

Cathay Financial Holding Co., Ltd.
Financial statements
Together with
Review report
As of September 30, 2003 and 2002

Name of the company: Cathay Financial Holding Co., Ltd.

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Review report

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

We have reviewed the accompanying balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") as of September 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our review. We did not review the financial statements of Cathay United Bank Co., Ltd., United World Chinese Commercial Bank Co., Ltd. and Cathay Pacific Venture Capital Co., Ltd., wholly-owned subsidiaries of the Company. Total investment for the subsidiaries is NT\$72,686 million (US\$2,152 million) constituting 44.87% of the total assets of the Company as of September 30, 2003, and investment gain is NT\$7,515 million (US\$222 million) constituting 35.83% of income before taxes of the Company for the nine-month periods ended September 30, 2003. We did not review the financial statements of Cathay United Bank Co., Ltd., and United World Chinese Commercial Bank Co., Ltd. wholly-owned subsidiaries of the Company. Total investment for the subsidiaries is NT\$26,773 million (US\$767 million) constituting 25.23% of the total assets of the Company as of September 30, 2002, and investment gain is NT\$106 million (US\$3 million) constituting 1.63% of income before taxes of the Company for the nine-month period ended September 30, 2002. These statements were reviewed by other auditors whose reports have been furnished to us, and our review report, insofar as it relates to the amounts, is based solely on the report of such other auditors.

We conducted our reviews in accordance with generally accepted auditing standards in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries to persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.



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Based on our review and the report of other auditors, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.

Taipei, Taiwan
Republic of China

October 17, 2003

Notice to Readers

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

Cathay Financial Holding Co., Ltd.
Balance sheets
(Expressed in thousands of dollars)
As of September 30, 2003 and 2002

| Assets | 2003 | | | 2002 | | |
|---|----------------------|--------------------|---------------|----------------------|--------------------|---------------|
| | NT \$ | US \$ | % | NT \$ | US \$ | % |
| Current assets | | | | | | |
| Cash and cash equivalents (Notes 2,4) | \$3,614,555 | \$107,003 | 2.23 | \$12,291,504 | \$351,990 | 11.59 |
| Short-term investments (Notes 2,5) | 4,917 | 146 | 0.00 | 1,219,034 | 34,909 | 1.15 |
| Interest receivable | 121,176 | 3,587 | 0.08 | 108,475 | 3,107 | 0.10 |
| Other receivable | 4,696,474 | 139,031 | 2.90 | 0 | 0 | 0.00 |
| Deferred income tax assets-current (Notes 2,13) | 4,069 | 120 | 0.00 | 0 | 0 | 0.00 |
| Prepayments | 2 | 0 | 0.00 | 2,336 | 67 | 0.00 |
| Subtotal | 8,441,193 | 249,887 | 5.21 | 13,621,349 | 390,073 | 12.84 |
| Long-term investments | | | | | | |
| Long-term investments in stocks (Notes 2,6) | | | | | | |
| Long-term investments under equity method | 153,282,625 | 4,537,674 | 94.62 | 92,051,342 | 2,636,064 | 86.76 |
| Long-term investments under cost method | 100,000 | 2,960 | 0.06 | 0 | 0 | 0.00 |
| Allowance for valuation loss on long-term investments in stocks | (201,350) | (5,960) | (0.12) | (9,458) | (271) | (0.01) |
| Subtotal | 153,181,275 | 4,534,674 | 94.56 | 92,041,884 | 2,635,793 | 86.75 |
| Property and equipment (Note 2) | | | | | | |
| Transportation and communication equipment | 3,199 | 94 | 0.00 | 0 | 0 | 0.00 |
| Other equipment | 2,668 | 79 | 0.00 | 2,648 | 76 | 0.00 |
| Subtotal | 5,867 | 173 | 0.00 | 2,648 | 76 | 0.00 |
| Less: Accumulated depreciation | (958) | (28) | 0.00 | (237) | (7) | 0.00 |
| Subtotal | 4,909 | 145 | 0.00 | 2,411 | 69 | 0.00 |
| Other assets | | | | | | |
| Temporary payments and suspense accounts | 115 | 4 | 0.00 | 321 | 9 | 0.00 |
| Deferred income tax assets noncurrent (Notes 2,13) | 94,272 | 2,791 | 0.06 | 0 | 0 | 0.00 |
| Deferred charges (Note 2) | 272,449 | 8,065 | 0.17 | 435,919 | 12,483 | 0.41 |
| Subtotal | 366,836 | 10,860 | 0.23 | 436,240 | 12,492 | 0.41 |
| Total assets | \$161,994,213 | \$4,795,566 | 100.00 | \$106,101,884 | \$3,038,427 | 100.00 |
| Liabilities & stockholders' equity | | | | | | |
| Current liabilities | | | | | | |
| Collections for others | \$436 | \$13 | 0.00 | \$773 | \$22 | 0.00 |
| Accrued expenses | 1,836 | 55 | 0.00 | 148,028 | 4,239 | 0.14 |
| Income tax payable | 819 | 24 | 0.00 | 0 | 0 | 0.00 |
| Dividends payable | 2,711 | 80 | 0.01 | 990 | 29 | 0.01 |
| Subtotal | 5,802 | 172 | 0.01 | 149,791 | 4,290 | 0.15 |
| Long-term liabilities | | | | | | |
| Bonds payable (Notes 2,7,20) | 24,775,924 | 733,450 | 15.30 | 24,805,324 | 710,347 | 23.38 |
| Subtotal | 24,775,924 | 733,450 | 15.30 | 24,805,324 | 710,347 | 23.38 |
| Other liabilities | | | | | | |
| Temporary receipts and suspense accounts | 715 | 21 | 0.00 | 116 | 3 | 0.00 |
| Subtotal | 715 | 21 | 0.00 | 116 | 3 | 0.00 |
| Total liabilities | 24,782,441 | 733,643 | 15.31 | 24,955,231 | 714,640 | 23.53 |
| Stockholders' equity | | | | | | |
| Capital stock | | | | | | |
| Common stock (Note 8) | 83,074,891 | 2,459,292 | 51.28 | 60,958,728 | 1,745,668 | 57.45 |
| Capital surplus (Note 9) | 53,101,646 | 1,571,985 | 32.78 | 26,526,202 | 759,628 | 25.00 |
| Retained earnings (Note 10) | | | | | | |
| Legal reserve | 1,335,046 | 39,522 | 0.82 | 13,714 | 393 | 0.01 |
| Special reserve | 1,833,255 | 54,270 | 1.13 | 0 | 0 | 0.00 |
| Unappropriated retained earnings | 17,290,583 | 511,858 | 10.67 | 6,461,877 | 185,048 | 6.09 |
| Equity adjustments (Notes 2,6) | | | | | | |
| Unrealized valuation losses on long-term equity investments | (201,349) | (5,961) | (0.12) | (9,458) | (271) | (0.01) |
| Cumulative conversion adjustments | 118,113 | 3,497 | 0.07 | 10,023 | 287 | 0.01 |
| Treasury stock (Notes 2,10,11) | (19,340,413) | (572,540) | (11.94) | (12,814,433) | (366,966) | (12.08) |
| Total stockholders' equity | 137,211,772 | 4,061,923 | 84.69 | 81,146,653 | 2,323,787 | 76.47 |
| Total liabilities and stockholders' equity | \$161,994,213 | \$4,795,566 | 100.00 | \$106,101,884 | \$3,038,427 | 100.00 |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

Cathay Financial Holding Co., Ltd.
Statements of income
(Expressed in thousands of dollars, except earning per share)
For the nine-month periods ended September 30, 2003 and 2002

| | 2003 | | | 2002 | | |
|--|---------------------|------------------|---------------|--------------------|------------------|---------------|
| | NT \$ | US \$ | % | NT \$ | US \$ | % |
| Operating revenues (Note 2) | | | | | | |
| Interest income | \$333,003 | \$9,858 | 1.58 | \$292,725 | \$8,382 | 4.16 |
| Gain on disposal of investments | 0 | 0 | 0.00 | 100,881 | 2,889 | 1.43 |
| Gain on long-term equity investments (Notes 2,6) | 20,707,763 | 613,019 | 98.42 | 6,646,538 | 190,336 | 94.41 |
| Subtotal | <u>21,040,766</u> | <u>622,877</u> | <u>100.00</u> | <u>7,040,144</u> | <u>201,607</u> | <u>100.00</u> |
| Operating costs (Note 2) | | | | | | |
| Interest expenses | (606,445) | (17,953) | (2.88) | (305,324) | (8,743) | (4.34) |
| Subtotal | <u>(606,445)</u> | <u>(17,953)</u> | <u>(2.88)</u> | <u>(305,324)</u> | <u>(8,743)</u> | <u>(4.34)</u> |
| Operating gross profit | <u>20,434,321</u> | <u>604,924</u> | <u>97.12</u> | <u>6,734,820</u> | <u>192,864</u> | <u>95.66</u> |
| Operating expenses | | | | | | |
| Administrative and general expenses | (267,663) | (7,924) | (1.27) | (244,154) | (6,991) | (3.47) |
| Operating income | <u>20,166,658</u> | <u>597,000</u> | <u>95.85</u> | <u>6,490,666</u> | <u>185,873</u> | <u>92.19</u> |
| Non-operating revenues | | | | | | |
| Gain on foreign exchange | 768,888 | 22,761 | 3.65 | 0 | 0 | 0 |
| Miscellaneous income | 35,162 | 1,041 | 0.17 | 8,100 | 232 | 0.12 |
| Subtotal | <u>804,050</u> | <u>23,802</u> | <u>3.82</u> | <u>8,100</u> | <u>232</u> | <u>0.12</u> |
| Non-operating expenses | | | | | | |
| Loss on foreign exchange | 0 | 0 | 0.00 | (6,034) | (173) | (0.09) |
| Subtotal | <u>0</u> | <u>0</u> | <u>0.00</u> | <u>(6,034)</u> | <u>(173)</u> | <u>(0.09)</u> |
| Income from continuing operations before income taxes | <u>20,970,708</u> | <u>620,802</u> | <u>99.67</u> | <u>6,492,732</u> | <u>185,932</u> | <u>92.22</u> |
| Income taxes (Notes 2, 13) | (49,826) | (1,475) | (0.24) | (30,855) | (884) | (0.44) |
| Net income | <u>\$20,920,882</u> | <u>\$619,327</u> | <u>99.43</u> | <u>\$6,461,877</u> | <u>\$185,048</u> | <u>91.78</u> |
| Earnings per share(expressed in dollars) (Note 14) | | | | | | |
| Primary earnings per share | | | | | | |
| Before income tax earnings per share | <u>\$2.78</u> | <u>\$0.08</u> | | <u>\$1.12</u> | <u>\$0.03</u> | |
| After income tax earnings per share | <u>\$2.78</u> | <u>\$0.08</u> | | <u>\$1.11</u> | <u>\$0.03</u> | |
| Fully-diluted earnings per share: | | | | | | |
| Before income tax earnings per share | <u>\$2.71</u> | <u>\$0.08</u> | | | | |
| After income tax earnings per share | <u>\$2.69</u> | <u>\$0.08</u> | | | | |
| Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock | | | | | | |
| Income from continuing operations before income taxes | <u>\$21,554,860</u> | <u>\$638,095</u> | | <u>\$6,294,267</u> | <u>\$180,248</u> | |
| Net income | <u>\$21,505,034</u> | <u>\$636,620</u> | | <u>\$6,263,412</u> | <u>\$179,365</u> | |
| Earnings per share(expressed in dollars) (Note14) | | | | | | |
| Primary earnings per share: | | | | | | |
| Income from continuing operations before income taxes | <u>\$2.76</u> | <u>\$0.08</u> | | <u>\$1.08</u> | <u>\$0.03</u> | |
| Net income | <u>\$2.75</u> | <u>\$0.08</u> | | <u>\$1.07</u> | <u>\$0.03</u> | |
| Fully-diluted earnings per share: | | | | | | |
| Income from continuing operations before income taxes | <u>\$2.69</u> | <u>\$0.08</u> | | | | |
| Net income | <u>\$2.67</u> | <u>\$0.08</u> | | | | |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

Cathay Financial Holding Co., Ltd.
Statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the nine-month periods ended September 30, 2003 and 2002

| Summary | Capital stock | | | | Retained earnings | | | | | | Equity adjustments | | | | Treasury stock | | Total | |
|--|---------------|-------------|-----------------|-------------|-------------------|----------|-----------------|----------|----------------------------------|-----------|-----------------------------------|---------|---|------------|----------------|---------------|---------------|-------------|
| | Common stock | | Capital surplus | | Legal reserve | | Special reserve | | Unappropriated retained earnings | | Cumulative conversion adjustments | | Unrealized valuation losses on long-term equity investments | | NT \$ | US \$ | NT \$ | US \$ |
| | NT \$ | US \$ | NT \$ | US \$ | NT \$ | US \$ | NT \$ | US \$ | NT \$ | US \$ | NT \$ | US \$ | NT \$ | US \$ | | | | |
| Balance on January 1, 2002 | \$58,386,158 | \$1,671,998 | \$23,650,414 | \$677,274 | \$0 | \$0 | \$0 | \$0 | \$137,135 | \$3,927 | \$6,657 | \$191 | \$0 | \$0 | \$(7,333,863) | \$(210,019) | \$74,846,501 | \$2,143,371 |
| Appropriations and distributions for 2001 | | | | | | | | | | | | | | | | | | |
| Legal reserve | | | | | 13,714 | 393 | | | (13,714) | (393) | | | | | | | 0 | 0 |
| Cash dividends | | | (8,789,810) | (251,713) | | | | | (118,609) | (3,397) | | | | | | | (8,908,419) | (255,110) |
| Remuneration paid to directors and supervisors | | | | | | | | | (4,800) | (137) | | | | | | | (4,800) | (137) |
| Bonus paid to employees | | | | | | | | | (12) | 0 | | | | | | | (12) | 0 |
| Shares converted for issuing new shares | 2,572,570 | 73,670 | | | | | | | | | | | | | | | 2,572,570 | 73,670 |
| Net assets from merger | | | 11,665,598 | 334,067 | | | | | | | | | | | | | 11,665,598 | 334,067 |
| Cumulative conversion adjustments | | | | | | | | | | | 3,366 | 96 | | | | | 3,366 | 96 |
| Unrealized valuation losses on long-term equity investments | | | | | | | | | | | | | (9,458) | (271) | | | (9,458) | (271) |
| Treasury stock | | | | | | | | | | | | | | | (5,480,570) | (156,947) | (5,480,570) | (156,947) |
| Net income for the nine-month period ended September 30, 2002 | | | | | | | | | 6,461,877 | 185,048 | | | | | | | 6,461,877 | 185,048 |
| Balance on September 30, 2002 | \$60,958,728 | \$1,745,668 | \$26,526,202 | \$759,628 | \$13,714 | \$393 | \$0 | \$0 | \$6,461,877 | \$185,048 | \$10,023 | \$287 | \$(9,458) | \$(271) | \$(12,814,433) | \$(366,966) | \$81,146,653 | \$2,323,787 |
| Balance on January 1, 2003 | \$84,531,631 | 2,502,417 | \$56,807,974 | \$1,681,705 | \$13,713 | \$406 | \$0 | \$0 | \$13,085,153 | \$387,364 | \$199,570 | \$5,908 | \$(1,032,426) | \$(30,564) | \$(42,706,265) | \$(1,264,247) | \$110,899,350 | \$3,282,989 |
| Disposal of property and equipment retransfer unappropriated retained earnings | | | (185,853) | (5,502) | | | | | 185,853 | 5,502 | | | | | | | 0 | 0 |
| Appropriations and distributions for 2002 | | | | | | | | | | | | | | | | | | |
| Legal reserve | | | | | 1,321,332 | 39,116 | | | (1,321,332) | (39,116) | | | | | | | 0 | 0 |
| Special reserve | | | | | | | 1,833,255 | 54,270 | (1,833,255) | (54,270) | | | | | | | 0 | 0 |
| Cash dividends | | | (1,649,407) | (48,828) | | | | | (10,053,091) | (297,605) | | | | | | | (11,702,498) | (346,433) |
| Remuneration paid to directors and supervisors | | | (761) | (22) | | | | | (4,639) | (138) | | | | | | | (5,400) | (160) |
| Bonus paid to employees | | | (165) | (5) | | | | | (1,006) | (30) | | | | | | | (1,171) | (35) |
| Retired treasury stock | (1,456,740) | (43,125) | (978,976) | (28,981) | | | | | (3,687,982) | (109,176) | | | | | 6,123,698 | 181,282 | 0 | 0 |
| Capital surplus | | | (773,011) | (22,884) | | | | | | | | | | | | | (773,011) | (22,884) |
| Cumulative conversion adjustments | | | | | | | | | | | (81,457) | (2,411) | | | | | (81,457) | (2,411) |
| Unrealized valuation losses on long-term equity investments | | | | | | | | | | | | | 831,077 | 24,603 | | | 831,077 | 24,603 |
| Disposal of treasury stock | | | (558,274) | (16,527) | | | | | | | | | | | 4,221,829 | 124,980 | 3,663,555 | 108,453 |
| Treasury stock | | | 440,119 | 13,029 | | | | | | | | | | | 13,020,325 | 385,445 | 13,460,444 | 398,474 |
| Net income for the nine-month period ended September 30, 2003 | | | | | | | | | 20,920,882 | 619,327 | | | | | | | 20,920,882 | 619,327 |
| Rounding | | | | | 1 | 0 | | | | | | | | | | | 1 | 0 |
| Balance on September 30, 2003 | \$83,074,891 | \$2,459,292 | \$53,101,646 | \$1,571,985 | \$1,335,046 | \$39,522 | \$1,833,255 | \$54,270 | \$17,290,583 | \$511,858 | \$118,113 | \$3,497 | \$(201,349) | \$(5,961) | \$(19,340,413) | \$(572,540) | \$137,211,772 | \$4,061,923 |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NTS33.78 and NTS34.92 to US\$1.00)
The accompanying notes are an integral part of these financial statements.

Cathay Financial Holding Co., Ltd.
Statements of cash flows
(Expressed in thousands of dollars)
For the nine-month periods ended September 30, 2003 and 2002

| | 2003 | | 2002 | |
|---|--------------------|------------------|---------------------|------------------|
| | NT \$ | US \$ | NT \$ | US \$ |
| Cash flows from operating activities | | | | |
| Net income | \$20,920,882 | \$619,327 | \$6,461,877 | \$185,048 |
| Adjustments: | | | | |
| Amortizations | 109,025 | 3,228 | 129,833 | 3,718 |
| Depreciation | 611 | 18 | 237 | 7 |
| Unrealized loss(gain) on long-term equity investments | (19,798,151) | (586,091) | 3,930,866 | 112,568 |
| Increase(decrease) in bonds payable redemption | 606,445 | 17,953 | 305,324 | 8,743 |
| Effects of exchange rate changes | (9) | 0 | 0 | 0 |
| Decrease (increase) in short-term investments | 445,338 | 13,184 | (1,219,034) | (34,909) |
| Decrease (increase) in interest receivable | (76,970) | (2,279) | (108,475) | (3,106) |
| Decrease (increase) in other receivable | 81,356 | 2,408 | 0 | 0 |
| Decrease (increase) in prepayments | 4 | 0 | (2,336) | (67) |
| Decrease (increase) in deferred income tax assets-noncurrent | 47,054 | 1,393 | 0 | 0 |
| Decrease (increase) in temporary payments and suspense accounts | 513 | 15 | (321) | (9) |
| Increase (decrease) in collections for others | (70) | (2) | 773 | 22 |
| Increase (decrease) in accrued expenses | (403,213) | (11,936) | 66,650 | 1,909 |
| Increase (decrease) in Income tax payable | 819 | 24 | 0 | 0 |
| Increase (decrease) in dividends payable | 1,749 | 52 | 990 | 28 |
| Increase (decrease) in temporary receipts and suspense accounts | 6 | 0 | 116 | 3 |
| Net cash provided by (used in) operating activities | 1,935,389 | 57,294 | 9,566,500 | 273,955 |
| Cash flows from investing activities | | | | |
| Acquisition of long-term investments in stocks | (775,000) | (22,943) | (15,690,915) | (449,339) |
| Dcrease capital stock of subsidiary | 0 | 0 | 7,700,000 | 220,504 |
| Acquisition of property and equipment | (3,218) | (95) | (2,648) | (76) |
| Decrease (increase) in deferred charges | 13,577 | 402 | (484,374) | (13,871) |
| Net cash provided by (used in) investing activities | (764,641) | (22,636) | (8,477,937) | (242,782) |
| Cash flows from financing activities | | | | |
| Increase (decrease) in bonds payable | (847,000) | (25,073) | 24,500,000 | 701,603 |
| Remuneration paid to directors and supervisors | (5,400) | (160) | (4,800) | (137) |
| Bouns paid to employees | (1,171) | (35) | (12) | 0 |
| Cash dividends | (11,702,498) | (346,433) | (8,908,419) | (255,110) |
| Acquisition of Treasury stock | 0 | 0 | (4,383,828) | (125,539) |
| Disposal of Treasury stock | 3,663,555 | 108,453 | 0 | 0 |
| Net cash provided by (used in) financing activities | (8,892,514) | (263,248) | 11,202,941 | 320,817 |
| Effects of exchange rate changes | 9 | 0 | 0 | 0 |
| Increase (decrease) in cash and cash equivalents | (7,721,757) | (228,590) | 12,291,504 | 351,990 |
| Cash and cash equivalents at the beginning of period | 11,336,312 | 335,593 | 0 | 0 |
| Cash and cash equivalents at the end of period | \$3,614,555 | \$107,003 | \$12,291,504 | \$351,990 |
| Supplemental disclosure of cash flows information | | | | |
| Income tax paid | \$13,408 | \$397 | \$30,855 | \$884 |
| Acquisition of subsidiaries by stock conversion method | \$0 | \$0 | \$14,238,168 | \$407,737 |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

Cathay Financial Holding Co., Ltd.

Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

1. Organization of 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”). On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) joined the Company, as two subsidiaries of the Company by stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. On July 29, 2003, the Company listed its partial shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Shares. The Company mainly engages in financial holding business activities.

2. Summary of significant accounting policies

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

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

Current assets are assets that can be liquidated or disposed within one year. Assets that do not belong to current assets are called non-current assets. Current liabilities are debts which will be paid-off within one year. Debts, which do not belong to current liabilities, are called non-current liabilities.

(2) Cash and cash equivalents

Cash includes cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

(3) Short-term investments

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.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

(4) 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 over which the Company lacks significant operational influence, 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 income but treated as an increase in the number of shares held. Upon sales of long-term equity investments (accounted for under cost method), the difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

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

If changes occur in the capital structure of the investee companies causing an increase or decrease of the value of the stock, and the Company can no longer maintain its original shareholding, adjustments will be made in the capital surplus and long-term equity investments accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

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

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the subsidiaries and the Company are amortized to income over the assets, economic service lives. Gains or losses from other types of inter-company transactions are recognized when realized.

(5) Property and equipment

Property and equipment are carried at cost. Improvement and major renovation of properties are capitalized, while repairs and maintenance are expensed immediately. Upon disposal of an item of property and equipment, the related cost and accumulated depreciation are removed from the accounts.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

Depreciation on depreciable assets is calculated on a straight-line method, based on the useful lives prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC. “ The Executive Yuan Depreciation Table ”. When their economic useful lives are expired, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

(6) Deferred charges

Deferred charges are expenses, which are effective more than one year. Deferred charges are amortized over the economic useful life by straight-line method.

(7) Convertible bonds payable

The difference between the redemption price and face value of a convertible bond is amortized by the interest method and is credited to the reserve for bonds redemption accounts. In addition, this amortization is treated 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 bonds payable and reserve amount for bonds redemption are transferred to the accounts of capital stock and capital surplus and accordingly, no gain or loss is recognized upon conversion.

(8) Foreign currency transactions

Foreign currency transactions should be accounted for at cost and recognized on a straight-line method recorded in NT dollars at the spot rates when the transactions occur. 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. Foreign currency of long-term investment accounted cumulative translation adjustments are treated as adjustments of stockholders' equity. Year-ended foreign currency assets and liabilities are converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

(9) Interest rate swaps

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

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

(10)Income taxes

The Company adopted Statement of Financial Accounting Standards (“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 in deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and valuation allowance will be estimated, if needed. The prior year’s income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with article 49 of Financial Holding Company Act, the Company and its subsidiaries company jointly filed corporation income tax returns and 10% surcharge on its unappropriate retained earnings under the Integrated Income Tax Systems. If there is any tax effects due to adopt forgoing Integrated Income Tax System, the Company can proportionately allocate the effects on tax expense (benefit)、deferred income tax and tax payable(tax refund receivable) among the Company and its subsidiaries.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

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, R&D, education, training and investment in equity shall be dealt with under the current recognition method.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date of the stockholders’ meeting.

(11)Capital expenditure expenses

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and generate revenues in future periods. Otherwise, it is expensed in the year of expenditure.

(12)Treasury stock

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is charged to the cost of the shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus. If the disposal price is lower than cost, the difference is debited to capital surplus. If the capital surplus is insufficient to cover the excess of the cost over the price, the difference is charged to retained earnings. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retired treasury stock to total issued stock. When the book value of the retired treasury stock is higher than the sum of its par value and capital surplus, if the capital surplus account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus.

In accordance with Article 31 of Financial Holding Company Act, the Company will adopt Article 28 in dealing with the adjustment of the organization and shareholding of its original investment. A shareholder of a financial holding company can transfer its shares to the employees of the financial holding company or those of its subsidiaries within three years, or treat its shares as the equity transferred in accordance with Paragraph 1, Item 2 of Article 28-2 of the ROC Securities and Exchange Law (“Securities and Exchange Law”), or sell its shares in a securities market or on the stock exchange market, which is excluded from the restriction of Article 38. The Shares that are either not transferred or unsold will be treated as the unissued shares of the financial holding company and will be reported as changes to the government.

Treasury stock of the subsidiaries was converted into common stock of the Company on December 31, 2001. On the basis of the conservative principle and the SFAS No.30, the par value of these converted stocks is equal to that of the issued common stocks of the Company. These common stocks are under the guidance of the Article 31 of the Financial Holding Company Act and Article 28-2 and Article 38 of the Securities and Exchange Law.

Effective from January 1, 2002, the shares of the Company that the subsidiaries held as investments were treated as treasury stock to meet the requirements of SFAS No. 30, “Treasury Stock.” It is not necessary to retroactively adjust the financial statements for the prior years.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

(13) Convenience conversion U.S. dollars

The financial statements are stated in NT dollars. Conversion of the September 30, 2003 and 2002 NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.78 and NT\$34.92 to US\$1.00 effective on September 30, 2003 and 2002 as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects: None

4. Cash and cash equivalents

| | September 30, | | | |
|------------------|--------------------|------------------|---------------------|------------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Petty cash | \$30 | \$1 | \$20 | \$0 |
| Cash in banks | 723 | 21 | 2,279 | 65 |
| Time deposits | 3,613,802 | 106,981 | 1,400,000 | 40,092 |
| Cash equivalents | 0 | 0 | 10,889,205 | 311,833 |
| Total | <u>\$3,614,555</u> | <u>\$107,003</u> | <u>\$12,291,504</u> | <u>\$351,990</u> |

5. Short-term investments

| | September 30, | | | |
|------------------|----------------|--------------|--------------------|-----------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Government bonds | <u>\$4,917</u> | <u>\$146</u> | <u>\$1,219,034</u> | <u>\$34,909</u> |

As of September 30, 2003 and 2002, the Company didn't provide collateral or guarantee of government bonds on short-term investments.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

6. Long-term investments in stocks

| Name of investee | September 30, | | | |
|--|----------------------|--------------------|---------------------|--------------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| | Book Value | Book Value | Book Value | Book Value |
| Under the equity method: | | | | |
| Cathay Life | \$77,491,149 | \$2,293,995 | \$62,784,601 | \$1,797,955 |
| Cathay Century | 2,830,543 | 83,794 | 2,484,278 | 71,142 |
| Cathay United Bank | 13,113,140 | 388,192 | 11,394,448 | 326,302 |
| UWCCB | 58,977,625 | 1,745,933 | 15,378,557 | 440,394 |
| Cathay Pacific Venture Capital Co., Ltd. | 595,296 | 17,623 | - | - |
| Cathay Venture Capital Corp. | 73,522 | 2,177 | - | - |
| Sub-Total | <u>153,081,275</u> | <u>4,531,714</u> | <u>92,041,884</u> | <u>2,635,793</u> |
| Under the cost method: | | | | |
| Debt Instruments Depository and Clearing Co. Taiwan | 100,000 | 2,960 | - | - |
| Total | <u>\$153,181,275</u> | <u>\$4,534,674</u> | <u>\$92,041,884</u> | <u>\$2,635,793</u> |

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

| | For the nine-month period ended September 30, | | | |
|---|---|-------------|--------------|-------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Balance on January 1 | \$123,840,475 | \$3,666,089 | \$74,846,501 | \$2,143,371 |
| Add: Investment gains under equity method recognized | 20,707,763 | 613,019 | 6,646,538 | 190,336 |
| Add: Increment of investment by stock conversion method | 0 | 0 | 14,238,168 | 407,737 |
| Add: Increment of investment | 675,000 | 19,982 | 15,690,915 | 449,339 |
| Add (Less): Capital surplus under equity method recognized | (830,693) | (24,591) | 0 | 0 |
| Add (Less): Unappropriated retained earnings under equity method recognized | 57,683 | 1,708 | 0 | 0 |
| Add: Cumulative conversion adjustments under equity method recognized | (81,457) | (2,411) | 3,366 | 96 |
| Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks | 13,465,519 | 398,624 | 0 | 0 |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

| | | | | |
|--|----------------------|--------------------|---------------------|--------------------|
| Add (Less): Unrealized valuation loss on long-term equity investments under equity method recognized | 831,077 | 24,603 | (9,458) | (271) |
| Less: The Company stocks that the subsidiaries held as investments were treated as treasury stocks | (5,075) | (151) | (1,096,742) | (31,407) |
| Less: Cash dividends received | (5,579,017) | (165,158) | (10,577,404) | (302,904) |
| Less: Disinvestments of the subsidiaries | 0 | 0 | (7,700,000) | (220,504) |
| Balance on September 30 | <u>\$153,081,275</u> | <u>\$4,531,714</u> | <u>\$92,041,884</u> | <u>\$2,635,793</u> |

(2) The investment gains (losses) recognized by the equity method for the nine-month periods ended September 30, 2003 and 2002 are listed below:

| Name of Investee | For the nine-month period ended September 30, | | | |
|--|---|------------------|--------------------|------------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Cathay Life | \$12,724,210 | \$376,679 | \$6,422,202 | \$183,912 |
| Cathay Century | 470,313 | 13,923 | 118,293 | 3,388 |
| Cathay United Bank | 1,398,784 | 41,409 | 112,938 | 3,234 |
| UWCCB | 6,120,637 | 181,191 | (6,895) | (198) |
| Cathay Pacific Venture Capital Co., Ltd. | (4,704) | (139) | - | - |
| Cathay Venture Capital Corp. | (1,477) | (44) | - | - |
| Total | <u>\$20,707,763</u> | <u>\$613,019</u> | <u>\$6,646,538</u> | <u>\$190,336</u> |

A. The Company, in the third quarter of year 2003 and 2002, issued its subsidiary Cathay Life reviewed by CPA with qualified opinions due to potential adjustments, except for the long-term investments under the equity method in parts of subsidiaries financial statements, which were in accordance with unreviewed report of its investee companies. The related amount (thousands of dollars) of long-term investments for these companies under the equity method were NT\$785,230 (US\$23,245) and NT\$695,895 (US\$19,928) as of September 30, 2003 and 2002, respectively. The related amount of investment gain (loss) were NT\$36,797(US\$1,089) and NT\$(5,656) (US\$162) for the periods ended September 30, 2003 and 2002. However, as no significant effects on the potential adjustments, the Company recognized its gain/loss on investments in accordance with the financial statements of Cathay Life previously reviewed by CPA.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

- B. The Company, in the third quarter of year 2003 and 2002, issued its subsidiary Cathay Century reviewed by CPA with qualified opinions due to potential adjustments, except for the long-term investments under the equity method in parts of subsidiaries financial statements, which were in accordance with unreviewed report of its investee companies. The related amount (thousands of dollars) of long-term investments for these companies under the equity method were NT\$220,656 (US\$6,532) and NT\$151,967 (US\$4,352) as of September 30, 2003 and 2002, respectively. The related amount of investment gain (loss) were NT\$3,362 (US\$100) and NT\$990 (US\$28) for the periods ended September 30, 2003 and 2002, respectively. However, as no significant effects on the potential adjustments, the Company recognized its gain/ loss on investments in accordance with the financial statements of Cathay Century previously reviewed by CPA.
- C. We did not review the financial statements of Cathay United Bank, a wholly-owned subsidiary of the Company. Cathay United Bank was reviewed by other auditors with qualified opinions, which complied with the ROC Financial Institution Merger Law amortizing the losses of disposing of delinquent assets. On April 11, 2002, Cathay United Bank had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$ 1,894,609 (US\$56,623). According to Article 15 of the ROC Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. The amortized losses amounted to NT\$284,149 (US\$8,412) and NT\$189,461 (US\$5,426), for the nine-month periods ended September 30, 2003 and 2002. As of September 30, 2003 and 2002, respectively, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,325,895 (US\$39,251) and 1,705,148 (US\$48,830) and should be recognized as current expense on the transaction date. If the losses were recognized as expense in 2002, other assets would be decreased by NT\$994,421 (US\$29,438) and NT\$1,278,861 (US\$36,623) and accumulated earnings would be decreased by NT\$994,421 (US\$29,438) and NT\$1,278,861 (US\$36,623) as of September 30, 2003 and 2002, respectively; provision for credit losses would be decreased by NT\$284,149 (US\$8,412) and increased by NT\$1,705,148 (US\$48,830); the net income before tax would be increased by NT\$284,149 (US\$8,412) and decreased by NT\$1,705,148 (US\$48,830); and the net income after tax would be increased by NT\$213,112 (US\$6,309) and decreased by NT\$1,278,861 (US\$36,623) for the nine-month periods ended September 30, 2003 and 2002, respectively. Effective 2002, the Company recognized as subsidiary's current expenses, the investment gains of the Company accounted for under equity method recognized increased by NT\$213,112 (US\$6,309) and decreased by NT\$451,016 (US\$12,916) for the nine-month period ended September 30, 2003 and 2002, respectively. The capital surplus were decreased by NT\$827,845 (US\$23,707) for the nine-month period ended September 30, 2002.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

- D. We did not review the financial statements of UWCCB for the nine-month period ended September 30, 2003. UWCCB was reviewed by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements reviewed by other auditors.
- E. We did not review the financial statements of Cathay Pacific Venture Capital Co., Ltd. for the nine-month period ended September 30, 2003. Cathay Pacific Venture Capital Co., Ltd. was reviewed by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements reviewed by other auditors.
- F. The investment gain, which were recognized based on the unreviewed financial statements of Cathay Venture Capital Corp. in the same current periods for the nine-month period ended September 30, 2003.
- G. The consolidated financial statements of the Company as of and for the nine-month periods September 30, 2003 and 2002 include the Company, and its subsidiaries, which include Cathay Life, Cathay Century, Cathay United Bank and UWCCB. The consolidated financial statements of the Company as of September 30, 2003 exclude Cathay Pacific Venture Capital Co., Ltd., because its total assets and operating revenues are not up to 10% of the Company.
- (3) As of September 30, 2003 and 2002, the Company didn't provide collateral or guarantee on long-term investments.

7. Bonds payable

| | September 30, | | | |
|---|---------------------|------------------|---------------------|------------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Zero coupon convertible notes | \$24,500,000 | \$725,282 | \$24,500,000 | \$701,604 |
| Add(Less): Loss (Gain) on foreign exchange | (847,000) | (25,074) | - | - |
| Add: Redemption premium payable | 1,122,924 | 33,242 | 305,324 | 8,743 |
| Total | <u>\$24,775,924</u> | <u>\$733,450</u> | <u>\$24,805,324</u> | <u>\$710,347</u> |

Please see note 20, "Zero coupon convertible notes related information" for details.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

8. Common stock

As of September 30, 2003 and 2002, the numbers of issued shares, par value of NT\$10 dollars (US\$0.3 dollars), were 8,307,489,100 shares and 6,095,872,818 shares, respectively.

The Company issued 44,850,000 units of Global Depository Shares (GDSs) representing 448,500,000 common shares, on the Luxembourg Stock Exchange on July 29, 2003. As of September 30, 2003 the outstanding GDS was 44,850,000 units.

9. Capital surplus

(1) Capital surplus was the NT\$53,101,646 (US\$1,571,985) and NT\$26,526,202 (US\$759,628) in September 30, 2003 and 2002. Before conversion into financial holding company, NT\$267,215 (US\$7,910) and NT\$1,917,548 (US\$54,913) constituted retained earnings of certain subsidiaries of the Company.

(2) The additional paid-in capital at par value through exchange 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 unappropriated 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 deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

10. Retained earnings

(1) Legal reserve

Pursuant to the Company Law, 10% and the Company's annual after-tax net income must be allocated as legal reserve until reserve equals the aggregate par value of the Company's outstanding capital stock. Such reserve can only be used to offset deficits and cannot to be used for the purposes of cash dividends distributions. However, if the total accumulated 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.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

(2) Unappropriated retained earnings

According to the Company Law and the Company's articles of incorporations, 10% of the Company's annual earnings, after paying tax and offsetting deficits, if any, should first be added to the legal reserve. After distributing 0.01%~0.05% of total distribution for employee's bonus, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

After conversion into a financial holding company, the Subsidiary's treasury stock is treated as the Company's treasury stock without any stockholder rights.

(3) The stockholder's meeting of the Company approved to declare dividends on June 6, 2003. It is the Company's policy to distribute the aforementioned dividends based on its annual earnings by NT\$13,085,153(US\$387,364), its subsidiaries' capital surplus belongs to unappropriated retained earnings before stock conversion by NT\$1,917,548(US\$56,766) and its disposal of fixed assets retransfer as unappropriated retained earnings of NT\$128,170(US\$3,794). As a result, cash dividends in the amount of NT\$1.5(US\$0.04) dollars per share were declared. The ex-dividend was July 11, 2003.

(4) According to the revised Income Tax Law in 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer in effect.

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

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

(7) Dividends policy

According to the operating program, stock dividends are for the purpose of retaining operating capital. The remainder is distributed in cash, but cash dividends are a minimum of 10% of the dividends declared.

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

11. Treasury stock

A. The following is a summary of the movement of treasury stock for the nine-month period ended September 30, 2003.

(Unit: in thousands of shares)

| Reason for Transfer | Jan. 1, 2003 | Increase | Decrease | September 30, 2003 | Book Value (in NT thousands of dollars) | Book Value (in US thousands of dollars) | 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) |
|---|------------------|------------|----------------|-----------------------|--|--|---|---|---|---|
| To conserve the credit and stockholders' equity of the Company | 145,674 | 0 | 145,674 | 0 | \$0 | \$0 | - | - | - | - |
| Subsidiaries translated it to employees | 156,927 | 0 | 0 | 156,927 | 7,333,863 | 217,107 | \$46.73 | \$1.38 | \$43.77 | \$1.30 |
| Parent's stock that the subsidiaries held were treated as treasury stock | 369,490 | 101 | 357,886 | 11,705 | 555,788 | 16,453 | 47.48 | 1.41 | 43.77 | 1.30 |
| Holding subsidiaries' stocks by conversion were treated as treasury stock | 348,897 | 0 | 93,986 | 254,911 | 11,450,762 | 338,980 | 44.92 | 1.33 | 43.77 | 1.30 |
| Total | <u>1,020,988</u> | <u>101</u> | <u>597,546</u> | <u>423,543</u> | <u>\$19,340,413</u> | <u>\$572,540</u> | | | | |

B. The Companies' stocks held by subsidiaries are illustrated as follows:

(Unit: in thousands of shares)

| Name | Holding share | Amount (in NT thousands of dollars) | Amount (in US thousands of dollars) | Cause | About retained earnings limit | Legal time limit | Resolution determined by the board of directors |
|--------------------|----------------|--|--|--|---|---------------------|--|
| Cathay Life | 156,927 | \$7,333,863 | \$217,107 | Shares purchased by subsidiaries transferred | Treasury stock doesn't carry any stockholder rights | Within three years | Transferred to Company's employees |
| Cathay Century | 3,397 | 148,670 | 4,401 | Holding other subsidiaries stock by conversion | None | Within three years | None |
| Cathay United Bank | 1,209 | 52,901 | 1,566 | " | None | Within three years | None |
| UWCCB | 7,099 | 310,744 | 9,199 | " | None | Within three years | None |
| Total | <u>168,632</u> | <u>\$7,846,178</u> | <u>\$232,273</u> | | | | |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

12. Personnel, depreciation, depletion and amortizations

| Item | For the nine-month period ended September 30,2003 (NT\$) | | | For the nine-month period ended September 30,2002 (NT\$) | | |
|-----------------------------------|---|--------------------|---------|---|--------------------|---------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel Expenses | | | | | | |
| Salary and wages | - | 42,611 | 42,611 | - | 7,868 | 7,868 |
| Labor & health Insurance expenses | - | 1,290 | 1,290 | - | 97 | 97 |
| Pension expenses | - | 877 | 877 | - | - | - |
| Other expenses | - | 9,662 | 9,662 | - | - | - |
| Depreciation | - | 611 | 611 | - | 237 | 237 |
| Depletion | - | - | - | - | - | - |
| Amortizations | - | 109,025 | 109,025 | - | 129,833 | 129,833 |

| Item | For the nine-month period ended September 30,2003 (US\$) | | | For the nine-month period ended September 30,2002 (US\$) | | |
|-----------------------------------|---|--------------------|-------|---|--------------------|-------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel Expenses | | | | | | |
| Salary and wages | - | 1,261 | 1,261 | - | 225 | 225 |
| Labor & health Insurance expenses | - | 38 | 38 | - | 3 | 3 |
| Pension expenses | - | 26 | 26 | - | - | - |
| Other expenses | - | 286 | 286 | - | - | - |
| Depreciation | - | 18 | 18 | - | 7 | 7 |
| Depletion | - | - | - | - | - | - |
| Amortizations | - | 3,228 | 3,228 | - | 3,718 | 3,718 |

The total number of employees was 38 on September 30, 2003.

13. Estimated income taxes

(1) Income tax expenses for the nine-month periods ended September 30, 2003 and 2002 are estimated as follows:

| | For the nine-month period ended September 30, | | | |
|--|---|------------|-------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Income before taxes | \$20,970,708 | \$620,802 | \$6,492,732 | \$185,932 |
| Adjustments: | | | | |
| Exemption from income tax on securities trade gain | 0 | 0 | (100,881) | (2,889) |
| Interest income of tax on a separate basis | (63,234) | (1,872) | (154,276) | (4,418) |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

| | | | | |
|------------------------------------|-----------------|----------------|-----------------|--------------|
| Investment gains recognized | | | | |
| by equity method | (20,707,763) | (613,019) | (6,646,538) | (190,336) |
| Unrealized bonds payable | | | | |
| redemption premium | 606,445 | 17,953 | 305,324 | 8,743 |
| Unrealized gain on foreign | | | | |
| exchange | (782,456) | (23,163) | 0 | 0 |
| Others | (12,096) | (358) | 0 | 0 |
| Taxable income | 11,604 | 343 | (103,639) | (2,968) |
| Times: Taxes rate | 25%-10 | 25% | 25%-10 | 25% |
| Subtotal | 2,891 | 86 | 0 | 0 |
| Add: Tax on a separate basis | | | | |
| Add: Extra 10% income tax on | | | | |
| undistributed retained | | | | |
| earnings | 0 | 0 | 0 | 0 |
| Less: Tax effects under integrated | | | | |
| income tax systems | 0 | 0 | 0 | 0 |
| Add: Tax on a separate basis | 13,408 | 397 | 30,855 | 884 |
| Deferred income tax | | | | |
| expense (benefit) | 47,055 | 1,393 | 0 | 0 |
| Dissimilitude on estimate | | | | |
| tax aforesaid | (13,528) | (401) | 0 | 0 |
| Income taxes expense (benefit) | <u>\$49,826</u> | <u>\$1,475</u> | <u>\$30,855</u> | <u>\$884</u> |

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

| | For the nine-month period ended September 30, | | | |
|-------------------------------|---|----------------|------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| A. Total deferred income tax | | | | |
| liabilities | <u>\$195,614</u> | <u>\$5,791</u> | <u>\$0</u> | <u>\$0</u> |
| B. Total deferred tax assets | <u>\$293,955</u> | <u>\$8,702</u> | <u>\$0</u> | <u>\$0</u> |
| C. Temporary differences from | | | | |
| resulting deferred tax assets | | | | |
| or liabilities: | | | | |
| a. Deductible temporary | | | | |
| difference from Unrealized | | | | |
| bonds payable redemption | | | | |
| premium | \$1,122,924 | \$33,242 | \$0 | \$0 |
| b. Deductible temporary | | | | |
| difference from | | | | |
| organization costs | | | | |
| amortization into 5 years | 52,895 | 1,566 | 0 | 0 |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

| | | | | |
|----------------------------------|------------------|-----------------|------------|------------|
| c. Deductible temporary | | | | |
| difference from unrealized | | | | |
| gain on foreign exchange | (782,456) | (23,163) | 0 | 0 |
| Subtotal | <u>\$393,363</u> | <u>\$11,645</u> | <u>\$0</u> | <u>\$0</u> |
| | | | | |
| D. Deferred income tax | | | | |
| assets-current | \$4,069 | \$120 | \$0 | \$0 |
| Deferred income tax liabilities- | | | | |
| Current | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net offset balance of | | | | |
| deferred income tax assets | | | | |
| (liabilities)-current | <u>\$4,069</u> | <u>\$120</u> | <u>\$0</u> | <u>\$0</u> |
| | | | | |
| E. Deferred income tax | | | | |
| assets-noncurrent | \$289,886 | \$8,582 | \$0 | \$0 |
| Deferred income tax | | | | |
| Liabilities- noncurrent | <u>(195,614)</u> | <u>(5,791)</u> | <u>0</u> | <u>0</u> |
| Net offset balance of | | | | |
| deferred income tax assets | | | | |
| (liabilities) - noncurrent | <u>\$94,272</u> | <u>\$2,791</u> | <u>\$0</u> | <u>\$0</u> |

(3) The Company's income tax returns, up until 2001, have been reviewed and approved by the Tax Authorities.

(4) In accordance with Article 49 of Financial Holding Company Act, the Company were selected as representative taxpayer of the holding group and filed income tax returns with a 10% surcharge on the undistributed retained earnings for both itself and its domestic subsidiaries, on the basis that the Company holds more than 90% of the outstanding issued shares of subsidiaries for the entire tax year.

(5) Information related tax imputation:

| | September 30, | | | |
|---------------------------|----------------------|-------------------|----------------------|-------------------|
| | <u>2003(NT\$)</u> | <u>2003(US\$)</u> | <u>2002(NT\$)</u> | <u>2002(US\$)</u> |
| Balance of imputation | | | | |
| credit account | <u>\$2,171</u> | <u>\$64</u> | <u>\$541,034</u> | <u>\$15,494</u> |
| | | | | |
| | <u>September 30,</u> | | <u>September 30,</u> | |
| | <u>2003(Actual)</u> | | <u>2002(Actual)</u> | |
| Imputation credit account | | | | |
| ratio | <u>35.69%</u> | | <u>30.60%</u> | |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

(6) Information relating of undistributed earnings:

| Year | September 30, | | | |
|---------------|---------------|------------|-------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Prior to 1997 | \$267,215 | \$7,910 | \$869,860 | \$24,910 |
| After 1998 | 0 | 0 | 1,047,688 | 30,003 |
| Total | \$267,215 | \$7,910 | \$1,917,548 | \$54,913 |

Net income for the nine-month periods ended September 30, 2003 and 2002 does not classify as undistributed retained earnings generated after 1998.

The undistributed earnings include additional paid-in capital from the stock conversion, which comes from the original financial institution's unappropriated retained earnings and is allowed to be distributed as cash dividends.

The undistributed retained earnings generated before 1997 accumulating all the subsidiaries' unappropriated retained earnings before the stock conversion.

14. Earnings per share

| | For the nine-month period ended September 30, 2003 | | | | | | | | |
|---|--|-----------|---|-----------|-------------------------|---------------------------------------|--------|--------------------------------------|--------|
| | Amount (Numerator) | | | | EPS | | | | |
| | Before income taxes (in thousands of dollars) | | After income taxes (in thousands of dollars) | | Shares (denominator) | Before income tax EPS (in dollars) | | After income tax EPS (in dollars) | |
| | NT\$ | US\$ | NT\$ | US\$ | | NT\$ | US\$ | NT\$ | US\$ |
| Net Income | \$20,970,708 | \$620,802 | \$20,920,882 | \$619,327 | | | | | |
| Primary earnings per share | | | | | | | | | |
| Net income for common stock holder | \$20,970,708 | \$620,802 | \$20,920,882 | \$619,327 | 7,532,906,194 | \$2.78 | \$0.08 | \$2.78 | \$0.08 |
| Effect of potentially dilutive common stock | | | | | | | | | |
| Convertible bonds payable | \$606,445 | \$17,953 | \$454,834 | \$13,465 | 421,873,327 | | | | |
| Fully-diluted earnings per share | | | | | | | | | |
| Net income for common stock holder & effect of potentially common stock | \$21,577,153 | \$638,755 | \$21,375,716 | \$632,792 | 7,954,779,521 | \$2.71 | \$0.08 | \$2.69 | \$0.08 |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

| | For the nine-month period ended September 30, 2002 | | | | | | | | |
|---|--|-----------|---|-----------|-------------------------|---------------------------------------|--------|--------------------------------------|--------|
| | Amount (Numerator) | | | | EPS | | | | |
| | Before income taxes (in thousands of dollars) | | After income taxes (in thousands of dollars) | | Shares (denominator) | Before income tax EPS (in dollars) | | After income tax EPS (in dollars) | |
| | NT\$ | US\$ | NT\$ | US\$ | | NT\$ | US\$ | NT\$ | US\$ |
| Net Income | \$6,492,732 | \$185,932 | \$6,461,877 | \$185,048 | | | | | |
| Primary earnings per share | | | | | | | | | |
| Net income for common stock holder | \$6,492,732 | \$185,932 | \$6,461,877 | \$185,048 | 5,810,440,042 | \$1.12 | \$0.03 | \$1.11 | \$0.03 |
| Effect of potentially dilutive common stock | | | | | | | | | |
| Convertible bonds payable | - | - | - | - | - | - | - | - | - |
| Fully-diluted earnings per share | | | | | | | | | |
| Net income for common stock holder & effect of potentially common stock | - | - | - | - | - | - | - | - | - |

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

| (Shares) | For the nine-month period end September 30, | |
|---|---|----------------------|
| | 2003 | 2002 |
| Shares at the beginning of year | 8,453,163,100 | 5,838,615,765 |
| Add: Capital stock was issued by stock conversion method | 0 | 152,658,032 |
| Less: Treasury stock | (490,004,956) | (171,857,038) |
| The Company that the subsidiaries held were treated as treasury stock | (284,577,950) | (8,976,717) |
| Retired treasury stock | (145,674,000) | - |
| Total | <u>7,532,906,194</u> | <u>5,810,440,042</u> |

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

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

| | For the nine-month period ended September 30, | | | |
|---|---|------------|-------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Income before income taxes | \$21,554,860 | \$638,095 | \$6,294,267 | \$180,248 |
| Net income after income taxes | \$21,505,034 | \$636,620 | \$6,263,412 | \$179,365 |
| Before income taxes primary earnings per share (expressed in dollars) | \$2.76 | \$0.08 | \$1.08 | \$0.03 |
| After income taxes primary earnings per share (expressed in dollars) | \$2.75 | \$0.08 | \$1.07 | \$0.03 |
| Before income taxes fully – diluted earnings per share (expressed in dollars) | \$2.69 | \$0.08 | - | - |
| After income taxes fully – diluted earnings per shares (expressed in dollars) | \$2.67 | \$0.08 | - | - |

15. Related party transactions

(1) Related parties

| Name | Relationship |
|--|--|
| Cathay Life | Subsidiary of the Company |
| Cathay Century | Subsidiary of the Company |
| Cathay United Bank | Subsidiary of the Company |
| UWCCB | Subsidiary of the Company |
| Cathay Pacific Venture Capital Co., Ltd. | Subsidiary of the Company |
| Cathay Venture Capital Corp. | The investee is accounted for using the equity method |
| Cathay Real Estate Development Co., Ltd. | Affiliate |
| San Ching Engineering Co., Ltd. | Affiliate |
| Lin Yuan Property Management Co., Ltd. | The investee is accounted for using the equity method |
| Lin Yuan Investment Co., Ltd. | Their chairman is a second immediate family member of the company's chairman |
| Cathay General Hospital | Affiliate |
| Cathay Life Charity Foundation | Affiliate |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

| | |
|--|--|
| Wan Pao Development Co., Ltd. | Their chairman is a second immediate family member of the company's chairman |
| Cathay Insurance (Bermuda) Co., Ltd. | The investee is accounted for using the equity method |
| Symphox Information Co., Ltd. | The investee is accounted for using the equity method |
| Cathay Securities Investment Co., Ltd. | The investee is accounted for using the equity method |
| Cathay Life Insurance Agent Co., Ltd. | The investee is accounted for using the equity method |
| Cathay Property Insurance Agent Co., Ltd. | The investee is accounted for using the equity method |
| Cathay Securities Investment Trust Co., Ltd. | The investee is accounted for using the equity method |
| Seaward Futures Corp. | The investee is accounted for using the equity method |
| Seaward Leasing Ltd. | The investee is accounted for using the equity method |
| Seaward Insurance Agent Corp. | The investee is accounted for using the equity method |
| Huong Yee Co., Ltd. | The investee is accounted for using the equity method |
| Taiwan Real-estate Management Corp. | The investee is accounted for using the equity method |
| Taiwan Finance Corp. | The investee is accounted for using the equity method |
| Seaward Card Co., Ltd. | The investee is accounted for using the equity method |
| Seaward Property Insurance Agent Corp. | Investee Company of UWCCB |
| Indovina Bank | The investee is accounted for using the equity method |
| Gemfor Tech Co. | Their Chairman of the Board is the president of the UWCCB |
| China England Company Ltd. and etc. | Investee company of UWCCB |
| Culture and Charity Foundation of the UWCCB | UWCCB is the major sponsor of the Foundation |
| Taiwan Cooperative Bank, and etc. | Former directors or supervisors of UWCCB (resigned since December 18, 2003 as UWCCB join the Cathay Financial Holding Group) |
| Taipei Smart Card Corp. | Investee Company of UWCCB |
| KG Telecommunication Ltd. | Cathay Life is to occupy the supervisor for KG Telecommunication Ltd., |

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

(2) Significant transactions with related parties:

A. Real estate rental expense

| Name | For the nine-month period ended September 30, | | | |
|-------------|---|------------|------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Cathay Life | \$6,155 | \$182 | \$6,155 | \$176 |

B. Cash in bank

| Name | Item | For the nine-month period ended September 30, 2003 | | | |
|--------------------|------------------|--|--------------------------|--------------|---------------------------|
| | | Maximum Amount (NT\$) | Ending Balance (NT\$) | Rate | Interest Income (NT\$) |
| Cathay United Bank | Time Deposits | \$3,613,802 | \$3,613,802 | 0.9% ~ 1.05% | \$15,923 |
| | Current Deposits | 5,553,130 | 696 | 0.25% ~ 0.5% | 0 |
| | | | <u>\$3,614,498</u> | | |

| Name | Item | For the nine-month period ended September 30, 2003 | | | |
|--------------------|------------------|--|--------------------------|--------------|---------------------------|
| | | Maximum Amount (US\$) | Ending Balance (US\$) | Rate | Interest Income (US\$) |
| Cathay United Bank | Time Deposits | \$106,981 | \$106,980 | 0.9% ~ 1.05% | \$471 |
| | Current Deposits | 164,391 | 21 | 0.25% ~ 0.5% | 0 |
| | | | <u>\$107,001</u> | | |

| Name | Item | For the nine-month period ended September 30, 2002 | | | |
|--------------------|------------------|--|--------------------------|--------------|---------------------------|
| | | Maximum Amount (NT\$) | Ending Balance (NT\$) | Rate | Interest Income (NT\$) |
| Cathay United Bank | Time Deposits | \$1,400,000 | \$1,400,000 | 1.9% ~ 2.5% | \$18,798 |
| | Current Deposits | 6,776,150 | 2,252 | 0.5% ~ 1.15% | 0 |
| | | | <u>\$1,402,252</u> | | |

| Name | Item | For the nine-month period ended September 30, 2002 | | | |
|--------------------|------------------|--|--------------------------|--------------|---------------------------|
| | | Maximum Amount (US\$) | Ending Balance (US\$) | Rate | Interest Income (US\$) |
| Cathay United Bank | Time Deposits | \$40,092 | \$40,092 | 1.9% ~ 2.5% | \$538 |
| | Current Deposits | 194,048 | 64 | 0.5% ~ 1.15% | 0 |
| | | | <u>\$40,156</u> | | |

C. Interest receivable

| Name | September 30, | | | |
|--------------------|---------------|------------|------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Cathay United Bank | \$502 | \$15 | \$361 | \$10 |

Cathay Financial Holding Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2003 and 2002

D. Temporary payments and suspense accounts

| Name | September 30, | | | |
|---|---------------|------------|------------|------------|
| | 2003(NT\$) | 2003(US\$) | 2002(NT\$) | 2002(US\$) |
| Cathay Securities Investment Co., Ltd. | \$0 | \$0 | \$237 | \$7 |

16. Pledged assets: None.

17. Other important matters and contingent liabilities: None.

18. Serious damages: None

19. Subsequent events: None

20. Other important events

(1) Pension related information

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

(2) Financial instruments related information

(a) Derivative financial instruments:

1. Credit and market price risk

The Company has entered into certain derivative transactions, including interest rate swaps (“IRS”) and foreign currency options with high credit rating financial institutions. Losses incurred from fluctuations of exchange rate and interest rate can be offset by forward hedging contracts.

2. Liquidity and cash requirement

The primary objective of IRS and foreign currency options is to limit exchange rate and interest rate exposures related to assets and liabilities denominated in

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

foreign currencies and foreign currency commitments, and bearing fixed interest rates. As there will be cash inflow and cash outflow on the expiration date of an IRS contract, no material fund raising risk and cash flow risk.

3. Interest Rate Swaps (IRS)

(1) The purpose of the IRS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. IRS transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment obligation based on a notional principal amount. For interest rate swaps transactions undertaken for trading purposes, income and expenses arises upon settlement are netted off and recognized in the statement of income.

(2) As of September 30, 2003, the Company has IRS contracts of approximately US\$700,000. The maturity dates of IRS are from May 20, 2002 to May 20, 2007.

4. Foreign currency options

As of September 30, 2003:

| Counterpart | Effective Date | Put Date | Amount (in thousands of dollars) |
|--------------------------------|----------------|-------------------------|-------------------------------------|
| Goldman Sachs International | 2002.5.20 | 2005.5.20; 2007.5.20 | US\$600,000 |

(b) Non-derivative financial instruments related information:

The book value of non-derivative financial instruments held by the Company as of September 30, 2003 is the same as the estimated fair market value.

(3) Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd., a financial holding company organized under the Financial Holding Company Act and the Company Law. Cathay Financial Holdings' registration number issued by the Ministry of Economic Affairs of the ROC is 118958.

Offering: The Purchaser is offering outside United States the International Notes in reliance on Regulation S under the U.S. Securities Act ("Regulation S") and

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

is offering Rule 144A Notes concurrently in the United States through its selling agent, only to institutions that are qualified institutional buyers (or QIBs) (as defined in Rule 144A).

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The Notes will not bear interest except in limited circumstances.

Conversion rights:

Subject to certain conditions, each holder of the Notes (the "Holder") will have 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. Cathay Financial Holdings shall as soon as practicable but in no event more than five trading days from the conversion date deliver common shares to the converting holders or the depository, as the case may be.

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 Cathay Financial Holdings 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.

Repurchase in the event of desisting:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Common Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Repurchase in the event of change of control:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings 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 Cathay Financial Holdings:

The Notes may be redeemed at the option of Cathay Financial Holdings, 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 U.S. 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 U.S. dollars at the exchange rate, as defined in the indenture) and (b) the applicable redemption date does not fall within a closed period. Notwithstanding the foregoing, Cathay Financial Holdings 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 Cathay Financial Holdings is then organized, Cathay Financial Holdings becomes obligated to pay certain additional amounts, the Notes

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

may be redeemed at the option of Cathay Financial Holdings, 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, Cathay Financial Holdings will redeem the Notes on the maturity date (as defined herein) at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Negative pledge:

Subject to certain exceptions, Cathay Financial Holdings 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:

Cathay Financial Holdings may from time to time without the consent of the Holders of the Notes create and issue further securities having the same terms and conditions as the Notes in all respects so that such further issue shall be consolidated and form a single series with the respective Notes.

Governing law:

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

Listing:

The international Notes have been listed on the Luxembourg Stock Exchange and the Rule 144A Notes have been designated for trading on the PORTALSM Market

Cathay Financial Holding Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2003 and 2002

in the United States. Application has been made to have the International GDSs issuable upon conversion of the Notes listed on the Luxembourg Stock Exchange.

Trading market for the common shares:

The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since September 30, 2003.

(4) Material contract: None.

(5) Presentation of financial statements:

Certain accounts in financial statements for the nine-month period ended of 2002 have been reclassified in order to be comparable with those in the financial statements for the nine-month period ended of 2003.

21. Information for investment in Mainland China: None

22. Segment information: None

Cathay Financial Holding Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2003 and 2002

23. The Subsidiaries' concise balance sheets and statements of income

(a) Concise balance sheets:

| Items/Period | Cathay Life Insurance Co., Ltd. | | | | Cathay Century Insurance Co., Ltd. | | | | Cathay United Bank Co., Ltd. | | | | United World Chinese Commercial Bank Co., Ltd. | | | |
|--|---------------------------------|--------------|--------------------|--------------|------------------------------------|-----------|--------------------|-----------|------------------------------|-------------|--------------------|-------------|--|--------------|--------------------|--------------|
| | September 30, 2003 | | September 30, 2002 | | September 30, 2003 | | September 30, 2002 | | September 30, 2003 | | September 30, 2002 | | September 30, 2003 | | September 30, 2002 | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | \$492,457,215 | \$14,578,367 | \$467,704,694 | \$13,393,605 | \$6,403,024 | \$189,551 | \$7,283,027 | \$208,564 | \$57,210,291 | \$1,693,615 | \$47,616,931 | \$1,363,601 | \$248,329,931 | \$7,351,389 | \$221,782,344 | \$6,351,155 |
| Exchange bills negotiated, discounted, and loans | 485,853,150 | 14,382,864 | 505,668,170 | 14,480,761 | 870,310 | 25,764 | 1,046,561 | 29,970 | 119,020,093 | 3,523,389 | 106,637,105 | 3,053,754 | 396,790,672 | 11,746,319 | 393,778,417 | \$11,276,587 |
| Funds and long-term investments | 381,221,734 | 11,285,427 | 230,342,524 | 6,596,292 | 2,282,905 | 67,581 | 393,566 | 11,271 | 15,211,090 | 450,299 | 454,986 | 13,029 | 11,583,504 | 342,910 | 12,543,271 | \$359,200 |
| Property and equipment | 15,885,887 | 470,275 | 15,723,313 | 450,267 | 55,568 | 1,645 | 39,419 | 1,129 | 1,858,016 | 55,003 | 1,351,541 | 38,704 | 23,148,805 | 685,281 | 23,034,407 | \$659,634 |
| Other assets(including intangible assets) | 26,565,244 | 786,419 | 17,952,404 | 514,101 | 462,517 | 13,692 | 460,964 | 13,201 | 10,137,617 | 300,108 | 11,805,574 | 338,075 | 6,805,252 | 201,459 | 8,921,152 | \$255,474 |
| Current liabilities | 10,934,263 | 323,690 | 10,240,397 | 293,253 | 735,982 | 21,787 | 665,512 | 19,058 | 189,966,830 | 5,623,649 | 156,225,071 | 4,473,799 | 626,583,549 | 18,548,951 | 606,239,547 | 17,360,812 |
| Long-term liabilities | 528,754 | 15,653 | 3,726 | 107 | 8,067 | 239 | 2,126 | 61 | 0 | 0 | 0 | 0 | 34,119 | 1,010 | 34,119 | 977 |
| Other liabilities | 1,313,029,065 | 38,870,014 | 1,163,951,814 | 33,331,953 | 6,351,061 | 188,012 | 5,936,048 | 169,991 | 304,236 | 9,006 | 198,381 | 5,681 | 752,127 | 22,265 | 1,272,960 | 36,453 |
| Capital stock | 50,686,158 | 1,500,478 | 50,686,158 | 1,451,494 | 2,317,006 | 68,591 | 2,317,006 | 66,352 | 12,346,083 | 365,485 | 12,346,083 | 353,554 | 39,715,627 | 1,175,714 | 39,715,626 | 1,137,332 |
| Capital surplus | 5,200 | 154 | 3,048 | 87 | 430 | 13 | 0 | 0 | 430 | 13 | 0 | 0 | 4,261,892 | 126,166 | 5,102,231 | 146,112 |
| Retained earnings | 34,148,047 | 1,010,895 | 19,842,142 | 568,217 | 659,535 | 19,524 | 300,583 | 8,608 | 819,457 | 24,259 | (903,398) | (25,871) | 15,382,006 | 455,359 | 7,642,611 | 218,861 |
| Equity adjustments | (14,394) | (425) | (2,317) | (66) | 2,243 | 67 | 2,262 | 65 | 71 | 2 | 0 | 0 | (71,156) | (2,107) | 133,657 | 3,827 |
| Treasury stocks | (7,333,863) | (217,107) | (7,333,863) | (210,019) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (81,160) | (2,324) |
| Total assets | \$1,401,983,230 | \$41,503,352 | \$1,237,391,105 | \$35,435,026 | \$10,074,324 | \$298,233 | \$9,223,537 | \$264,135 | \$203,437,107 | \$6,022,414 | \$167,866,137 | \$4,807,163 | \$686,658,164 | \$20,327,358 | \$660,059,591 | \$18,902,050 |
| Total liabilities | \$1,324,492,082 | \$39,209,357 | \$1,174,195,937 | \$33,625,313 | \$7,095,110 | \$210,038 | \$6,603,686 | \$189,110 | \$190,271,066 | \$5,632,655 | \$156,423,452 | \$4,479,480 | \$627,369,795 | \$18,572,226 | \$607,546,626 | \$17,398,242 |
| Total stockholders' equity | \$77,491,148 | \$2,293,995 | \$63,195,168 | \$1,809,713 | \$2,979,214 | \$88,195 | \$2,619,851 | \$75,025 | \$13,166,041 | \$389,759 | \$11,442,685 | \$327,683 | \$59,288,369 | \$1,755,132 | \$52,512,965 | \$1,503,808 |

Cathay Financial Holding Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2003 and 2002

(b) Concise statements of income:

| Items/Period | Cathay Life Insurance Co., Ltd. | | | | Cathay Century Insurance Co., Ltd. | | | | Cathay United Bank Co., Ltd. | | | | United World Chinese Commercial Bank Co., Ltd. | | | |
|---|---|--------------|---|---------------|---|-------------|---|-------------|---|-----------|---|-----------|---|-----------|---|-------------|
| | For the nine-month period ended September 30, 2003 | | For the nine-month period ended September 30, 2002 | | For the nine-month period ended September 30, 2003 | | For the nine-month period ended September 30, 2002 | | For the nine-month period ended September 30, 2003 | | For the nine-month period ended September 30, 2002 | | For the nine-month period ended September 30, 2003 | | For the nine-month period ended September 30, 2002 | |
| | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ | NTS | US\$ |
| Operating revenues | \$339,456,443 | \$10,049,036 | \$315,360,825 | \$9,030,951 | \$10,027,547 | \$296,849 | \$8,108,382 | \$232,199 | \$9,158,285 | \$271,116 | \$7,560,177 | \$216,500 | \$22,082,252 | \$653,708 | \$25,719,751 | \$736,534 |
| Operating costs & expenses | (325,037,918) | (9,622,200) | (307,363,924) | (\$8,801,944) | (9,414,753) | (\$278,708) | (7,866,480) | (\$225,272) | (7,412,996) | (219,449) | (8,174,215) | (234,084) | (14,101,808) | (417,460) | (39,272,765) | (1,124,650) |
| Operating income | 14,418,525 | 426,836 | 7,996,901 | 229,007 | 612,794 | 18,141 | 241,902 | 6,927 | 1,745,289 | 51,667 | (614,038) | (17,584) | 7,980,444 | 236,248 | (13,553,014) | (388,116) |
| Non-operating revenues | 964,318 | 28,547 | 325,505 | 9,321 | 2,339 | 69 | 3,493 | 100 | 59,496 | 1,761 | 22,061 | 632 | 174,916 | 5,178 | 179,806 | 5,149 |
| Non-operating expenses | (880,173) | (26,056) | (38,169) | (1,093) | (4,445) | (132) | (1,119) | (32) | (28,770) | (852) | (3,808) | (109) | (841,553) | (24,913) | (565,612) | (16,197) |
| Operating income before taxes | 14,502,670 | 429,327 | 8,284,237 | 237,235 | 610,688 | 18,078 | 244,276 | 6,995 | 1,776,015 | 52,576 | (595,785) | (17,061) | 7,313,807 | 216,513 | (13,938,820) | (399,164) |
| Net income | 13,346,847 | 395,111 | 6,459,991 | 184,994 | 498,060 | 14,744 | 162,558 | 4,655 | 1,407,002 | 41,652 | (405,754) | (11,620) | 6,201,807 | 183,594 | (10,287,215) | (294,594) |
| Earning per share before taxes (in dollars) | \$2.95 | \$0.09 | \$1.49 | \$0.04 | \$2.64 | \$0.08 | \$1.05 | \$0.03 | \$1.44 | \$0.04 | (\$0.48) | (\$0.01) | \$1.84 | \$0.05 | (\$3.71) | (\$0.11) |
| Earning per share (in dollars) | \$2.72 | \$0.08 | \$1.17 | \$0.03 | \$2.15 | \$0.06 | \$0.70 | \$0.02 | \$1.14 | \$0.03 | (\$0.33) | (\$0.01) | \$1.56 | \$0.05 | (\$2.74) | (\$0.08) |

Annotation: On April 11, 2002, Cathay United Bank Co., Ltd. had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609(US\$56,623). According to Article 15 of the ROC Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. The amortized loss amounted to NT\$284,149 (US\$8,412) and NT\$189,461 (US\$5,426), respectively, for the nine-month periods ended 2003 and 2002. As of September 30, 2003 and 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,325,895 (US\$39,251) and NT\$1,705,148 (US\$48,830). According to general accepted accounting principles, the losses should be recognized as current expenses on the transaction date, thus on September 30, 2003 and 2002, other assets of its subsidiary decreased by NT\$994,421(US\$29,438) and NT\$1,278,861(US\$36,623), retained earnings of its subsidiary decreased by NT\$994,421(US\$29,438) and NT\$1,278,861(US\$36,623), respectively. In the nine-month periods September 30, 2003 and 2002, provision for credit losses of its subsidiary decreased by NT\$284,149(US\$8,412), the net income before tax of its subsidiary increased by NT\$284,149(US\$8,412) and the net income after tax of its subsidiary increased by NT\$213,112(US\$6,309). In the nine-month period September 30, 2002, provision for credit losses of its subsidiary increased by NT\$1,705,148(US\$48,830), the net income before tax of its subsidiary decreased by NT\$1,705,148(US\$48,830) and the net income after tax of its subsidiary decreased by NT\$1,278,861(US\$36,623).