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Gain on futures contracts—realized	\$93,915	\$2,959	\$34,638	\$1,056
Gain on option contracts—realized	55,519	1,749	47,585	1,451
Loss on futures contracts—realized	(76,219)	(2,401)	(28,913)	(881)
Loss on option contracts—realized	(39,967)	(1,259)	(40,264)	(1,228)
Net income	<u>\$33,248</u>	<u>\$1,048</u>	<u>\$13,046</u>	<u>\$398</u>

(3) Non-derivative financial instruments related information

A. The Company

Assets	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$20,472,483	\$20,472,483	\$645,006	\$645,006
Other receivable	584,594	584,594	18,418	18,418

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Long-term investments in stocks	178,504,731	178,504,731	5,623,968	5,623,968
Deferred charges	66,627	66,627	2,099	2,099

<u>Liabilities</u>				
Other payable	987,900	987,900	31,125	31,125
Bonds payable	23,774,560	23,774,560	749,041	749,041

<u>December 31, 2005</u>				
<u>NT\$</u>				
<u>US\$</u>				
<u>Assets</u>				
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$10,448,439	\$10,448,439	\$318,550	\$318,550
Other receivable	2,369,120	2,369,120	72,229	72,229
Long-term investment in stocks	188,200,384	188,200,384	5,737,817	5,737,817
Guarantee deposits paid	2,628,000	2,628,000	80,122	80,122
Deferred charges	119	119	3	3
<u>Liabilities</u>				
Other payable	2,746,963	2,746,963	83,749	83,749
Bonds payable	13,405,171	13,405,171	408,694	408,694

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.

### B. Cathay Life

<u>December 31, 2004</u>				
<u>NT\$</u>				
<u>US\$</u>				
<u>Assets</u>				
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$219,409,605	\$219,409,605	\$6,912,716	\$6,912,716
Receivables	12,439,727	12,439,727	391,926	391,926

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Short-term investments	308,494,073	320,778,412	9,719,410	10,106,440
Long-term investments in stocks	14,242,385	14,220,032	448,721	448,016
Guarantee deposits paid	1,221,763	1,221,763	38,493	38,493
Securities serving as deposits paid-bonds	8,090,599	8,090,599	254,902	254,902

<u>Liabilities</u>				
Payables	87,250	87,250	2,749	2,749
Guarantee deposits in	1,647,431	1,647,431	51,904	51,904

	<u>December 31, 2005</u>			
	<u>NT\$</u>		<u>US\$</u>	
	Carrying	Fair value	Carrying	Fair value
<u>Assets</u>	<u>amount</u>		<u>amount</u>	
Cash and cash equivalents	\$254,335,271	\$254,335,271	\$7,754,124	\$7,754,124
Receivables	14,033,389	14,033,389	427,847	427,847
Short-term investments	362,010,783	372,362,149	11,036,914	11,352,505
Long-term investments in stocks	23,929,322	23,929,322	729,553	729,553
Guarantee deposits paid	1,653,494	1,653,494	50,412	50,412
Securities serving as deposits paid-bonds	8,047,275	8,047,275	245,344	245,344
<u>Liabilities</u>				
Payables	43,219	43,219	1,318	1,318
Guarantee deposits in	1,643,683	1,643,683	50,112	50,112

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 in 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)

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

As of December 31, 2004 and 2005, except as shown in the table below, the carrying amounts of financial assets and liabilities reported on the balance sheets were approximately equal to their carrying values:

Financial assets	December 31,							
	2004				2005			
	Carrying value		Fair value		Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Securities purchased	\$240,083,384	\$7,564,064	\$240,859,150	\$7,588,505	\$217,952,751	\$6,644,901	\$218,473,482	\$6,660,777
Long-term investments	37,399,221	1,178,299	37,471,333	1,180,571	63,450,216	1,934,458	63,450,216	1,934,458

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	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Geographic Region				
Domestic	\$574,862,475	\$18,111,609	\$610,686,961	\$18,618,505
South East Asia	11,954,704	376,645	10,400,952	317,102

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North East Asia	34,178	1,077	40,493	1,235
North America	9,751,533	307,232	9,757,586	297,487
Others	12,612,691	397,375	16,032,941	488,809
Total	<u>\$609,215,581</u>	<u>\$19,193,938</u>	<u>\$646,918,933</u>	<u>\$19,723,138</u>

Industry type				
Manufacturing	\$73,569,084	\$2,317,867	\$75,480,780	\$2,301,243
Financial institutions and insurance	32,402,571	1,020,875	36,776,019	1,121,220
Leasing and real estate	65,152,469	2,052,693	68,322,909	2,083,016
Individuals	322,070,197	10,147,139	369,265,755	11,258,102
Others	116,021,260	3,655,364	97,073,470	2,959,557
Total	<u>\$609,215,581</u>	<u>\$19,193,938</u>	<u>\$646,918,933</u>	<u>\$19,723,138</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

	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$3,783,245	\$3,783,245	\$119,195	\$119,195
Short-term investments	2,434,295	2,461,424	76,695	77,550
Receivables	1,099,503	1,099,503	34,641	34,641
Claims recoverable from reinsures	252,969	252,969	7,970	7,970
Due from reinsures and ceding companies	18,266	18,266	575	575
Secured loans	788,350	788,350	24,838	24,838
Long-term investment in stocks	302,235	322,430	9,522	10,158
Guarantee deposits paid	16,470	16,470	519	519
Securities serving as deposits paid-bonds	359,937	359,937	11,340	11,340
<u>Liabilities</u>				
Claims outstanding	632	632	20	20
Due to reinsures and ceding companies	237,938	237,938	7,497	7,497
Reserve for operations and liabilities	7,235,831	7,235,831	227,972	227,972

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	December 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$2,547,642	\$2,547,642	\$77,672	\$77,672
Short-term investments	2,865,999	2,873,027	87,378	87,592
Receivables	1,395,368	1,395,368	42,542	42,542
Claims recoverable from reinsures	215,775	215,775	6,578	6,578
Due from reinsures and ceding companies	80,499	80,499	2,454	2,454
Secured loans	1,321,212	1,321,212	40,281	40,281
Long-term investment in stocks	418,522	418,522	12,760	12,760
Guarantee deposits paid	27,808	27,808	848	848
Securities serving as deposits paid-bonds	356,051	356,051	10,855	10,855
<u>Liabilities</u>				
Claims outstanding	628	628	19	19
Due to reinsures and ceding companies	224,011	224,011	6,829	6,829
Reserve for operations and liabilities	8,124,052	8,124,052	247,684	247,684

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 reinsures, due from/to reinsures 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.

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E. Cathay Securities

	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$1,857,623	\$1,857,623	\$58,526	\$58,526
Short-term investments	650,000	650,000	20,479	20,479
Investments in bonds with resale agreements	672,686	672,686	21,194	21,194
Operating securities – net	295,166	295,166	9,299	9,299
Receivable amount for margin loans	189,445	189,445	5,969	5,969
Securities refinancing margin deposits	687	687	22	22
Receivables – net	21,778	21,778	686	686
Restricted assets – current	500,000	500,000	15,753	15,753
Long-term investments in stocks	18	18	1	1
Operating deposits	150,098	150,098	4,729	4,729
Settlement and clearance funds	65,109	65,109	2,051	2,051
Guarantee deposits paid	19,929	19,929	628	628
<b>Liabilities</b>				
Bonds sold under repurchase agreements	776,327	776,327	24,459	24,459
Securities financing guarantee deposits-in	744	744	23	23
Deposit payable for securities financing	822	822	26	26
Payables	11,865	11,865	374	374
<b>December 31, 2005</b>				
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$1,463,108	\$1,463,108	\$44,607	\$44,607
Short-term investments	760,000	760,060	23,171	23,173
Operating securities – net	123,825	123,975	3,775	3,780
Receivables – net	5,924	5,924	181	181
Restricted assets – current	1,300,000	1,300,000	39,634	39,634
Long-term investments in stocks	18	18	1	1
Operating deposits	215,098	215,098	6,558	6,558
Settlement and clearance funds	43,035	43,035	1,312	1,312
Guarantee deposits paid	19,225	19,225	586	586
<b>Liabilities</b>				
Payables	36,669	36,669	1,118	1,118



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

- a. Short-term financial instruments are stated at their carrying amounts 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

	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$179,015	\$179,015	\$5,640	\$5,640
Short-term investments	2,986	2,986	94	94
Customers' margin accounts	505,715	505,715	15,933	15,933
Margin for futures trading-own funds	58,738	58,738	1,851	1,851
Other receivables (contain transactions with related parties)	4,268	4,268	134	134
Long-term investments	30,500	30,500	961	961
Operating deposits	70,000	70,000	2,205	2,205
Settlement and clearance funds	72,000	72,000	2,268	2,268
Guarantee deposits paid	1,303	1,303	41	41
<u>Liabilities</u>				
Futures customers' equity	504,701	504,701	15,901	15,901
Payables (contain transactions with related parties)	2,780	2,780	88	88
Receipts under custody	404	404	13	13
Other payable (contain transactions with related parties)	9,670	9,670	305	305

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	December 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$134,700	\$134,700	\$4,107	\$4,107
Short-term investments	2,629	2,629	80	80
Customers' margin accounts	655,852	655,852	19,995	19,995
Margin for futures trading –own funds	72,219	72,219	2,202	2,202
Futures trading deposits receivable	806	806	25	25
Accounts receivable-related parties	42	42	1	1
Other receivable (contain transactions with related parties)	1,311	1,311	40	40
Long-term investments	30,500	30,500	930	930
Operating deposits	80,000	80,000	2,439	2,439
Settlement and clearance funds	56,000	56,000	1,707	1,707
Guarantee deposits paid	1,767	1,767	54	54
<u>Liabilities</u>				
Futures customers' equity	655,093	655,093	19,972	19,972
Payables (contain transactions with related parties)	1,887	1,887	58	58
Receipts under custody	246	246	8	8
Other payable (contain transactions with related parties)	6,816	6,816	208	208
Guarantee deposits in	146	146	4	4

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, futures trading deposits receivable, accounts receivable-related parties, other receivable, operation bond, settlement and clearance funds, refundable deposits, futures customers' equity, payables, receipts under custody, other payable and guarantee deposits in, approximate their fair values because of the short maturities of these instruments.
- b. The fair value of long-term equity investments and short-term investments is valued at market prices or other financial information when available.

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G. Lucky Bank

a. Fair value of non-derivative financial instruments

As of December 31, 2004 and 2005, except as shown in the table below, the carrying amounts of financial assets and liabilities reported on the balance sheets were approximately equal to their carrying values:

Financial assets	December 31,								
	2004				2005				
	Carrying value		Fair value		Carrying value		Fair value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Securities									
purchased	\$17,566,401	\$553,447	\$17,566,401	\$553,447	\$24,727,306	\$753,881	\$24,727,306	\$753,881	
Long-term									
Investments	477,021	15,029	477,021	15,029	406,807	12,403	406,807	12,403	

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	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Industry type				
Government institution	\$11,019,425	\$347,178	\$9,027,931	\$275,242
Leasing and real estate	1,880,943	59,261	2,656,058	80,977
Manufacturing	3,841,951	121,044	4,228,677	128,923
Individuals	39,148,290	1,233,405	36,258,922	1,105,455
Others	7,496,030	236,170	7,233,777	220,542
Total	<u>\$63,386,639</u>	<u>\$1,997,058</u>	<u>\$59,405,365</u>	<u>\$1,811,139</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.

H. Cathay Life (Shanghai)

Assets	December 31,2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$3,020,098	\$3,020,098	\$95,151	\$95,151
Guarantee deposits paid	13,000	13,000	410	410
Assets	December 31,2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$792,958	\$792,958	\$24,176	\$24,176
Short-term investments	488,831	492,953	14,903	15,029
Long-term investments in stocks	1,122,021	1,187,909	34,208	36,217
Guarantee deposits paid	664,974	664,974	20,274	20,274
Liabilities				
Payables	4,372	4,372	133	133
Guarantee deposits in	366	366	11	11

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

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

- a. The fair value of Cathay Life's (Shanghai) 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 (Shanghai) short-term investments and long-term investments in bonds is based on market prices at the reporting date if market prices are available. The fair value of Cathay Life's long-term investments in bonds is based on relevant financial or any other information if market prices are not available.

### I. Pao Shin Securities

	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Financial asset	\$259,399	\$259,399	\$8,173	\$8,173
Short-term investments	17,160	17,340	541	546
Long-term investment in stocks	9,150	11,282	288	355
<b>Liabilities</b>				
Financial liabilities	13,048	13,048	411	411
Accrued pension liabilities	9,590	8,941	302	282
<b>December 31, 2005</b>				
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	<b>Assets</b>			
Financial asset	\$258,812	\$258,812	\$7,891	\$7,891
Short-term investments	14,716	14,573	449	444
Long-term investment in stocks	9,150	11,282	279	344
<b>Liabilities</b>				
Financial liabilities	6,289	6,289	192	192
Accrued pension liabilities	11,013	8,820	336	269

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

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

- a. 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, others financial asset-current, operating bond, settlement and clearance fund, guarantee deposits paid, payable, other payable and other current liabilities.
- b. 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.
- c. Accrued pension cost is the fair value which was recorded from the funded states of actuarial pension report on the measurement date of 31, December, 2005.

### (4) Discretionary account management

Item	December 31, 2004			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,920,757	\$60,515	\$1,951,247	\$61,476
Repurchase bonds	4,927,808	155,256	4,928,799	155,286
Convertible bonds	190,292	5,995	172,244	5,427
Short-term notes	28,034	883	28,034	883
Bonds	3,640,806	114,707	3,706,615	116,780
Cash in banks	374,038	11,785	374,038	11,785
Other assets less liabilities (Net)	(34,421)	(1,084)	(34,421)	(1,084)
Total	<u>\$11,047,314</u>	<u>\$348,057</u>	<u>\$11,126,556</u>	<u>\$350,553</u>

Item	December 31, 2005			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,943,150	\$89,730	\$3,450,724	\$105,205
Repurchase bonds	3,487,493	106,326	3,488,377	106,353
Convertible bonds	33,867	1,032	35,167	1,073
Short-term notes	3,076	94	3,076	94
Bonds	5,136,796	156,610	5,175,026	157,775
Cash in banks	196,365	5,987	196,372	5,987
Other assets less liabilities (Net)	20	-	20	-
Total	<u>\$11,800,767</u>	<u>\$359,779</u>	<u>\$12,348,762</u>	<u>\$376,487</u>

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As of December 31, 2004 and 2005, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$10,200,000 (US\$321,361), and NT\$10,450,000 (US\$318,598), 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 US\$1,000 dollars in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period.

Repurchase at the option of the holder:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium. The redemption premium is the amount payable at the issue price on the original issue date, plus a compound yield rate of 2.75% per annum (computed on a semi-annual note equivalent basis).

Repurchase in the event of delisting:

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

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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.

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.



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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 December 31, 2005, the Company has converted US\$336,303 convertible notes at conversion price of NT54.15 dollars (US1.65 dollars) or NT51.94 dollars (US1.58 dollars) per share, into 216,734 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$9,490,504 (US\$299,008), which are recognized as capital surplus. As of December 31, 2005 the Holder had exercised the repurchase right with US\$2,500 by par value, the Company had repurchased such Holder's notes at par value plus the redemption premium with US\$214.

(6) Capital adequacy ratio on a consolidated basis

As of December 31, 2004 and 2005 the consolidated capital adequacy ratios were 153.89% and 162.88%, respectively.

(7) Material contract: None.

(8) Presentation of financial statements:

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Certain accounts in the consolidated financial statements for the year ended December 31, 2004 have been reclassified in order to be comparable with those in the consolidated financial statements for the year ended December 31, 2005.

### 27. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of December 31, 2005, Cathay Life's remittances to this new company totaled approximately US\$48,330.

### 28. Segment information

	For the year ended December 31, 2004					
	Insurance	Bank division	Securities division	Others division	Offset and	Total
	division				adjustment	
	(NT\$)	(NT\$)	(NT\$)	(NT\$)	(NT\$)	(NT\$)
Operating revenues						
from external						
customers	\$545,479,069	\$42,577,344	\$66,324	\$1,337,377	\$-	\$589,460,114
Operating revenues						
from other segments						
of the company	1,784,635	115,790	10,197	6,252	(1,916,874)	-
Total operating revenue	<u>\$547,263,704</u>	<u>\$42,693,134</u>	<u>\$76,521</u>	<u>\$1,343,629</u>	<u>\$(1,916,874)</u>	<u>\$589,460,114</u>
Segment profits	<u>\$16,019,878</u>	<u>\$17,222,866</u>	<u>\$(49,213)</u>	<u>\$196,154</u>	<u>\$(396,969)</u>	<u>\$32,992,716</u>
Gain on long-term						
equity investments						<u>496,823</u>
Income from						
continuing operations						
before income taxes						<u>\$33,489,539</u>
Identifiable assets	<u>\$1,632,559,640</u>	<u>\$1,019,241,295</u>	<u>\$4,480,306</u>	<u>\$21,967,843</u>	<u>\$(38,374,365)</u>	<u>\$2,639,874,719</u>
Long-term investments						<u>10,203,705</u>
Total assets						<u>\$2,650,078,424</u>
Amortizations and						
depreciation						
expenses	<u>\$2,035,406</u>	<u>\$1,153,500</u>	<u>\$2,160</u>	<u>\$147,743</u>		
Capital expenditures	<u>\$575,504</u>	<u>\$1,223,598</u>	<u>\$37,716</u>	<u>\$1,206</u>		

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For the year ended December 31, 2004						
	Insurance division (US\$)	Bank division (US\$)	Securities division (US\$)	Others division (US\$)	Offset and adjustment (US\$)	Total (US\$)
Operating revenues from external customers	\$17,185,856	\$1,341,441	\$2,090	\$42,135	\$-	\$18,571,522
Operating revenues from other segments of the company	56,227	3,648	321	197	(60,393)	-
Total operating revenue	\$17,242,083	\$1,345,089	\$2,411	\$42,332	\$(60,393)	\$18,571,522
Segment profits	\$504,722	\$542,623	\$(1,550)	\$6,180	\$(12,507)	\$1,039,468
Gain on long-term equity investments						15,653
Income from continuing operations before income taxes						\$1,055,121
Identifiable assets	\$51,435,401	\$32,112,202	\$141,156	\$692,119	\$(1,209,022)	\$83,171,856
Long-term investments						321,478
Total assets						\$83,493,334
Amortizations and depreciation expenses	\$64,127	\$36,342	\$68	\$4,655		
Capital expenditures	\$18,132	\$38,551	\$1,188	\$38		
For the year ended December 31, 2005						
	Insurance division (NT\$)	Bank division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Offset and adjustment (NT\$)	Total (NT\$)
Operating revenues from external customers	\$572,680,097	\$50,550,398	\$354,260	\$2,202,733	\$-	\$625,787,488
Operating revenues from other segments of the company	1,519,065	263,881	267,658	1,283,885	(3,334,489)	-
Total operating revenue	\$574,199,162	\$50,814,279	\$621,918	\$3,486,618	\$(3,334,489)	\$625,787,488
Segment profits	\$17,200,227	\$5,127,622	\$34,868	\$(217,836)	\$(258,932)	\$21,885,949
Gain on long-term equity investments						344,848
Income from continuing operations before income taxes						\$22,230,797
Identifiable assets	\$1,880,004,615	\$1,170,733,564	\$7,439,800	\$26,084,051	\$(22,674,447)	\$3,061,587,583
Long-term investments						3,336,070
Total assets						\$3,064,923,653
Amortizations and depreciation expenses	\$2,333,657	\$1,408,112	\$33,033	\$179,146		
Capital expenditures	\$579,150	\$1,189,658	\$120,415	\$604,611		

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	Insurance division (US\$)	Bank division (US\$)	Securities division (US\$)	Others division (US\$)	Offset and adjustment (US\$)	Total (US\$)
Operating revenues						
from external						
customers	\$17,459,759	\$1,541,171	\$10,800	\$67,156	\$-	\$19,078,886
Operating revenues						
from other segments						
of the company	46,313	8,045	8,160	39,143	(101,661)	-
Total operating revenue	<u>\$17,506,072</u>	<u>\$1,549,216</u>	<u>\$18,960</u>	<u>\$106,299</u>	<u>\$(101,661)</u>	<u>\$19,078,886</u>
Segment profits	<u>\$524,397</u>	<u>\$156,330</u>	<u>\$1,063</u>	<u>\$(6,642)</u>	<u>\$(7,894)</u>	<u>\$667,254</u>
Gain on long-term						
equity investments						10,514
Income from						
continuing operations						
before income taxes						<u>\$677,768</u>
Identifiable assets	<u>\$57,317,214</u>	<u>\$35,693,096</u>	<u>\$226,823</u>	<u>\$795,245</u>	<u>\$(691,294)</u>	<u>\$93,341,084</u>
Long-term investments						101,710
Total assets						<u>\$93,442,794</u>
Amortizations and						
depreciation						
expenses	<u>\$71,148</u>	<u>\$42,930</u>	<u>\$1,007</u>	<u>\$5,462</u>		
Capital expenditures	<u>\$17,657</u>	<u>\$36,270</u>	<u>\$3,671</u>	<u>\$18,433</u>		

English Translation of Financial Statements Originally Issued in Chinese

29. 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		Pao Shin Securities		Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS
Current assets	\$571,371,303	\$655,206,150	\$371,856,922	\$364,114,078	\$7,725,799	\$7,178,916	\$4,199,265	\$3,721,177	\$23,114,986	\$32,110,553	\$176,138	\$169,378	\$1,402,266	\$1,680,284	\$3,033,242	\$1,756,393
Bills and loans-net	450,828,752	442,686,793	585,618,279	616,026,087	788,350	1,321,212	-	-	62,805,013	58,895,205	-	-	5,993,705	6,117,367	-	-
Funds and long-term investments	537,449,975	648,434,334	37,399,221	63,450,216	2,579,776	3,572,477	18	18	477,021	406,807	9,150	9,150	-	-	-	1,122,021
Fixed assets	14,924,869	14,134,371	24,794,199	24,743,550	80,022	69,034	37,551	107,180	2,077,376	1,691,124	100,337	59,687	38,210	85,013	23,719	26,731
Other assets	50,146,644	107,326,473	4,696,134	5,727,092	485,382	550,967	243,472	306,041	995,913	859,345	101,035	100,548	26,466	38,921	13,000	885,204
Current liabilities	8,191,707	9,980,160	893,869,496	960,672,183	1,201,945	1,291,528	1,018,191	107,344	84,971,458	90,037,348	13,287	6,291	5,951,177	6,661,394	16,655	21,039
Long-term liabilities	1,431,436	1,631,044	-	-	9,209	6,869	1,810	2,586	292,006	276,907	9,590	11,013	-	-	-	-
Other liabilities	1,524,526,580	1,758,584,852	50,135,101	35,460,765	7,268,050	8,199,992	1,871	9,153	3,471	3,675	40,149	40,686	115,515	184,889	-	697,235
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	312,000	312,000	795,625	820,500	3,092,240	3,256,400
Capital surplus	12,591	13,153	13,463,074	13,464,276	1,909	2,021	-	258,434	463,482	463,482	-	-	106,857	131,578	-	-
Retained earnings	39,956,516	46,896,873	23,830,886	17,968,156	861,358	875,348	(41,566)	56,899	610,999	106,866	11,634	(31,227)	91,473	123,224	(38,934)	(184,325)
Equity adjustments	(83,445)	(4,119)	(116,209)	75,125	(148)	(158)	-	-	(17,107)	(71,244)	-	-	-	-	-	-
Total assets	\$1,624,721,543	\$1,867,788,121	\$1,024,364,755	\$1,074,061,023	\$11,659,329	\$12,692,606	\$4,480,306	\$4,134,416	\$89,470,309	\$93,963,034	\$386,660	\$338,763	\$7,060,647	\$7,921,585	\$3,069,961	\$3,790,349
Total liabilities	\$1,534,149,723	\$1,770,196,056	\$944,004,597	\$996,132,948	\$8,479,204	\$9,498,389	\$1,021,872	\$119,083	\$85,266,935	\$90,317,930	\$63,026	\$57,990	\$6,066,692	\$6,846,283	\$16,655	\$718,274
Total stockholders' equity	\$90,571,820	\$97,592,065	\$80,360,158	\$77,928,075	\$3,180,125	\$3,194,217	\$3,458,434	\$4,015,333	\$4,203,374	\$3,645,104	\$323,634	\$280,773	\$993,955	\$1,075,302	\$3,053,306	\$3,072,075

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Pao Shin Securities		Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Current assets	\$18,001,616	\$19,975,797	\$11,715,719	\$11,101,039	\$243,409	\$218,869	\$132,302	\$113,451	\$728,260	\$978,980	\$5,550	\$5,164	\$44,062	\$51,197	\$95,565	\$53,548
Bills negotiated and loans-net	14,203,804	13,496,549	18,450,481	18,781,283	24,838	40,281	-	-	1,978,734	1,795,585	-	-	175,764	186,392	-	-
Funds and long-term investments	16,932,892	19,769,339	1,178,300	1,934,458	81,278	108,917	1	1	15,029	12,403	288	279	-	-	-	34,208
Fixed assets	470,222	430,926	781,166	754,377	2,521	2,105	1,183	3,267	65,450	51,559	3,161	1,820	1,201	2,590	747	815
Other assets	1,579,920	3,272,149	147,956	174,606	15,293	16,798	7,670	9,330	31,377	26,200	3,183	3,065	832	1,186	410	26,988
Current liabilities	258,088	304,273	28,162,240	29,288,786	37,869	39,376	32,079	3,272	2,677,110	2,745,041	419	192	186,997	202,968	525	641
Long-term liabilities	45,099	49,727	-	-	290	209	57	79	9,200	8,442	302	336	-	-	-	-
Other liabilities	48,031,713	53,615,392	1,579,556	1,081,121	228,987	250,000	59	279	109	112	1,265	1,240	3,630	5,633	-	21,257
Capital stocks	1,596,917	1,545,310	1,360,504	1,415,260	73,000	70,640	110,271	112,805	99,118	95,915	9,830	9,512	25,000	25,000	97,424	99,281
Capital surplus	397	401	424,168	410,496	60	62	-	7,879	14,602	14,131	-	-	3,358	4,009	-	-
Retained earnings	1,258,869	1,429,783	750,815	547,810	27,138	26,688	(1,310)	1,735	19,250	3,258	366	(952)	2,874	3,755	(1,227)	(5,620)
Equity adjustments	(2,629)	(126)	(3,661)	2,290	(5)	(5)	-	-	(539)	(2,172)	-	-	-	-	-	-
Total assets	\$51,188,454	\$56,944,760	\$32,273,622	\$32,745,763	\$367,339	\$386,970	\$141,156	\$126,049	\$2,818,850	\$2,864,727	\$12,182	\$10,328	\$221,859	\$241,365	\$96,722	\$115,559
Total liabilities	\$48,334,900	\$53,969,392	\$29,741,796	\$30,369,907	\$267,146	\$289,585	\$32,195	\$3,630	\$2,686,419	\$2,753,595	\$1,986	\$1,768	\$190,627	\$208,601	\$525	\$21,898
Total stockholders' equity	\$2,853,554	\$2,975,368	\$2,531,826	\$2,375,856	\$100,193	\$97,385	\$108,961	\$122,419	\$132,431	\$111,132	\$10,196	\$8,560	\$31,232	\$32,764	\$96,197	\$93,661

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(2) Concise income statement :

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Pao Shin Securities		Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS	NTS
Operating revenues	\$528,792,877	\$554,243,919	\$41,851,027	\$48,885,722	\$13,892,595	\$17,229,348	\$60,335	\$352,533	\$2,275,011	\$2,124,037	\$38,773	\$26,131	\$481,149	\$572,597	\$748	\$792,351
Operating costs & expenses	(512,880,225)	(539,357,918)	(25,322,607)	(43,437,703)	(13,083,064)	(16,429,956)	(125,627)	(307,529)	(1,849,323)	(1,943,351)	(69,741)	(56,144)	(333,086)	(398,036)	(39,612)	(920,990)
Operating income	15,912,652	14,886,001	16,528,420	5,448,019	809,531	799,392	(65,292)	45,004	425,688	180,686	(30,968)	(30,013)	148,063	174,561	(38,864)	(128,639)
Non-operating revenues	2,106,927	2,297,854	1,287,486	151,693	37,466	16,035	16,186	43,006	16,799	24,240	33,102	23,618	3,575	10,938	-	6,983
Non-operating expenses	(2,757,105)	(478,601)	(147,659)	(486,969)	(27,414)	(64,106)	(107)	(2,229)	(7,131)	(367,579)	-	-	(1,624)	(3,417)	(29)	(16,619)
Operating income before taxes	15,262,474	16,705,254	17,668,247	5,112,743	819,583	751,321	(49,213)	85,781	435,356	(162,653)	2,134	(42,833)	150,014	182,082	(38,893)	(138,275)
Net income	15,618,806	17,922,656	13,879,247	3,852,743	640,617	590,545	(41,566)	56,899	481,809	(166,788)	2,134	(42,861)	118,483	145,917	(38,893)	(138,275)
Earning per share before taxes (in dollars)	\$3.02	\$3.30	\$3.81	\$1.10	\$3.54	\$3.24	\$(0.14)	\$0.24	\$1.38	\$(0.52)	\$0.07	\$(1.37)	\$-	\$-	\$-	\$-
Earning per share (in dollars)	\$3.09	\$3.54	\$2.99	\$0.83	\$2.76	\$2.55	\$(0.12)	\$0.16	\$1.53	\$(0.53)	\$0.07	\$(1.37)	\$-	\$-	\$-	\$-

  

Items/Period	Cathay Life		Cathay United Bank		Cathay Century		Cathay Securities		Lucky Bank		Pao Shin Securities		Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Operating revenues	\$16,660,141	\$16,897,681	\$1,318,558	\$1,490,418	\$437,700	\$525,285	\$1,901	\$10,748	\$71,677	\$64,757	\$1,221	\$797	\$14,409	\$17,783	\$24	\$24,157
Operating costs & expenses	(16,158,797)	(16,443,839)	(797,814)	(1,324,320)	(412,195)	(500,913)	(3,958)	(9,375)	(58,265)	(59,248)	(2,197)	(1,712)	(9,975)	(12,362)	(1,248)	(28,079)
Operating income	501,344	453,842	520,744	166,098	25,505	24,372	(2,057)	1,373	13,412	5,509	(976)	(915)	4,434	5,421	(1,224)	(3,922)
Non-operating revenues	66,381	70,056	40,563	4,625	1,180	489	510	1,311	529	739	1,043	720	107	340	-	213
Non-operating expenses	(86,866)	(14,592)	(4,652)	(14,847)	(864)	(1,954)	(3)	(68)	(225)	(11,207)	-	(1,111)	(48)	(106)	(1)	(507)
Operating income before taxes	480,859	509,306	556,655	155,876	25,821	22,907	(1,550)	2,616	13,716	(4,959)	67	(1,306)	4,493	5,655	(1,225)	(4,216)
Net income	492,086	546,422	437,279	117,462	20,183	18,005	(1,310)	1,735	15,180	(5,085)	67	(1,307)	3,548	4,532	(1,225)	(4,216)
Earning per share before taxes (in dollars)	\$0.10	\$0.10	\$0.12	\$0.03	\$0.11	\$0.10	\$-	\$0.01	\$0.04	\$(0.02)	\$-	\$(0.04)	\$-	\$-	\$-	\$-
Earning per share (in dollars)	\$0.10	\$0.11	\$0.09	\$0.03	\$0.09	\$0.08	\$-	\$-	\$0.05	\$(0.02)	\$-	\$(0.04)	\$-	\$-	\$-	\$-