

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
Together with
Independent Auditors' Report
As of December 31, 2003 and 2002

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

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Certified Public Accountants

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Independent auditors' report

To: Board of Directors

Cathay Financial Holding Co., Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cathay United Bank Co., Ltd. (United World Chinese Commercial Bank Co., Ltd. and Cathay United Bank Co., Ltd. were merged on October 27, 2003. United World Chinese Commercial Bank Co., Ltd. was the surviving company but the merged bank is re-named under Cathay United Bank Co., Ltd.) and Cathay Pacific Venture Capital Co., Ltd., wholly-owned subsidiaries of the Company. Total asset of such subsidiaries is NT\$883,020 million (US\$25,979 million) constituting 37.71% of the total consolidated assets of the Company and its Subsidiaries as of December 31, 2003, and total revenues of such subsidiaries is NT\$40,282 million (US\$1,185 million) constituting 7.66% of total consolidated revenues of the Company and its Subsidiaries for the year ended December 31, 2003. We did not audit the financial statements of United World Chinese Commercial Bank Co., Ltd. and Cathay United Bank Co., Ltd., wholly-owned subsidiaries of the Company. Total assets of such subsidiaries is NT\$829,647 million (US\$23,909 million) constituting 39.76% of the total consolidated assets of the Company and its Subsidiaries as of December 31, 2002, and total revenues of such subsidiaries is NT\$43,351 million (US\$1,249 million) constituting 8.57% of total consolidated revenues of the Company and its Subsidiaries for the year ended of December 31, 2002. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts, is based solely on the report of such other auditors.



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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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. and its Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 in conformity with “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies”, and the generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China

January 29, 2004

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.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated balance sheets
(Expressed in thousands of dollars)
As of December 31, 2003 and 2002

Assets	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
Current assets:						
Cash and cash equivalents (Notes 2,4)	\$129,072,412	\$3,797,364	5.51	\$164,459,144	\$4,739,457	7.88
Due from banks	31,588,233	929,339	1.35	31,096,014	896,139	1.49
Due from central bank (Note 2)	29,978,608	881,983	1.28	40,810,508	1,176,095	1.96
Short-term investments (Notes 2,5)	564,966,695	16,621,556	24.13	379,017,376	10,922,691	18.16
Receivables (Note 2)	91,105,863	2,680,373	3.89	77,792,539	2,241,860	3.73
Deferred income tax assets-current (Note 2)	73,495	2,162	0.00	48,980	1,411	0.00
Prepayments	1,528,031	44,956	0.07	1,791,346	51,624	0.09
Subtotal	848,313,337	24,957,733	36.23	695,015,907	20,029,277	33.31
Exchange bills negotiated discounted and loans (Notes 2,6)	986,713,769	29,029,531	42.14	992,438,586	28,600,536	47.57
Long-term investments in stock, bonds and real estate						
Long-term investments in stocks (Notes 2,7)	59,539,115	1,751,666	2.54	61,738,187	1,779,199	2.96
Long-term investments in bonds (Notes 2,8)	269,635,361	7,932,785	11.51	149,949,806	4,321,320	7.19
Investments in real estate (Notes 2,9)	94,484,088	2,779,761	4.03	94,151,308	2,713,294	4.51
Subtotal	423,658,564	12,464,212	18.08	305,839,301	8,813,813	14.66
Property and equipment (Note 2)						
Land	20,353,251	598,801	0.87	20,043,032	577,609	0.96
Buildings and structures	20,492,579	602,900	0.88	20,118,240	579,776	0.96
Furniture and fixtures	3,611,753	106,259	0.15	2,595,945	74,811	0.13
Transportation and communication equipment	243,261	7,157	0.01	224,258	6,463	0.01
Other equipment	7,946,350	233,785	0.34	7,375,708	212,556	0.35
Subtotal	52,647,194	1,548,902	2.25	50,357,183	1,451,215	2.41
Less: Accumulated depreciation	(12,229,512)	(359,797)	(0.52)	(11,169,332)	(321,883)	(0.54)
Construction in progress	1,157,555	34,056	0.05	1,560,283	44,965	0.08
Subtotal	41,575,237	1,223,161	1.78	40,748,134	1,174,297	1.95
Intangible assets (Note 2)	7,261	214	0.00	6,143	177	0.00
Other assets						
Net non-operating assets	3,704,121	108,977	0.16	4,142,021	119,366	0.20
Miscellaneous assets	18,365,164	540,311	0.79	41,751,219	1,203,205	2.00
Deferred income tax assets-noncurrent (Note 2)	4,291,581	126,260	0.18	4,265,186	122,916	0.20
Deferred charges	781,638	22,996	0.03	1,990,662	57,368	0.10
Investment-linked products assets	14,285,128	420,274	0.61	280,271	8,077	0.01
Subtotal	41,427,632	1,218,818	1.77	52,429,359	1,510,932	2.51
Total assets	\$2,341,695,800	\$68,893,669	100.00	\$2,086,477,430	\$60,129,032	100.00
Liabilities & Stockholders' Equity						
Current liabilities						
Due to Central Bank	\$161,170	\$4,742	0.01	\$167,129	\$4,817	0.01
Due to banks	80,831,523	2,378,097	3.45	45,757,684	1,318,665	2.19
Payables	50,887,675	1,497,137	2.17	40,757,792	1,174,576	1.95
Deferred income tax Liabilities-current	1,125,244	33,105	0.05	1,216,007	35,044	0.06
Accounts collected in advance	843,904	24,828	0.04	1,225,369	35,313	0.06
Subtotal	133,849,516	3,937,909	5.72	89,123,981	2,568,415	4.27
Deposits and remittances payable (Note 10)	670,210,790	19,717,882	28.62	646,052,762	18,618,235	30.96
Bankers acceptances and funds borrowed	1,753,524	51,589	0.07	2,206,585	63,590	0.11
Long-term liabilities						
Bonds payable (Notes 2,11)	25,135,091	739,485	1.07	25,016,479	720,936	1.20
Reserve for land revaluation increment tax	37,845	1,113	0.00	37,845	1,091	0.00
Accrued pension liabilities	744,651	21,908	0.03	7,669	221	0.00
Subtotal	25,917,587	762,506	1.10	25,061,993	722,248	1.20
Other liabilities						
Reserve for operations and liabilities (Notes 2,12)	1,349,881,159	39,714,068	57.65	1,210,266,640	34,878,001	58.01
Guarantee deposits received	3,988,316	117,338	0.17	2,585,848	74,520	0.12
Investment-linked products liabilities	14,285,128	420,274	0.61	280,271	8,077	0.01
Subtotal	1,368,154,603	40,251,680	58.43	1,213,132,759	34,960,598	58.14
Total liabilities	2,199,886,020	64,721,566	93.94	1,975,578,080	56,933,086	94.68
Stockholders' Equity						
Capital stock						
Common stock (Note 13)	83,074,891	2,444,098	3.55	84,531,631	2,436,070	4.05
Capital surplus (Note 14)	53,651,046	1,578,436	2.29	56,807,974	1,637,117	2.72
Retained earnings (Note 15)						
Legal reserve	1,335,046	39,278	0.06	13,713	395	0.00
Special reserve	1,833,255	53,935	0.08	0	0	0.00
Unappropriated retained earnings	16,916,694	497,696	0.72	13,085,153	377,094	0.63
Equity adjustments						
Unrealized valuation losses on long term equity investments	(136,202)	(4,007)	(0.01)	(1,032,426)	(29,753)	(0.05)
Cumulative conversion adjustments	176,537	5,194	0.01	199,570	5,751	0.01
Net loss not yet recognized as net pension cost	(1,971)	(58)	0.00	0	0	0.00
Treasury stock (Notes 2,16)	(15,039,516)	(442,469)	(0.64)	(42,706,265)	(1,230,728)	(2.04)
Total stockholders' equity	141,809,780	4,172,103	6.06	110,899,350	3,195,946	5.32
Total liabilities and stockholders' equity	\$2,341,695,800	\$68,893,669	100.00	\$2,086,477,430	\$60,129,032	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of income
(Expressed in thousands of dollars, except earning per share)
For the years ended December 31, 2003 and 2002

	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
Operating revenues (Note 2)						
Interest income	\$79,585,908	\$2,341,451	15.14	\$82,270,766	\$2,370,916	16.26
Premiums income	267,200,820	7,861,160	50.82	286,393,602	8,253,418	56.60
Reinsurance commission earned	407,646	11,993	0.08	391,454	11,281	0.08
Claims recovered from reinsures	1,166,449	34,317	0.22	1,774,184	51,129	0.35
Recovered premiums reserve	131,830,534	3,878,509	25.07	113,093,480	3,259,178	22.35
Recovered special reserve	157,197	4,625	0.03	5,074,942	146,252	1.00
Recovered claims reserve	314,691	9,258	0.06	304,628	8,779	0.06
Commission and handing fee earned	5,022,542	147,765	0.96	3,253,757	93,768	0.64
Investment-linked products revenues	17,094,832	502,937	3.25	291,248	8,393	0.06
Commission income of stock brokerage	131,835	3,879	0.03	106,427	3,067	0.02
Gain on disposal of investments	13,120,447	386,009	2.50	6,652,248	191,708	1.31
Gain on long-term investments	494,366	14,545	0.09	0	0	0.00
Gain on investments-real estate	4,267,767	125,560	0.81	4,484,010	129,222	0.89
Other operating income	4,952,086	145,692	0.94	1,909,012	55,015	0.38
Subtotal	<u>525,747,120</u>	<u>15,467,700</u>	<u>100.00</u>	<u>505,999,758</u>	<u>14,582,126</u>	<u>100.00</u>
Operating costs (Note 2)						
Interest expenses	(9,848,890)	(289,759)	(1.88)	(15,108,498)	(435,404)	(2.99)
Insurance expenses	(2,798,398)	(82,330)	(0.53)	(24,216,118)	(697,871)	(4.79)
Brokerage expenses	(23,818,122)	(700,739)	(4.53)	(3,326,806)	(95,873)	(0.66)
Commission expenses	(448,127)	(13,184)	(0.09)	(470,682)	(13,564)	(0.09)
Insurance claims payment	(137,334,589)	(4,040,441)	(26.12)	(125,916,015)	(3,628,704)	(24.88)
Provision for premiums reserve	(268,859,214)	(7,909,950)	(51.14)	(274,699,003)	(7,916,398)	(54.29)
Provision for special reserve	(2,606,949)	(76,698)	(0.50)	(339,038)	(9,771)	(0.07)
Contribution to the stabilization funds	(273,243)	(8,039)	(0.05)	(292,217)	(8,421)	(0.06)
Provision for claims reserve	(374,404)	(11,015)	(0.07)	(314,691)	(9,069)	(0.06)
Handling fee paid	(2,343,935)	(68,960)	(0.45)	(2,603,858)	(75,039)	(0.51)
Provision for securities trading losses reserve	(71,070)	(2,091)	(0.01)	0	0	0.00
Investment-linked products expenses	(17,094,832)	(502,937)	(3.25)	(291,248)	(8,393)	(0.06)
Commission charges of stock brokerage	(8,437)	(248)	0.00	(6,254)	(180)	0.00
Losses on long-term equity investments	0	0	0.00	(330,171)	(9,515)	(0.07)
Provision for possible losses	(14,665,524)	(431,466)	(2.79)	(29,386,174)	(846,864)	(5.81)
Agency expenses	(2,488)	(73)	0.00	0	0	0.00
Other operating cost	(650,675)	(19,143)	(0.12)	(550,981)	(15,878)	(0.11)
Subtotal	<u>(481,198,897)</u>	<u>(14,157,073)</u>	<u>(91.53)</u>	<u>(477,851,754)</u>	<u>(13,770,944)</u>	<u>(94.45)</u>
Operating gross profit	<u>44,548,223</u>	<u>1,310,627</u>	<u>8.47</u>	<u>28,148,004</u>	<u>811,182</u>	<u>5.55</u>
Operating expenses	<u>(22,536,362)</u>	<u>(663,029)</u>	<u>(4.29)</u>	<u>(24,250,368)</u>	<u>(698,858)</u>	<u>(5.45)</u>
Operating income	<u>22,011,861</u>	<u>647,598</u>	<u>4.18</u>	<u>3,897,636</u>	<u>112,324</u>	<u>0.10</u>
Non-operating revenues	<u>2,343,403</u>	<u>68,944</u>	<u>0.46</u>	<u>1,301,591</u>	<u>37,510</u>	<u>0.26</u>
Non-operating expenses	<u>(1,144,111)</u>	<u>(33,660)</u>	<u>(0.22)</u>	<u>(1,552,645)</u>	<u>(44,745)</u>	<u>(0.30)</u>
Income from continuing operations before income taxes	<u>23,211,153</u>	<u>682,882</u>	<u>4.42</u>	<u>3,646,582</u>	<u>105,089</u>	<u>0.06</u>
Income taxes (Notes 2, 18)	(2,622,390)	(77,152)	(0.50)	161,277	4,648	0.03
Net income	<u>20,588,763</u>	<u>605,730</u>	<u>3.92</u>	<u>3,807,859</u>	<u>109,737</u>	<u>0.09</u>
Net loss (income) before acquisitions of the subsidiaries	0	0	0.00	9,277,294	267,357	1.83
Consolidated net income	<u>\$20,588,763</u>	<u>\$605,730</u>	<u>3.92</u>	<u>\$13,085,153</u>	<u>\$377,094</u>	<u>1.92</u>
Earnings per share(expressed in dollars) (Note 19)						
Primary earnings per share:						
Income from continuing operations before income taxes	<u>\$3.04</u>	<u>\$0.09</u>		<u>\$0.62</u>	<u>\$0.02</u>	
Net income	<u>\$2.69</u>	<u>\$0.08</u>		<u>\$0.65</u>	<u>\$0.02</u>	
Consolidated net income	<u>\$2.69</u>	<u>\$0.08</u>		<u>\$2.23</u>	<u>\$0.06</u>	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	<u>\$2.98</u>	<u>\$0.09</u>		<u>\$0.68</u>	<u>\$0.02</u>	
Net income	<u>\$2.63</u>	<u>\$0.08</u>		<u>\$0.69</u>	<u>\$0.02</u>	
Consolidated net income	<u>\$2.63</u>	<u>\$0.08</u>		<u>\$2.20</u>	<u>\$0.06</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the years ended December 31, 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		Net loss not yet recognized as net pension cost		NT \$	US \$	NT \$	US \$
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
Balance on January 1, 2002	\$58,386,158	\$1,682,598	\$23,650,414	\$681,568	\$0	\$0	\$0	\$0	\$137,135	\$3,952	\$6,657	\$192	\$0	\$0	\$0	\$0	\$(7,333,863)	\$(211,350)	\$74,846,501	\$2,156,960
Appropriations and distributions for 2001																				
Legal reserve					13,713	395			(13,713)	(395)									0	0
Cash dividends			(8,789,809)	(253,309)					(118,609)	(3,418)									(8,908,418)	(256,727)
Remuneration paid to directors and supervisors									(4,800)	(138)									(4,800)	(138)
Bonus paid to employees									(13)	(1)									(13)	(1)
Shares converted for issuing new shares	26,145,473	753,472																	26,145,473	753,472
Net assets from merger			41,947,369	1,208,858															41,947,369	1,208,858
Cumulative conversion adjustments											192,913	5,559							192,913	5,559
Unrealized valuation losses on long-term equity investments													(1,032,426)	(29,753)					(1,032,426)	(29,753)
Treasury stock																			(35,372,402)	(1,019,378)
Consolidated net income for the year ended December 31, 2002									13,085,153	377,094									13,085,153	377,094
Balance on December 31, 2002	\$84,531,631	\$2,436,070	\$56,807,974	\$1,637,117	\$13,713	\$395	\$0	\$0	\$13,085,153	\$377,094	\$199,570	\$5,751	\$(1,032,426)	\$(29,753)	\$0	\$0	\$(42,706,265)	\$(1,230,728)	\$110,899,350	\$3,195,946
Balance on January 1, 2003	\$84,531,631	\$2,486,956	\$56,807,974	\$1,671,314	\$13,713	\$404	\$0	\$0	\$13,085,153	\$384,971	\$199,570	\$5,871	\$(1,032,426)	\$(30,374)	\$0	\$0	\$(42,706,265)	\$(1,256,436)	\$110,899,350	\$3,262,706
Disposal of property and equipment retransfer unappropriated retained earnings			(185,853)	(5,468)					185,853	5,468									0	0
Appropriations and distributions for 2002																				
Legal reserve					1,321,332	38,874			(1,321,332)	(38,874)									0	0
Special reserve							1,833,255	53,935	(1,833,255)	(53,935)									0	0
Cash dividends			(1,649,407)	(48,526)					(10,053,091)	(295,766)									(11,702,498)	(344,292)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(137)									(5,400)	(159)
Bonus paid to employees			(165)	(5)					(1,006)	(30)									(1,171)	(35)
Retired treasury stock	(1,456,740)	(42,858)	(978,976)	(28,802)					(3,687,982)	(108,502)									6,123,698	180,162
Cash Dividends to Subsidiaries			549,329	16,162															549,329	16,162
Capital surplus			(772,940)	(22,740)															(772,940)	(22,740)
Cumulative conversion adjustments											(23,033)	(677)							(23,033)	(677)
Unrealized valuation losses on long-term equity investments													896,224	26,367					896,224	26,367
Disposal of treasury stock			(558,274)	(16,425)															4,221,829	124,208
Treasury stock			440,119	12,948					(41,770)	(1,229)									17,321,223	509,597
Consolidated net income for the year ended December 31, 2003									20,588,763	605,730									20,588,763	605,730
Net loss not yet recognized as net pension cost																			(1,971)	(58)
Rounding					1	0													(1)	0
Balance on December 31, 2003	\$83,074,891	\$2,444,098	\$53,651,046	\$1,578,436	\$1,335,046	\$39,278	\$1,833,255	\$53,935	\$16,916,694	\$497,696	\$176,537	\$5,194	\$(136,202)	\$(4,007)	\$(1,971)	\$(58)	\$(15,039,516)	\$(442,469)	\$141,809,780	\$4,172,103

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

(Expressed in thousands of dollars)

For the years ended December 31, 2003 and 2002

	2003		2002	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$20,588,763	\$605,730	\$13,085,153	\$377,094
Adjustments:				
Net income (loss) before acquisitions of the subsidiaries	0	0	(9,277,294)	(267,357)
Loss (gain) on bad debt	4,975,385	146,378	4,442,035	128,013
Amortizations and depreciation expenses	1,778,890	52,336	3,306,268	95,281
Provision for reserve for operations	282,796,611	8,319,994	300,395,885	8,656,942
Recovered reserve for operations	(129,121,123)	(3,798,797)	(116,498,391)	(3,357,302)
Investment gains recognized by equity method smaller (excess) of cash dividends received	198,077	5,828	0	0
Applicant terminates the insurance contract income	(3,181,298)	(93,595)	(1,979,031)	(57,033)
Loss (gain) on mortgaged property collated assumed	0	0	20,589	593
Loss (gain) on disposal of property and equipment	(68,637)	(2,019)	46,893	1,351
Increase (decrease) in bonds payable redemption	825,612	24,290	516,479	14,884
Loss (gain) on disposal of investments	(4,426,503)	(130,230)	(40,636)	(1,171)
Amortization long-term investments in bonds	86,644	2,549	90,513	2,608
Unrealized loss (gain) on long-term equity investments	(384,027)	(11,298)	271,088	7,812
Effects of exchange rate changes	29,019	854	(14,690)	(423)
Decrease (increase) in short-term investments	(151,220,019)	(4,448,956)	(84,654,407)	(2,439,608)
Decrease (increase) in receivables	(31,861,912)	(937,391)	(11,765,767)	(339,071)
Decrease (increase) in prepayments	70,836	2,084	661,177	19,054
Decrease (increase) in deferred income tax assets	430,519	12,666	(484,331)	(13,958)
Increase (decrease) in payables	10,860,943	319,533	7,848,396	226,179
Increase (decrease) in accounts collected in advance	752,477	22,138	245,970	7,088
Increase (decrease) in claims reserve	46,550	1,370	33,018	952
Increase (decrease) in other current liabilities	277,616	8,167	(25,139)	(724)
Decrease (increase) in other current assets	5,633,748	165,747	(1,818,239)	(52,399)
Net cash provided by (used in) operating activities	9,088,171	267,378	104,405,539	3,008,805
Decrease (increase) in forward exchange receivable	(2,232,149)	(65,671)	(29,622)	(854)
Decrease (increase) in exchange bills negotiated, discounted and loans	26,428,198	777,529	1,022,742	29,474
Acquisition of long-term investments in stocks	(131,878,221)	(3,879,912)	(101,006,379)	(2,910,847)
Disposal of long-term investments in stocks	32,566,718	958,126	244,601	7,049
Decrease (increase) in long-term investments in bonds	(1,555,944)	(45,777)	(280,337)	(8,079)
Deposital of investment in real estate	149,572	4,400	36,698	1,058
Acquisition of investment in real estate	(1,116,034)	(32,834)	(8,362,381)	(240,991)
Disposal of property and equipment	48,880	1,438	48,133	1,387
Acquisition of property and equipment	(2,170,028)	(63,843)	(2,578,467)	(74,307)
Acquisition of intangible assets	(5,370)	(158)	(3,346)	(97)

Cathay Financial Holding Co., Ltd. And Subsidiaries

Consolidated statements of cash flows (continued)

(Expressed in thousands of dollars)

For the years ended December 31, 2003 and 2002

	2003		2002	
	NT \$	US \$	NT \$	US \$
Decrease (increase) in deferred charges	(195,870)	(5,763)	(11,047,115)	(318,361)
Decrease (increase) in guarantee deposits paid	2,717,762	79,958	(2,547,682)	(73,420)
Decrease (increase) in overdue receivables	1,073,452	31,581	(825,164)	(23,780)
Decrease (increase) in non-operating assets	358,424	10,545	(1,719,885)	(49,564)
Decrease (increase) in due from banks	3,147,964	92,615	(9,947,182)	(286,662)
Decrease (increase) in due from central bank	10,831,900	318,679	5,007,755	144,316
Net cash provided by (used in) investing activities	(61,830,746)	(1,819,087)	(131,987,631)	(3,803,678)
Cash flows from financing activities				
Increase (decrease) in bonds payable	(707,000)	(20,800)	24,500,000	706,052
Paid other payable for acquisition of property and equipment in prior period	(16,480)	(485)	(1,777)	(51)
Increase (decrease) in funds held for reinsures	(410)	(12)	(1,063)	(31)
Increase (decrease) in guarantee deposits received	58,572	1,723	(24,866)	(717)
Remuneration paid to directors and supervisors	(5,400)	(159)	(352,350)	(10,154)
Bonus paid to employees	(4,926)	(145)	(141,534)	(4,079)
Cash dividends	(11,225,282)	(330,253)	(10,794,251)	(311,073)
Increase (decrease) in due to banks	35,073,839	1,031,887	9,124,233	262,946
Increase (decrease) in deposits and remittances payables	(13,086,831)	(385,020)	(46,228,647)	(1,332,237)
Increase (decrease) in due to central bank	(5,959)	(175)	(177,313)	(5,110)
Increase (decrease) in bankers acceptance and funds borrowed	(612,121)	(18,009)	(1,063,774)	(30,656)
Acquisition of Treasury stock	0	0	(26,388,624)	(760,479)
Disposal of Treasury stock	7,922,682	233,089	0	0
Net cash provided by (used in) financing activities	17,390,684	511,641	(51,549,966)	(1,485,589)
Effects of exchange rate changes	(34,841)	(1,025)	1,263	36
Increase (decrease) in cash and cash equivalents	(35,386,732)	(1,041,093)	(79,130,795)	(2,280,426)
Cash and cash equivalents at the beginning of year	164,459,144	4,838,457	243,589,939	7,019,883
Cash and cash equivalents at the end of year	\$129,072,412	\$3,797,364	\$164,459,144	\$4,739,457
Supplemental disclosure of cash flows information				
Interest paid during the period	\$6,473,292	\$190,447	\$16,384,659	\$472,180
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$6,473,292	\$190,447	\$16,384,659	\$472,180
Income tax paid	\$4,407,036	\$129,657	\$1,740,385	\$50,155
Non-cash assets received from the investee companies of liquidation	\$147,266	\$4,333	\$0	\$0

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

1. Organization of business scope

(1) Cathay Financial Holding Co., Ltd.

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. UWCCB and Cathay United Bank were merged on October 27, 2003. UWCCB was the Surviving Company but the merged bank is re-named under Cathay United Bank Co., Ltd. (“Cathay United Bank (merged)”). 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) Subsidiaries

- A. Cathay Life was incorporated in Taiwan on October 23, 1962, under the provisions of the ROC Company Law (the “Company Law”). Cathay Life mainly engages in the business of life insurance. The Company’s ownership interest is 100% of the common stock.
- B. Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law. Cathay Century mainly engages in the business of property and casualty insurance. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on June 28, 2002. The Company’s ownership interest is 100% of the common stock.
- C. Cathay United Bank (merged) was formerly UWCCB and was enfranchised by the ROC government in January 1975, and started its operations on May 20, 1975. It engages in the following operations:
 - a. All commercial banking operations authorized by the Banking Law;
 - b. International banking business and related operations;
 - c. Trust and stockbrokerage business;

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

- d. Off-shore banking business; and
- e. Other financial operations related to the promotion of investments of Overseas Chinese.

On April 21, 2003, under the Financial Institution Merger Law, UWCCB decided to merger with formerly Cathay United Bank. After the merger on October 27, 2003, formerly Cathay United Bank was a merged bank, while UWCCB was the surviving bank and changed its name as Cathay United Bank.

- D. The predecessor of Cathay United Bank was Taiwan First Investment & Trust Co., which was incorporated in June 1971 and transformed into a commercial bank on November 16, 1998, and renamed Cathay United Bank Co., Ltd. Cathay United Bank is permitted under the ROC Banking Law (“Banking Law”) to engage in:
 - a. All commercial banking operations allowed by the provisions of the Banking Law;
 - b. Trust operations;
 - c. Short-term bill agency services and trading securities.
 - d. Offshore banking operations.
 - e. Other related operations as authorized by the central government authorities.

The Company’s ownership interest is 100% of the common stock. UWCCB and Formerly Cathay United Bank were merged on October 27, 2003. Formerly Cathay United Bank was a merged bank.

- E. Cathay Pacific Venture Capital Co., Ltd. was incorporated in Taiwan on April 10, 2003, under the provisions of the Company Law. Cathay Pacific Venture Capital Co., Ltd. mainly engages in the business of investment. The Company’s ownership interest is 100% of the common stock.

2. Summary of significant accounting policies

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

(1) Principles of consolidation

According to the rules and regulations stated in the Financial Holding Company Act, a financial holding company should include consolidated financial statements along with the annual and interim reports. When compiling the consolidated financial statements, the financial results of bank, insurance and securities subsidiaries must be included in the consolidated financial statements, and all other subsidiaries should be reported in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7. In addition, as stated by the ROC Securities and Futures Commission (the “SFC”), stocks that can be traded publicly should be compiled within the annual and interim financial statements, and subsidiary companies that are controlled by the parent company have to be compiled in the financial statements in accordance with SFAS No. 7. According to Article 4 of the Financial Holding Company Act, a financial holding company has to meet either one of the following criteria: the Company has to hold more than twenty-five percent of the voting stock or total capital of a bank, insurance or securities company, or it has to directly or indirectly appoint or elect more than half of the directors on the board of a bank, insurance or securities company.

The consolidated financial statements of the Company for the year, 2003 include the Company, and its subsidiaries, which include Cathay Life, Cathay Century, Cathay United Bank (merged). In 2002 the consolidated financial statements include the Company, Cathay Life, Cathay Century, Cathay United Bank and UWCCB. The consolidated financial statements of the Company as of December 31, 2003 exclude Cathay Venture Pacific Co., Ltd., because its total assets and operating revenues are not up to 10% of the Company.

These consolidated financial statements exclude important inter-company transactions.

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

Current assets are assets, which can be liquidated or disposed 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.

(3) Basis for preparation of financial statements

Cathay United Bank (merged) financial statements include the accounts of the domestic head office branches and foreign branches and representative offices. All inter-branch and inter-office account balances and transactions have been eliminated when the financial statements were prepared.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

(4) 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.

(5) Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.

Beneficiary certificates are stated at the lower of cost or market value. The cost of beneficiary certificates sold is determined based on the weighted-average cost method.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined by the specific identification method.

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.

(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), allowance for doubtful accounts on receivables is provided based on the aging of outstanding balance of such accounts and the guideline issued by the relevant regulations. Whenever the management of Cathay United Bank (merged) deems the receivables to be uncollectible, a charge-off that conforms to Cathay United Bank's (merged) relevant regulations is recommended to and approved by the Board of Directors.

(7) Long - term investments

A. Long-term investments in stocks

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

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 an 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 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 stocks, 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.

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 subsidiary and the Company are amortized to income over the economic service lives of the asset. Gains or losses from other types of inter-company transactions are recognized when realized.

C. Long-term investments in bonds

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

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. The cost of investments in real estate and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. Gain or loss resulting from disposal of an investment in real estate is classified as an operating gain or loss.

Depreciation is calculated by the straight-line method pursuant to 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 building lease and all are intended for business leasing; rents can be paid yearly, semi-yearly, quarter and lump sum.

(8) Property and equipment

Property and equipment are carried at cost. Improvements 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.

Depreciation on depreciable assets is calculated on a straight-line method, based on the useful lives prescribed by the Executive Yuan Depreciation Table. When their economic useful lives expire, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

(9) Deferred charges

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

(10) Guaranteed depository insurance payment

Cathay Life and Cathay Century are required under the Article 141 of the ROC Insurance Law (“Insurance Law”) to deposit an amount equal to 15% of the capital stock in the Central Bank. Such deposit is the “Guaranteed Depository Insurance.” The amount was deposited in the form of a bond.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

(11)Reserves for operations

A.Cathay Life

Reserves for operations are organized according to the Insurance Law. These reserves include unearned premium reserve, claim reserve, special reserve and reserve for life insurance. Actuaries provide the figures of such reserve in the financial statements.

The ROC Ministry of Finance (“MOF”) passed a new regulation on December 24, 2002.. When the accumulated gross amount of “Special Reserve for the Loss Movement” exceeds 30% of the gross amount of “net earned premium,” its surplus should be treated as income under this regulation.

In addition, according to the MOF regulation passed on 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 has approved the surplus appropriation. This amount may not be allocated or used for other purposes unless approved by the MOF.

Cathay Life had a surplus of NT \$6,249,135 (US\$183,852) from the “Special Reserve for the Loss Movement” in 2003.

B.Cathay Century

Cathay Century’s reserves for operations are organized according to the Insurance Law. These reserves include unearned premium reserve, claim reserve and special reserve. The actuary provides the figures of such reserves in the financial statements.

(12)Reserves for losses on trading securities

Pursuant to the MOF regulations, Cathay United Bank’s (merged) 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\$5.88 million). The reserve cannot be used for other purposes except to offset trading losses.

(13)Reserves for losses on guarantees

Cathay Financial Holding Co., Ltd. and Subsidiaries
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(Expressed in thousands of dollars unless otherwise stated)
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Cathay United Bank's (merged) reserves for losses on guarantees are computed at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for custom duties, commodity taxes and contracts performance obligations.

(14)Reserves for losses on stock brokerage transactions

Pursuant to the MOF regulations, Cathay United Bank's (merged) reserve for possible losses is provided based on 0.0028% of the amount of total stock brokerage transactions each month until such reserve has reached the amount of NT\$200 million (US\$5.88 million).

(15)Convertible bonds payable

The difference between the redemption price and the 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.

(16)Insurance premiums income and expenses

For Cathay Life and Cathay Century, direct premiums are recognized on the date the policies became effective. Policy-related expenses are recognized when they are incurred.

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 and based on past experience.

(17)Recognition of interest revenue 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 when earned.

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(18) Pension plan

The company has established a pension plan for all employees. Pension plan benefits are based primarily on participants' compensation and the number of years of credited service.

In compliance with SFC regulations, the Company and subsidiaries followed the SFAS No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligations and the fair value of plan assets.

(19) Foreign currency transactions

A. Conversion of 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 rate 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-end foreign currency assets and liabilities are converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

Assets and liabilities of Cathay United Bank's (merged) foreign branches, which are denominated in their respective local currencies, are converted into NT dollars using the method described in the preceding paragraph. Local currencies denominated income and expenses of such branches are translated at weighted-average rate. Gains or losses resulting from the translation are treated as "Cumulative conversion adjustments" account under shareholders' equities.

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 year. Differences arising from a conversion

Cathay Financial Holding Co., Ltd. and Subsidiaries
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are reported as “Cumulative Conversion Adjustments” in the section of stockholders’ equity as a separate item.

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements should be 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.

(20)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 deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year’s income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with article 49 of 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 System. 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. But if deferred asset or liability cannot be related to an assets or liability in the financial statements, it will be classified as current or noncurrent on the basis of the expected reversal date of the temporary differences, 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.

Cathay Financial Holding Co., Ltd. and Subsidiaries
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(21)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.

(22)Treasury stock

The issued stocks can be purchased back by the company and treated as treasury stock, and the cost for this purchase should be credited under the category “Treasury Stock”, the face value of these treasury stocks should be calculated separately based on the reason of purchase and in accordance with stock type (common or preferred stock) using the weighted average method. It should be debited under the treasury stock category at time the treasury stock is written off and credited to “capital surplus-stock premium” and capital stock according to stock equity ratio. If the book value of treasury stock is higher than the sum of face value and stock premium, the difference should be charged off to the capital surplus of the same type of treasury stock, the insufficient amount, if any, should be credited to retained earning; if however, the face value of treasury stock is lowered than the sum of face value and stock premium, the difference should be debited to capital surplus that derived from stock exchange of the same type of treasury stock. According to the Ministry of Finance Security and Future Committee (91) article 108164 ruled that the company:

In accordance with article 38 of the financial holding company act, that based on the principle of strict prohibition in cross holding, the initial listing and over the counter financial institution must act in accordance with article 28 of the security exchange to buy back company shares prior to the conversion to a subsidiary of a financial holding company. In addition, article 31 of the financial holding company act indicated that the adjustable period for such conversion is 3 yeas maximum, the past due is deemed as unissued shares and should undergo registration amendment and be charged off accordingly.

Under the previous circumstance, subsidiary of a financial holding company holds shares that is treated as treasury stock of the subsidiary should act in accordance with article 28-2, that is, ineligibility of equity right before the conversion of those shares. According to the Ministry of Finance Security and Future Committee (91) article 111467 ruled that a financial institution acted in accordance with security exchange

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article 28-2, item 1, that the buy back of treasury shares where the conversion to a subsidiary of a financial hold is taking place, the mentioned treasury shares, according to Financial Holding Company Act, article 31, although converted to financial holding common shares, should still be listed as treasury shares and deducted from shareholder equity, the same applied to the holding of subsidiary common shares, that the holder of financial holding shares as a result of this conversion, the company should act in accordance with SFAS NO.30 “Treasury Stock Accounting Principle’ and treated shares held by the subsidiary as treasury stock in its financial report and income statement.

(23) Derivative financial products transaction

A. Transactions on forward exchange contracts are converted into NT dollars based on the spot rate on the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At year-end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and resulting gains or losses are credited or charged to current income. The net value of receivables and payables of the forward exchange contracts is represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of forward contracts are credited or charged to current income in the year of settlement.

B. Options

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged against current income. As of the balance sheet dates, any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

C. Interest Rate Swaps (“IRS”)

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 hedging purposes, income and expenses arising upon settlement are netted off and recognized in the statement of income and expenditure.

D. Cross currency swap (“CCS”)

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The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contract date. Interest is calculated according to the agreed period at the applicable interest rate. The difference is credited or charged to the current income.

E. Forward Rate Agreements (“FRA”)

Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading FRA, differences in the present value of interest revenue or expense on the balance sheet date are reported as exchange gains or losses. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

(24) Commitments and contingent liabilities

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 reasonable estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

(25) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 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\$33.99 and 34.70 to US\$1.00 effective on December 31, 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

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4. Cash and cash equivalents

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Petty cash and cash on hand	\$7,909,642	\$232,705	\$7,536,318	\$217,185
Cash in banks	307,393	9,044	1,022,009	29,453
Time deposits	59,928,143	1,763,111	80,690,640	2,325,379
Cash equivalents	56,978,870	1,676,342	70,175,433	2,022,347
Checks for clearing	3,948,364	116,162	5,034,744	145,093
Total	<u>\$129,072,412</u>	<u>\$3,797,364</u>	<u>\$164,459,144</u>	<u>\$4,739,457</u>

5. Short-term investments

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Equity share	\$67,841,386	\$1,995,922	\$42,805,360	\$1,233,584
Beneficiary certificates	73,680,007	2,167,697	65,441,900	1,885,934
Government bonds and corporate bonds	85,977,257	2,529,487	97,674,294	2,814,821
Oversea investments	172,352,211	5,070,674	77,300,166	2,227,670
Appoint purpose trust fund	46,605,218	1,371,145	42,641,820	1,228,871
Financial debentures	15,203,473	447,292	17,299,550	498,546
Certificates of Deposit	98,628,681	2,901,697	30,466,447	877,996
Short-term notes	5,218,396	153,527	10,598,075	305,420
Subtotal	<u>565,506,629</u>	<u>16,637,441</u>	<u>384,227,612</u>	<u>11,072,842</u>
Less: Allowance for valuation loss	<u>(539,934)</u>	<u>(15,885)</u>	<u>(5,210,236)</u>	<u>(150,151)</u>
Total	<u>\$564,966,695</u>	<u>\$16,621,556</u>	<u>\$379,017,376</u>	<u>\$10,922,691</u>

Cathay United Bank's (merged) marketable securities in the amount of NT\$15,501,378 (US\$456,057) and NT\$16,509,096 (US\$475,766) at December 31, 2003 and 2002, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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6. Exchange bills negotiated discounted and loans, net

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Exchange bills negotiated				
discounted	\$1,063,075	\$31,276	\$944,211	\$27,211
Short-term loans and				
overdrafts	223,282,443	6,569,063	225,493,936	6,498,384
Short-term secured loans and				
overdrafts	114,277,421	3,362,089	117,603,035	3,389,137
Medium-term loans	45,385,821	1,335,270	51,714,446	1,490,330
Medium-term secured loans	129,087,807	3,797,817	159,443,829	4,594,923
Long-term loans	23,981,355	705,542	21,986,490	633,617
Long-term secured loans	456,573,815	13,432,592	425,645,307	12,266,435
Subtotal	993,651,737	29,233,649	1,002,831,254	28,900,037
Less: Allowance for bad debts	(6,937,968)	(204,118)	(10,392,668)	(299,501)
Total	<u>\$986,713,769</u>	<u>\$29,029,531</u>	<u>\$992,438,586</u>	<u>\$28,600,536</u>

For Cathay Life and Cathay Century's secured loans are secured by government bonds, stock, corporate bonds and real estate secure loans. Loans with terms for less than one year are classified as short-term loans; loans with terms of more than one year but less than seven years are classified as medium-term loans ; and loans with terms of more than seven years are classified as long-term loans.

For Cathay United Bank (merged), as of December 31, 2003 and 2002, the past-due loans and other credit loans without accrued interest amounted to NT\$5,743,474 (US\$168,975) and NT\$21,531,473 (US\$620,504), respectively, and there are categorized under loans and delinquent loans, respectively. The non-accrued interest income amounted to NT\$263,639 (US\$7,756) and NT\$1,092,901 (US\$31,496), respectively, for the years ended December 31, 2003 and 2002.

7. Long-term investments in stocks

<u>Investee</u>	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
Cathay Pacific Venture Capital				
Co., Ltd.	\$592,879	\$17,443	0	-

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WK Technology Fund VI Co., Ltd.	375,440	11,046	380,209	10,957
Cathay Insurance (Bermuda) Co., Ltd.	56,954	1,676	53,397	1,539
Cathay Venture Capital Corp.	545,395	16,046	314,588	9,066
Vista Technology Venture Capital Corp.	95,453	2,808	119,593	3,446
Omnitek Venture Capital Corp.	150,572	4,430	152,693	4,400
IBT Venture Capital Corp.	565,288	16,631	590,214	17,009
Wa Tech Venture Capital Co., Ltd.	179,871	5,292	176,034	5,073
Cathay Securities Investment Trust Co., Ltd.	207,601	6,108	198,726	5,727
Symphox Information Co., Ltd.	258,625	7,609	247,950	7,145
Lin Yuan Property Management Co., Ltd.	15,129	445	31,258	901
Cathay Securities Investment Co., Ltd.	15,477	455	9,427	272
Cathay Futures Corp. (formerly Seaward Futures Corp.)	1,671,212	49,168	1,674,905	48,268
Seaward Leasing Ltd.	2,269,460	66,768	2,131,858	61,437
Huong Yee Co., Ltd.	0	-	612,716	17,658
Seaward Insurance Agent Corp.	51,987	1,529	44,133	1,272
Seaward Card Co., Ltd.	43,079	1,267	37,363	1,077
Indovina Bank	437,211	12,863	435,344	12,546
Taiwan Real-estate Management Corp.	54,162	1,593	67,307	1,940
Taiwan Finance Corp.	1,214,596	35,734	1,013,941	29,220
Cathay Bank Property Agency of Association	7,204	212	8,266	238
Cathay Bank Life Insurance Agency of Association	27,257	802	17,517	505
Subtotal	<u>8,834,852</u>	<u>259,925</u>	<u>8,317,439</u>	<u>239,696</u>
Less: Unrealized gain from intercompany transactions	<u>(31,851)</u>	<u>(937)</u>	<u>(87,797)</u>	<u>(2,530)</u>
Long-term investment under the equity method-net	8,803,001	258,988	8,229,642	237,166
B.Long-term investment under the cost method	<u>50,736,114</u>	<u>1,492,678</u>	<u>53,508,545</u>	<u>1,542,033</u>
Total	<u><u>\$59,539,115</u></u>	<u><u>\$1,751,666</u></u>	<u><u>\$61,738,187</u></u>	<u><u>\$1,779,199</u></u>

8. Long-term investments in bonds

Most of the Long-term bond investments are constituting mainly the government bonds. As of December 31, 2003 and 2002, long-term investments in bonds amounted to NT\$269,635,361 (US\$7,932,785) and NT\$149,949,806 (US\$4,321,320), respectively.

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9. Investment in real estate

Item	December 31, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,700,707	\$2,786,134	\$4,851	\$143	(\$11,688,521)	(\$343,881)	\$83,017,037	\$2,442,396
Construction	11,466,637	337,353	0	0	0	0	11,466,637	337,353
Prepayment for buildings and land	414	12	0	0	0	0	414	12
Total	\$106,167,758	\$3,123,499	\$4,851	\$143	(\$11,688,521)	(\$343,881)	\$94,484,088	\$2,779,761

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,078,903	\$2,711,207	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$83,703,729	\$2,412,211
Construction	10,447,165	301,071	0	0	0	0	10,447,165	301,071
Prepayment for buildings and land	414	12	0	0	0	0	414	12
Total	\$104,526,482	\$3,012,290	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$94,151,308	\$2,713,294

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Real estate investment's rents can be paid yearly, semi-yearly, quarter and lump sum.
- (3) No investments in real estate were pledged as collateral. The insurance coverage on investments in real estate was stated at book value.

10. Deposits and remittances payable

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Check deposit	\$11,140,180	\$327,749	\$9,929,600	\$286,156
Demand deposits	83,612,022	2,459,901	95,334,450	2,747,390
Demand savings deposits	392,854,740	11,557,951	296,786,251	8,552,918
Time deposits	157,308,138	4,628,071	230,173,038	6,633,229
Discretionary pension trust funds	0	0	3,602,198	103,810
Remittances payable	245,710	7,229	227,225	6,548
Bank's debenture	25,050,000	736,981	10,000,000	288,184
Total	\$670,210,790	\$19,717,882	\$646,052,762	\$18,618,235

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	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Banker's debenture	\$12,700,000	\$373,639	\$0	\$0
Subordinate Banker's debenture	12,350,000	363,342	10,000,000	288,184
Total	\$25,050,000	\$736,981	\$10,000,000	\$288,184

On May 23, 2002, Cathay United Bank (merged) issued five-year subordinate banker's debenture amounting to NT\$5,000,000 (US\$144,092) with a stated interest rate of 4.15%. On September 10, 2002, Cathay United Bank (merged) issued another five-year and six-month subordinate banker's debenture amounting to NT\$5,000,000 (US\$144,092) with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinate banker's debenture are repayable at maturity, and the interests are payable semiannually.

On April 28, 2003, Cathay United Bank (merged) issued five-year subordinate banker's debenture amounting to NT\$2,350,000 (US\$69,138) with a stated interest rate of 2%. The subordinate banker's debenture are repayable at maturity, and the interests are payable annually.

Each subordinate Banker's debenture has lower priority claim on assets and income than other debt. That is, its principal and interests are repayable only after more senior debt with higher priority has been satisfied. Subordinate Banker's debenture is senior to common stock.

On June 20, 2003, Cathay United Bank (merged) issued five-year and six month banker's debenture amounting to NT\$5,000,000 (US\$147,102) with a stated interest rate of 3.019%. The banker's debenture are repayable at maturity, and the interests are payable semiannually. On December 4, 2003, December 10, 2003, and December 11, 2003, Cathay United Bank (merged) issued five-year banker's debenture amounting to NT\$3,200,000 (US\$94,145), NT\$2,700,000 (US\$79,435), and NT\$1,800,000 (US\$52,957), respectively, with flexible interest rate. The banker's debentures are repayable at maturity, and the interests are payable semiannually.

The priority claim of Banker's debentures, including principles and interests, mentioned above is equal to other debts of Cathay United Bank (merged), while that is prior to the common stock.

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11. Bonds payable

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Zero Coupon Convertible				
Notes	\$24,500,000	\$720,800	\$24,500,000	\$706,052
Exchange loss (gain)	(707,000)	(20,800)	-	-
Redemption premium				
payable	1,342,091	39,485	516,479	14,884
Total	<u>\$25,135,091</u>	<u>\$739,485</u>	<u>\$25,016,479</u>	<u>\$720,936</u>

Please see note 25, “Zero coupon convertible notes related information” for details.

12. Reserve for operations and liabilities

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Unearned premium reserve	\$13,072,573	\$384,601	\$17,433,130	\$502,396
Reserve for life insurance	1,320,057,659	38,836,648	1,178,668,422	33,967,390
Special reserve	15,642,757	460,216	13,193,006	380,202
Claims reserve	915,159	26,924	808,895	23,311
Reserve for losses on				
guarantees	28,821	848	48,912	1,409
Reserve for losses on stock				
brokerage transactions	39,447	1,161	35,813	1,032
Reserves for losses on				
trading securities	124,743	3,670	78,462	2,261
Total	<u>\$1,349,881,159</u>	<u>\$39,714,068</u>	<u>\$1,210,266,640</u>	<u>\$34,878,001</u>

13. Common stock

As of December 31, 2003 and 2002, the numbers of issued shares, par value of NT10 dollars (US0.3 dollars), were 8,307,489,100 shares and 8,453,163,100 shares, respectively.

On July 29, 2003, the Company listed its partial shares of stock on the Luxembourg Stock Exchange in the form of Global Depository Shares.

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14. Capital surplus

- (1) Capital Surplus was NT\$53,651,046 (US\$1,578,436) and NT\$56,807,974 (US\$1,637,117) in December 31, 2003 and 2002. Before conversion into financial holding company, NT\$267,215 (US\$7,862) and NT\$1,917,548 (US\$55,261) constituted retained earnings of certain Subsidiaries of the Company.
- (2) The additional paid-in capital of par value through the 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 a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

15. Retained earnings

- (1) Legal reserve

Pursuant to the Company Law, 10% and the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficit but not for cash dividend 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.

- (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 deficit, 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.

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- B. As the stockholder's meeting of the company resolved on June 6, 2003, declared cash dividends NT\$1.5 dollars each stock and bonus from retained earnings of NT\$13,085,153 (US\$ 384,971) in 2002 and capital surplus from unappropriated earnings with both the subsidiary before conversion amounted to NT\$1,917,548 (US\$ 56,415) and the disposition of fixed assets amounted to NT\$128,170 (US\$ 3,771), respectively. The issuance date of cash dividends was on July 11, 2003.
- C. As the stockholder's meeting of the company resolved on June 27, 2002, declared cash dividends NT\$1.5 dollars each stock and bonus from retained earnings of NT\$137,135 (US\$3,918) in 2001 and capital surplus of NT\$10,278,928 (US\$293,684), which belongs to the subsidiary before conversion. The date of issuing cash dividends was on July 26, 2002.
- D. Cathay life had acquired 156,927,000 shares of treasury stock. After conversion into a financial holding company, Cathay life treasury stock is treated as the Company's treasury stock without any stockholder rights. Cathay life had been transferred 105,376,000 shares to its employees at transferred price of NT40.54 dollars / share (US1.2 dollars / share). After the transfer transaction, the treasury stock holdings of Cathay life have been reduced to 51,551,000 shares.
- E. According to the revised Income Tax Law of 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- F. Under the regulations of the Securities and Futures commission, a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets, other than the deficit, is made from unappropriated retained 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.
- G. In accordance with SFC regulations, subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock as of January 1, 2002. The cost of these shares cannot be distributed as special reserve.
- H. Dividends policy

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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.

- I. In 2003, 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.

According to the regulations issued by Securities and Futures Commission, the Company should assume that the dividends of year 2002 would be appropriated to the employees, directors and supervisors, and pro forma earnings per share for the current year.

	For the year ended December 31, 2002	
	NT\$	US\$
a. Distributions		
Bonus paid to employees-cash	\$1,006	\$29
Bonus paid to employees-stock	0	0
Remuneration paid to directors and supervisors	4,639	134
b. After income taxes earnings per share:		
(expressed in dollars)	\$2.23	\$0.06
Pro forma earnings per share:		
(expressed in dollars)	\$2.23	\$0.06

$$\text{Pro forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

Distributions not include capital surplus belongs to unappropriated retained earnings before the subsidiaries stock conversion.

16. Treasury stock

- (1) The following is a summary of the movement of treasury stock for the year ended December 31, 2003.

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(Unit: in thousands of shares)

Reason for Transfer	January 1,			December 31, 2003	Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	2003	Increase	Decrease		(in NT thousands of dollars)	(in US thousands of dollars)	Book Value (in NT dollars)	Book Value (in US dollars)	Market Value (in NT dollars)	Market Value (in US dollars)
To conserve the credit and stockholders' equity of the Company	145,674	0	145,674	0	\$0	\$0	\$0	\$0	\$0	\$0
Subsidiaries translated it to employees	156,927	0	105,376	51,551	3,032,966	89,231	\$58.83	1.73	51.80	1.52
Parent's stock that the subsidiaries held were treated as treasury stock	369,490	101	357,886	11,705	555,788	16,352	47.48	1.40	51.80	1.52
Holding subsidiaries' stocks by conversion were treated as treasury stock	348,897	0	93,986	254,911	11,450,762	336,886	44.92	1.32	51.80	1.52
Total	1,020,988	101	702,922	318,167	\$15,039,516	\$442,469				

(2) 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	Pro forma way by the board of directors determine
Cathay Life	51,551	\$3,032,966	\$89,231	Subsidiaries purchased shares were translated	Treasury stock doesn't carry any stockholder rights	Within three years	None
Cathay Century	3,397	175,976	5,177	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay United Bank (merged)	8,308	430,358	12,662	"	None	Within three years	None
Total	63,256	\$3,639,300	\$107,070				

(3) Cathay Life

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A. Cathay Life's treasury stock variation for the year ended December 31, 2003 are as follows :

(Unit: in thousands of shares)

Reason for transfer	Jan. 1, 2003	Increase	Decrease	Dec. 31, 2003
Transferred it to employees	156,927	0	105,376	51,551

B. Pursuant to the ROC Securities and Exchange Law, the outstanding issued shares, which a company can acquire as treasury stocks should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 30, 2001, Cathay Life had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$215,765).

C. Treasury stock of Cathay Life was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001.

D. Cathay Life had been transferred 105,376,000 shares to its employees at transferred price of NT40.54/share (US1.2/share) and was approved by the SFC on October 16, 2003. After the transfer transaction, the treasury stock holdings of the Company have been reduced to 51,551,000 shares.

(4) Cathay United Bank (merged)

Cathay United Bank (merged) adopted SFAS No.30 to account for its stock held by its subsidiary as treasury stock since January 1, 2002. 9,036,000 shares of Cathay United Bank's (merged) stocks were sold by Seaward Leasing Ltd., and the transaction was treated as sales of treasury stocks in 2002. Consequently, the amount of NT\$10,397 (US\$300) was adjusted into the capital reserve account.

17. Personnel, depreciation, depletion and amortizations

(1) The Company

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Item	For the year ended December 31,2003 (NT\$)			For the year ended December 31,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	58,760	58,760	-	11,913	11,913
Labor & health Insurance expenses	-	2,051	2,051	-	179	179
Pension expenses	-	1,169	1,169	-	436	436
Other expenses	-	44,599	44,599	-	30	30
Depreciation	-	855	855	-	347	347
Depletion	-	-	-	-	-	-
Amortizations	-	145,367	145,367	-	166,175	166,175

Item	For the year ended December 31,2003 (US\$)			For the year ended December 31,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	1,729	1,729	-	343	343
Labor & health Insurance expenses	-	60	60	-	5	5
Pension expenses	-	34	34	-	13	13
Other expenses	-	1,312	1,312	-	1	1
Depreciation	-	25	25	-	10	10
Depletion	-	-	-	-	-	-
Amortizations	-	4,277	4,277	-	4,789	4,789

The total number of employees is 40 on December 31, 2003.

(2) Cathay Life

Item	For the year ended December 31, 2003 (NT\$)			For the year ended December 31, 2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	20,403,545	2,693,679	23,097,224	21,146,404	2,880,568	24,026,972
Labor & health Insurance expenses	1,243,291	186,483	1,429,774	1,205,377	194,134	1,399,511
Pension expenses	958,877	143,823	1,102,700	880,008	141,732	1,021,740
Other expenses	1,127,502	213,231	1,340,733	1,241,422	221,141	1,462,563
Depreciation	-	1,953,497	1,953,497	-	1,868,804	1,868,804
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

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Item	For the year ended December 31,2003 (US\$)			For the year ended December 31,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	600,281	79,249	679,530	609,406	83,014	692,420
Labor & health Insurance expenses	36,578	5,487	42,065	34,737	5,595	40,332
Pension expenses	28,211	4,231	32,442	25,361	4,084	29,445
Other expenses	33,172	6,273	39,445	35,776	6,373	42,149
Depreciation	-	57,473	57,473	-	53,856	53,856
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

The total number of employees is 28,977 on December 31, 2003.

(3) Cathay Century

Item	For the year ended December 31,2003 (NT\$)			For the year ended December 31,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	503,152	503,152	-	543,664	543,664
Labor & health insurance expenses	-	34,491	34,491	-	27,507	27,507
Pension expenses	-	30,304	30,304	-	25,516	25,516
Other expenses	-	192,687	192,687	-	157,278	157,278
Depreciation	-	24,532	24,532	-	17,320	17,320
Depletion	-	-	-	-	-	-
Amortizations	-	4,252	4,252	-	4,739	4,739

Item	For the year ended December 31,2003 (US\$)			For the year ended December 31,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	14,803	14,803	-	15,667	15,667
Labor & health Insurance expenses	-	1,015	1,015	-	793	793
Pension expenses	-	892	892	-	735	735
Other expenses	-	5,669	5,669	-	4,533	4,533
Depreciation	-	722	722	-	499	499
Depletion	-	-	-	-	-	-
Amortizations	-	125	125	-	137	137

The total number of employees is 789 on December 31, 2003.

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(4) Cathay United Bank (merged)

Item	For the year ended December 31, 2003 (NT\$)			For the year ended December 31, 2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$3,174,897	\$3,174,897	-	\$2,536,009	\$2,536,009
Labor & health Insurance expenses	-	303,534	303,534	-	251,543	251,543
Pension expenses	-	335,362	335,362	-	308,020	308,020
Other expenses	-	572,590	572,590	-	487,422	487,422
Depreciation	-	642,753	642,753	-	596,532	596,532
Depletion	-	-	-	-	-	-
Amortizations	-	90,083	90,083	-	40,227	40,227

Item	For the year ended December 31, 2003 (US\$)			For the year ended December 31, 2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$93,407	\$93,407	-	\$73,084	\$73,084
Labor & health Insurance expenses	-	8,930	8,930	-	7,249	7,249
Pension expenses	-	9,867	9,867	-	8,877	8,877
Other expenses	-	16,846	16,846	-	14,047	14,047
Depreciation	-	18,910	18,910	-	17,191	17,191
Depletion	-	-	-	-	-	-
Amortizations	-	2,650	2,650	-	1,159	1,159

The total number of employees was 3,854 on December 31, 2003.

18. Estimated income taxes

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(1) Income tax expenses include the following:

	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Expected income tax expense	\$2,594,010	\$76,317	\$2,848,300	\$82,083
Plus: Interest income of tax on a separate basis	263,972	7,766	491,071	14,152
Extra 10% income tax on undistributed retained earnings	142,861	4,203	224,012	6,456
Deferred income tax expenses (benefits)	(67,314)	(1,981)	(3,639,784)	(104,893)
Adjustment of income tax	(119,497)	(3,515)	42,444	1,223
Less: Income tax credit	(48,781)	(1,435)	(127,320)	(3,669)
Tax effects under integrated income tax systems	(142,861)	(4,203)	0	0
Total income tax expenses (benefit)	<u>\$2,622,390</u>	<u>\$77,152</u>	<u>(\$161,277)</u>	<u>(\$4,648)</u>

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.

(2) Income tax return:

- A. The Company's income tax returns, up until 2001, have been examined and cleared by the Tax Authority.
- B. Cathay Life's income tax returns, up until 2000 except for 1999, have been examined and cleared by the Tax Authority.

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- C. Cathay Century's income tax returns, up until 2001 except for 1999, have been examined and cleared by the Tax Authority.
- D. Cathay United Bank's (merged) income tax returns for the year 1998 and the years prior to the 1998 had determined by the Tax Authority.
- E. Cathay United Bank's (merged) income tax returns for the year from 1999 to 2002 are being examining by the Tax Authority.
- F. The Tax Authority assessed an additional NT\$193,319 on Cathay United Bank's (merged) 1994 income tax payment. Cathay United Bank's (merged) contested the assessment and on July 30, 2002, the tax authority determined that NT\$153,319 can be used to offset the additional income tax payment. The remaining NT\$40,000 was paid in year 2002.
- G. A valuation allowance has been established for Cathay United Bank's (merged) income tax returns assessment for the years from 1995 to 1998. However, Cathay United Bank's (merged) did not agree with the assessment and appealed to the Tax Authorities. The Tax Authority is currently reviewing the claim.
- H. Except for 1999, the ROC tax authority has examined and assessed the formerly Cathay United Bank's income tax returns through 2001. In connection with such examinations, withholding taxes on the interest income from bonds pertaining to periods when those bonds were held by other investors (the "bond withholding taxes") amounting to of NT\$46,298, NT\$37,542 and NT\$4,658, in 1994, 1995 and 2001 respectively were disallowed by the tax authorities as deduction against formerly Cathay United Bank's income tax obligations. Formerly Cathay United Bank's is contesting the decisions made by the tax authorities and the amounts related to the disallowed bond withholding taxes have been accrued as taxes payable and tax expense for financial reporting purposes. As of December 31, 2003, the tax returns for 1994 and 1995 were under reassessment, after the supreme administrative and advanced administrative courts had both dismissed the prior assessments by the tax authority.

(3) Information related tax imputation:

A. The Company

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	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance of imputation credit account	\$2,087,542	\$61,416	\$1,347,288	\$38,827

	December 31,	
	2003 (Estimate)	2002 (Actual)
Imputation credit account ratio	12.34%	35.19%

B. Cathay Life

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance of imputation credit account	\$1,403,484	\$41,291	\$3,806,751	\$109,705

	December 31,	
	2003 (Estimate)	2002 (Actual)
Imputation credit account ratio	7.90%	30.71%

C. Cathay Century

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance of imputation credit account	\$176,703	\$5,199	\$184,485	\$5,317

	December 31,	
	2003 (Estimate)	2002 (Actual)
Imputation credit account ratio	29.82%	33.33%

D. Cathay United Bank (merged)

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	December 31			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(NT\$)
Balance of imputation credit account	\$166,683	\$4,904	\$54,742	\$1,576

	December 31,	
	2003 (Estimate)	2002 (Actual)
Imputation credit account ratio - Cash dividend	-	16.57%
Imputation credit account ratio - Stock dividend	-	23.80%

(4) Information relating of undistributed earnings:

Year	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Prior to 1997	\$267,215	\$7,862	\$869,860	\$25,068
After 1998	16,916,694	497,696	14,132,841	407,287
Total	\$17,183,909	\$505,558	\$15,002,701	\$432,355

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.

Undistributed retained earnings before 1997 includes subsidiary's unappropriated retained earnings before the stock conversion subsidiary's unappropriated retained earnings before 1997.

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19. Earnings per share

		For the year ended December 31, 2003												
		Income (Numerator)						EPS						
		Before income taxes (in thousands of dollars)		After income taxes (in thousands of dollars)		Consolidated net income (in thousands of dollars)		Shares (denominator)	Before income taxes EPS (in dollars)		After income taxes EPS (in dollars)		Consolidated net income EPS (in dollars)	
		NT\$	US\$	NT\$	US\$	NT\$	US\$			NT\$	US\$	NT\$	US\$	
Net Income		<u>\$23,211,153</u>	<u>\$682,882</u>	<u>\$20,588,763</u>	<u>\$605,730</u>	<u>\$20,588,763</u>	<u>\$605,730</u>							
Primary earnings per share														
Net income for common stock holder		\$23,211,153	\$682,882	\$20,588,763	\$605,730	\$20,588,763	\$605,730	7,642,462,578	\$3.04	\$0.09	\$2.69	\$0.08	\$2.69	\$0.08
Effect of potentially dilutive common stock														
Convertible bonds payable		<u>\$825,612</u>	<u>\$24,290</u>	<u>\$619,209</u>	<u>\$18,217</u>	<u>\$619,209</u>	<u>\$18,217</u>	431,864,407						
Fully-diluted earnings per share														
Net income for common stock holder & effect of potentially common stock		<u>\$24,036,765</u>	<u>\$707,172</u>	<u>\$21,207,972</u>	<u>\$623,947</u>	<u>\$21,207,972</u>	<u>\$623,947</u>	8,074,326,985	\$2.98	\$0.09	\$2.63	\$0.08	\$2.63	\$0.08
		For the year ended December 31, 2002												
		Income (Numerator)						EPS						
		Before income taxes (in thousands of dollars)		After income taxes (in thousands of dollars)		Consolidated net income (in thousands of dollars)		Shares (denominator)	Before income taxes EPS (in dollars)		After income taxes EPS (in dollars)		Consolidated net income EPS (in dollars)	
		NT\$	US\$	NT\$	US\$	NT\$	US\$			NT\$	US\$	NT\$	US\$	
Net Income		<u>\$3,646,582</u>	<u>\$105,089</u>	<u>\$3,807,859</u>	<u>\$109,737</u>	<u>\$13,085,153</u>	<u>\$377,094</u>							
Primary earnings per share														
Net income for common stock holder		\$3,646,582	\$105,089	\$3,807,859	\$109,737	\$13,085,153	\$377,094	5,865,793,845	\$0.62	\$0.02	\$0.65	\$0.02	\$2.23	\$0.06
Effect of potentially dilutive common stock														
Convertible bonds payable		<u>\$516,479</u>	<u>\$14,884</u>	<u>\$387,359</u>	<u>\$11,163</u>	<u>\$387,359</u>	<u>\$11,163</u>	249,797,077						
Fully-diluted earnings per share														
Net income for common stock holder & effect of potentially common stock		<u>\$4,163,061</u>	<u>\$119,973</u>	<u>\$4,195,218</u>	<u>\$120,900</u>	<u>\$13,472,512</u>	<u>\$388,257</u>	6,115,590,922	\$0.68	\$0.02	\$0.69	\$0.02	\$2.20	\$0.06

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20. Related party transactions

(1) Related parties

Name	Relationship
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Life Charity Foundation	Affiliate
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Lin Yuan Property Management 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
Cathay Venture Capital Corp.	The investee is accounted for using the equity method
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 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 Futures Corp. (formerly Seaward Futures Corp.)	The investee is accounted for using the equity method
Seaward Leasing Ltd.	The investee is accounted for using the equity method

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Seaward Insurance Agent Corp. (The company had been liquidated in October, 2003)	The investee is accounted for using the equity method
Seaward Property Insurance Agent Corp.	The investee is accounted for using the equity method
Huong Yee Co., Ltd. (The company had been liquidated in July, 2003)	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
Indovina Bank	The investee is accounted for using the equity method
Vista Technology Venture Capital Crop.	The investee is accounted for using the equity method
China England Company Ltd. and etc.	Investee company of Cathay United Bank(merged)
Gemfor Tech Co.	Their Chairman of the Board is the director of the Cathay United Bank(merged) (resigned since year 2003)
KG Telecommunication Ltd.	Cathay Life is to occupy the supervisor for KG Telecommunication Ltd.
Taipei Smart Card Corp.	Investee Company of Cathay United Bank (merged)
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the Foundation

(2) Significant transactions with related parties:

A. Property transactions (from related parties):

- a. Transactions between the Company and related parties consist of real estate, constructions, and lease transactions. The terms of such transactions are based on market surveys and contracts of both parties.

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Name	For the year ended December 31, 2003		
	Item	NT\$	US\$
	The construction build, extend or repair:		
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$6,888	\$203
	Tainmu Jung Cheng-B	6,973	205
	Hsinyi District Base-D	721,116	21,215
	Cathay Information Building	22,122	651
	Tucheng Office Building	41,029	1,207
	Ban Ciao Building	146,108	4,298
	Hsinyi District Base-E	23,874	702
	Min Sheng Building	19,104	562
	Sheraton Taipei Building	80,884	2,380
	Taitung Building	2,776	82
	Yong Kang Building	125	4
	Cathay General Hospital of Hsinchu	189	6
	Other	13,051	384
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	3,749	110
	Tucheng Office Building	1,330	39
	Ban Ciao Building	2,357	69
	Hsinyi District Base-E	442	13
	Total	<u>\$1,092,117</u>	<u>\$32,130</u>

Name	For the year ended December 31, 2002		
	Item	NT\$	US\$
	The construction build or extend:		
San Ching Engineering Co., Ltd.	Tainan Shopping Center	\$2,184,921	\$62,966
	Cathay General Hospital of Hsinchu	664,310	19,144
	Taitung Building	211,819	6,104
	Lin Yuan Financial building	1,608,917	46,367
	Hsinyi District Base-D	681,876	19,651
	Other	187,968	5,417
Cathay Real Estate Development Co., Ltd.	Other	4,897	141
	Total	<u>\$5,544,708</u>	<u>\$159,790</u>

(a) The total amount of construction contracts for real estate on December 31, 2003 and 2002 between Cathay Life and San Ching Engineering Co., Ltd. are \$10,361,754 (US\$304,847) and \$19,940,725 (US\$574,661) respectively. As of December 31 in 2003 and 2002, \$10,338,340 (US\$304,158) and \$9,274,524 (US\$267,277) had been paid according to the schedule of construction contracts.

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- (b) In 2002, formerly Cathay United Bank engaged San Ching Engineering Co., Ltd. to install office equipment and furniture, and to decorate office buildings and workplaces. The installation fees amounted to NT\$59,129 (US\$1,704).
- (c) Cathay United Bank (merged) has received the contract price of NT\$27,739 (US\$799) from Seaward Leasing Ltd. for the sale of real estate in 2002.
- (d) In December 2002, Cathay United Bank (merged) entered into the contract amounting to NT\$1,980 (US\$57) for the web design service provided by Gemfor Tech Co.
- (e) Cathay United Bank (merged) has purchased equipment amounting to NT\$32,881 (US\$948) from Gemfor Tech Co. during the year of 2002.
- (f) Cathay United Bank (merged) has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$3,908 (US\$115) and NT\$1,665 (US\$48) during the year of 2003 and 2002, respectively.
- (g) Cathay United Bank (merged) has paid the typing system for 24-hour self-service banking center to Sanching Engineering Corp. for NT\$ 505,756 (US\$14,880) during the year of 2003.
- (h) For the years ended December 31, 2003 and 2002, the Company and the Subsidiaries did not repurchase any property and investments it had previously sold.
- (i) Cathay Life and Cathay Century acquisition of property and equipment information:

Name	Item	For the years ended December 31,			
		<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	Communication and transportation equipment	\$1,560	\$46	\$0	\$0
	Other equipment	0	0	39,787	1,147
San-Ching Engineering Co., Ltd.	Other equipment	0	0	1,168	34
		<u>\$1,560</u>	<u>\$46</u>	<u>\$40,955</u>	<u>\$1,181</u>

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b. Real-estate rental income from Cathay Life and Cathay United Bank (merged)

Name	Rental income			
	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$28,092	\$826	\$30,944	\$892
San Ching Engineering Co., Ltd.	18,336	539	19,962	575
Cathay Securities Investment Trust Co., Ltd.	8,854	261	9,131	263
Cathay General Hospital	166,271	4,892	156,235	4,502
Symphox Information Co., Ltd.	29,008	853	30,735	886
Grand Pacific Petrochemical Corporation	0	0	1,121	32
Lin Yuan Property Management Co., Ltd.	437	13	62	2
Lin Ynan Investment Co., Ltd.	136	4	104	3
KG Telecommunication Co., Ltd.	11,719	345	0	0
Cathay Securities Investment Co., Ltd.	4,140	122	0	0
Seaward Leasing Ltd.	1,996	59	2,034	59
Taipei Smart Card Corp.	6,874	202	0	0
Culture and Charity Foundation of the CUB	250	7	500	14
Total	<u>\$276,113</u>	<u>\$8,123</u>	<u>\$250,828</u>	<u>\$7,228</u>

Name	Guarantee deposits received			
	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$364	\$12,386	\$357
San Ching Engineering Co., Ltd.	7,079	208	7,079	204
Cathay General Hospital	2,339	69	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	63	2,144	62
Grand Pacific Petrochemical Corporation	0	0	143	4
Lin Yuan Property Management Co., Ltd.	49	1	49	1
Symphox Information Co., Ltd.	1,421	42	1,421	41
KG Telecommunication Corp.	8,383	247	0	0
Lin Ynan Investment Co., Ltd.	16	1	16	1
Total	<u>\$33,817</u>	<u>\$995</u>	<u>\$25,221</u>	<u>\$727</u>

According to previously signed contracts, lease terms are usually 2 to 5 years; rental collections are received monthly.

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c. Real estate rental expense from Cathay Life, Cathay United Bank (merged)

Name	Rental Expense			
	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Real Estate Development Co., Ltd.	\$30,300	\$891	\$27,098	\$781
Lin Yuan Investment Co., Ltd.	5,016	148	0	0
Seaward Leasing Ltd.	229	7	0	0
Total	<u>\$35,545</u>	<u>\$1,046</u>	<u>\$27,098</u>	<u>\$781</u>

Name	Guarantee Deposits paid			
	Dec. 31, 2003 NT\$	Dec. 31, 2003 US\$	Dec. 31, 2002 NT\$	Dec. 31, 2002 US\$
	Cathay Real Estate Development Co., Ltd.	\$9,352	\$275	\$9,352
Lin Yuan Investment Co., Ltd.	1,650	48	0	0
Seaward Leasing Ltd.	42,000	1,236	42,180	1,216
Total	<u>\$53,002</u>	<u>\$1,559</u>	<u>\$51,532</u>	<u>\$1,485</u>

Lease period and payment is 3-year in average according to contract except for those buildings agreed by Cathay Real Estate Development Co., Ltd. to use deposit and interest to offset rent fee which are paid on monthly basis.

d. Cathay Life and Cathay Century disposal of property and equipment information

We didn't recognize the gain (loss) of real estate which sold to Cathay General Hospital for the year ended December 31, 2003, because unfinished process.

Name	Item	For the year ended December 31, 2002			
		Amount		(Loss) Gain	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation Equipment	\$698	\$20	(12)	(\$0)
Lin Yuan Building Management & Maintenance Co., Ltd.	Communication and transportation equipment	810	23	0	0
	other equipment	8	0	0	0
		<u>\$1,516</u>	<u>\$43</u>	<u>(\$12)</u>	<u>(\$0)</u>

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B. Short-term investment

a. Beneficiary certificates

Name	Transaction type	December 31,			
		<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
		NT\$	US\$	NT\$	US\$
Cathay Securities	Equity Fund	\$850,412	\$25,019	\$578,424	\$16,669
Investment Trust	Bond Fund				
Co., Ltd.		3,530,832	103,879	3,278,474	94,481
	Total	<u>\$4,381,244</u>	<u>\$128,898</u>	<u>\$3,856,898</u>	<u>\$111,150</u>

b. Marketable securities-stock

There wasn't such transaction in the year ended December 31, 2003.

Name	Item	December 31, 2002		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,700	\$27,000	\$778

C. Deposits

As of December 31, 2002, formerly Cathay United Bank's deposits from related parties amounted to NT\$2,344,849 (US\$67,575). The related interest expenses paid to related parties for the year ended December 31, 2002, amounted to NT\$49,204 (US\$1,418).

Except for the staff savings accounts and 0% interest rate on checking accounts, all other interest expense was computed at the general market rate, ranging from 0% to 5.30% during the year ended December 31, 2002. The details of deposit balances (over NT\$0.1 billion) were as follows:

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Name	December 31, 2002			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Expense NT\$
Cathay Real Estate Development Co., Ltd.	\$764,777	\$72,903	0%~5.10%	\$161

Name	December 31, 2002			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Expense US\$
Cathay Real Estate Development Co., Ltd.	\$22,040	\$2,101	0%~5.10%	\$5

D.Loans

As of December 31, 2002, formerly Cathay United Bank loans to related parties amounted to NT\$10,064 (US\$290).

The interest revenue received from related parties for the year ended December 31, 2002, amounted to NT\$461 (US\$13), with interest rates ranging from 4.35% to 6.74%.

E. Regular secured loans

Name	December 31, 2003			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	\$1,173,912	\$1,173,181	4.25%	\$44,911
Wu Ming-Yang	3,189	2,374	3.50%	92
Total		<u>\$1,175,555</u>		<u>\$45,003</u>

Name	December 31, 2003			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	\$34,537	\$34,515	4.25%	\$1,321
Wu Ming-Yang	94	70	3.50%	3
Total		<u>\$34,585</u>		<u>\$1,324</u>

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Name	December 31, 2002			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General			4.44% ~	
Hospital	\$1,174,594	\$1,173,912	5.21%	\$54,685
Wu Ming-Yang	3,309	3,189	4.25%	106
Total		\$1,177,101		\$54,791

Name	December 31, 2002			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General			4.44% ~	
Hospital	\$33,850	\$33,830	5.21%	\$1,576
Wu Ming-Yang	95	92	4.25%	3
Total		\$33,922		\$1,579

F. Receivables

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$16,404	\$483	\$35,332	\$1,018
Symphox Information Co., Ltd.	1,388	41	721	21
Cathay Securities Investment Co., Ltd.	76	2	0	0
Cathay Real Estate Development Co., Ltd.	475	14	0	0
Lin Yuan Property Management Co., Ltd.	9	0	0	0
Cathay Insurance (Bermuda) Co., Ltd.	13,476	396	0	0
Total	\$31,828	\$936	\$36,053	\$1,039

G. Payable

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Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$189,660	\$5,580	\$0	\$0
Cathay Real Estate Development Co., Ltd.	1,141	34	0	0
Lin Yuan Property Management Co., Ltd.	0	0	491	14
Symphox Information Co., Ltd.	16,698	491	28,428	819
Seaward Card Co., Ltd.	46,866	1,379	25,500	735
Total	<u>\$254,365</u>	<u>\$7,484</u>	<u>\$54,419</u>	<u>\$1,568</u>

H. Prepayments

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$21,758	\$640	\$159,382	\$4,593

I. Accounts Collected in Advance

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$53	\$2	\$53	\$1
San Ching Engineering Co., Ltd.	0	0	23	1
Lin Yuan Investment Co., Ltd.	0	0	27	1
Total	<u>\$53</u>	<u>\$2</u>	<u>\$103</u>	<u>\$3</u>

J. Premium revenues

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Name	For the year ended December 31, 2003			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$606	\$18	\$3	\$0
Cathay General Hospital	5,702	168	522	16
Others	6,664	196	795	23
Total	<u>\$12,972</u>	<u>\$382</u>	<u>\$1,320</u>	<u>\$39</u>

Name	For the year ended December 31, 2002			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$14,121	\$407	\$872	\$25
Cathay General Hospital	4,480	129	197	6
Others	4,624	133	274	8
Total	<u>\$23,225</u>	<u>\$669</u>	<u>\$1,343</u>	<u>\$39</u>

K. Reinsurance income

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$90,584</u>	<u>\$2,665</u>	<u>\$132,926</u>	<u>\$3,831</u>

Cathay Insurance (Bermuda) Co., Ltd. reinsurance effective April 1, 2000, assumed damage reinsurance from RGA and CRC and re-direct 90% of reinsurance to Cathay Life.

L. Commissions and Handling fees

Related parties	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Futures Corp. (formerly Seward Futures Corp.)	<u>\$3,104</u>	<u>\$91</u>	<u>\$1,658</u>	<u>\$48</u>

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M.Reinsurance claims payment

Name	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$34,161	\$1,005	\$43,424	\$1,251

N.Reinsurance commissions expense

Name	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$21,481	\$632	\$28,322	\$816

O.Reinsurance handing fee expense

Name	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$6,490	\$191	\$6,186	\$178

P. Commissions expense

Name	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Life Insurance Agent Co., Ltd.	\$46,620	\$1,372	\$27,531	\$793
Seaward Insurance Agent Corp.	72,440	2,131	63,449	1,829
Total	<u>\$119,060</u>	<u>\$3,503</u>	<u>\$90,980</u>	<u>\$2,622</u>

Q.Insurance claims payment

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Name	For the years ended December 31,			
	2003		2002	
	Insurance Claims Payment		Insurance Claims Payment	
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$0	\$0	\$51,453	\$1,483
Cathay General Hospital	0	0	3,195	92
Total	\$0	\$0	\$54,648	\$1,575

R. Credit card processing charges

Related parties	For the years ended December 31,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Seaward Card Co., Ltd.	\$351,892	\$10,353	\$261,753	\$7,543

S. Other expense (Administrative and general expense)

	For the years ended December 31,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$736,739	\$21,675	\$961,687	\$27,714
Cathay Securities Investment Co., Ltd.	39,375	1,159	0	0
Cathay Real Estate Development Co., Ltd.	11,090	326	4,286	124
San Ching Engineering Co., Ltd.	14,750	434	0	0
Symphox Information Co., Ltd.	424,457	12,488	239,738	6,909
Total	\$1,226,411	\$36,082	\$1,205,711	\$34,747

T. Donations

Name	For the years ended December 31,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$0	\$0	\$350,000	\$10,086

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U. Temporary payments and suspense accounts

Related parties	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Securities				
Investment Co., Ltd.	\$0	\$0	\$616	\$18

21. Pledged assets

(1) Cathay Life:

Item	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,937,998	\$233,539	\$7,730,262	\$222,774
Time Deposits	878,750	25,853	711,550	20,506
Total	<u>\$8,816,748</u>	<u>\$259,392</u>	<u>\$8,441,812</u>	<u>\$243,280</u>

The pledged assets are disclosed at their net carrying values.

As of December 31, 2003 and 2002, Cathay Life pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, Cathay Life agrees to purchase the time certificates by the security deposit received as a guarantee. In addition, these deposits serve as guarantees for the Law court. Further, pursuant to Article 141 of the Insurance Law, Cathay Life should deposit long-term investment in bonds equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

(2) Cathay Century:

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government in bonds	<u>\$360,284</u>	<u>\$10,600</u>	<u>\$365,199</u>	<u>\$10,524</u>

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- a. According to Article 141 of the Insurance Law, Cathay Century should deposit long-term investment in government bonds, in an amount equal to 15% of its capital, into the Central Bank as capital guarantee deposits.
- b. The pledged assets are disclosed at their net carrying values.

(3) Cathay United Bank (merged)

Securities purchased of NT\$15,501,378 (US\$456,057) and NT\$16,509,096 (US\$475,766) at December 31, 2003 and 2002, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(4) Formerly Cathay United Bank

The operating deposits of formerly Cathay United Bank, composed of cash, time deposits and bonds stated at cost adjusted for amortization of premium or discount, were as follows:

Item	December 31, 2002	
	NT\$	US\$
Cash	\$182,939	\$5,272
Government bonds and financial debentures	2,452,622	70,681
Time deposits (issued by the Central Bank) and negotiable certificates of deposit	1,215,000	35,014
Time deposits due from banks	287,000	8,271
Total	\$4,137,561	\$119,238

22. Other important matters and contingent liabilities

(1) Cathay Life

As of December 31, 2003, signed sales contracts and construction contracts of approximately \$800 million (US\$24 million), respectively, are either not completed or still in progress and remain open projects. About \$4 million (US\$0.12 million) had been paid during the year.

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(2) Cathay Century

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in both years 2001 and 2000 tax returns, amounting to NT\$2,474(US\$73) and NT\$7,690(US\$226), 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.

B. By the date of December 31, 2003, Cathay Century had made some significant rental contracts, and based on which, we estimate that the rents for the following 5 years should be as below:

Year	Amount	Amount
	NT\$	US\$
Jan.01, 04 ~Dec.31, 04	\$54,781	\$1,612
Jan.01, 05 ~Dec.31, 05	56,263	1,655
Jan.01, 06 ~Dec.31, 06	57,906	1,704
Jan.01, 07 ~Dec.31, 07	59,599	1,753
Jan.01, 08 ~Dec.31, 08	61,342	1,805
Total	\$289,891	\$8,529

(3) Cathay United Bank(merged)

As of December 31, 2003, Cathay United Bank (merged) had the following commitments and contingent liabilities, which are not, reflected in the above mentioned financial statements:

A. Entrusted Items and Guarantees:

	NT\$	US\$
Securities purchased under agreements to resell	\$486,480	\$14,312
Securities sold under agreements to repurchase	29,749,447	875,241

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Trust and security held for safe keeping	489,689,485	14,406,869
Guarantees on duties and contracts	789,665	23,232
Unused commercial letters of credit	71,774,400	2,111,633
Loan commitments	16,294,516	479,391
Credit card lines	2,599,935	76,491
Travelers checks for sale	2,966	87
Bills for collection	19,647,927	578,050
Stamp tax, securities and memorial currency consignments in	218,487,571	6,427,996

B. As of December 31, 2003, Cathay United Bank (merged) had various lawsuits, claims and proceedings considered normal to its operations are pending against Cathay United Bank (merged), the most significant ones are described below:

- a. In 1997, the certificate of certified deposit in the amount of NT\$600 million (US\$17.65 million) with Chung Shing Bank requested by Polaris International Securities Investment Trust Co., Ltd. (formerly Chronicle Securities Investment Trust Co., Ltd.) was found to be a forgery made by Mr. Chung-For Su. Cathay United Bank (merged) has filed a suit in the higher court claiming the NT\$600 million (US\$17.65 million).
- b. In 1996, the clients claimed that Cathay United Bank (merged) was responsible for making restitution for the amount of approximately NT\$24,000 (US\$706) because safe deposits were stolen at Chung-Li Branch. The higher court held Cathay United Bank (merged) responsible for making restitution. Cathay United Bank (merged) has filed an appeal. The claim is still being processed by the higher Court. Cathay United Bank (merged) also has filed insurance claims against Taiwan Secom Co., Ltd. related to the loss mentioned above.
- c. In 2001 unauthorized transactions were made by Cathay United Bank's (merged) employees for the amount of approximately NT\$60,204 (US\$1,771) and NT\$89,307 (US\$2,627), respectively. Cathay United Bank (merged) has held the employee's personal properties or related deposits by court order or as collateral which maybe sold to cover the loss.

The management believes that the amount of contingent liability, if any, after deducting appropriate reserve with respect to these actions will not materially affect the financial statements of Cathay United Bank (merged).

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C. As of December 31, 2003, Cathay United Bank (merged) has entered into certain contracts to purchase premises and equipments totaling NT\$1,558,076 (US\$45,839) with prepayments of NT\$1,047,629 (US\$30,822).

23.Serious damages: None

24.Subsequent events: None

25.Other important events

(1) Pension related information

A. The Company

According to the ROC SFAS No.18 “Accounting for Pensions”, the actuarial report disclosure of pension information for the years ended December 31, 2003 and 2002, was as follows:

a. Pension funded status

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
(a) Vested benefit obligation	(\$1,698)	(\$50)	(\$378)	(\$11)
(b) Non-vested benefit obligation	(1,878)	(55)	(394)	(11)
(c) Accumulated benefit obligation	(3,576)	(105)	(772)	(22)
(d) Additions benefits based on future salaries	(1,636)	(48)	(277)	(8)
(e) Projected benefit obligation	(5,212)	(153)	(1,049)	(30)
(f) Fair value of plan assets	0	0	0	0
(g) Vested benefit	3,152	93	480	14
(h) Funded status = (5) + (6)	(5,212)	(153)	(1,049)	(30)
(i) Unrecognized transitional net benefit obligation (net assets)	0	0	0	0
(j) Unrecognized prior service cost	0	0	0	0
(k) Unrecognized pension gain and loss	3,607	106	614	18
(l) Additional accrued pension liability	(1,971)	(58)	(337)	(10)
(m) (Accrued pension liability) /prepaid pension cost = (h)+(i)+(j)+(k)+(l)	(\$3,576)	(\$105)	(\$772)	(\$22)

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b. Actuarial Assumptions

	December 31,	
	2003	2002
(a) Discount rate	3.5%	4.0%
(b) Expected rate of increase in salaries	3.0%	3.0%
(c) Expected long-term rate of return on plan assets	3.5%	4.0%

B. Cathay Life

a. With respect to the accounting for pensions, we performed the amount based on minimum pension liability and net periodic pension cost. As of December 31, 2003 and 2002, we have allotted NT\$293,280 (US\$8,628) and NT\$301,062 (US\$8,676), respectively.

b. Pension funded status:

	December 31,			
	2003 (NT\$)	2003 (US\$)	2002 (NT\$)	2002 (US\$)
(a) Vested benefit obligation	(\$5,406,316)	(\$159,056)	(\$4,719,843)	(\$136,019)
(b) Non-vested benefit obligation	(3,898,071)	(114,683)	(3,246,744)	(93,566)
(c) Accumulated benefit obligation	(9,304,387)	(273,739)	(7,966,587)	(229,585)
(d) Additional benefits based on future salaries	(2,163,173)	(63,641)	(1,872,973)	(53,976)
(e) Projected benefit obligation	(11,467,560)	(337,380)	(9,839,560)	(283,561)
(f) Vested benefit	(7,902,437)	(232,493)	(7,266,281)	(209,403)
(g) Fair value of plan assets	10,092,972	296,939	8,171,944	235,503
(h) Funded status = (e) + (g)	(1,374,588)	(40,441)	(1,667,616)	(48,058)
(i) Unrecognized transitional net benefit obligation (net assets)	(2,650,892)	(77,990)	(3,029,591)	(87,308)
(j) Unrecognized prior service cost	413,867	12,176	465,601	13,418
(k) Unrecognized pension gain and loss	2,879,122	84,705	4,308,536	124,165
(l) Additional accrued pension liability	0	0	0	0
(m) Accrued pension liability /prepaid pension cost = (h)+(i)+(j)+(k)+(l)	(\$732,491)	(\$21,550)	\$76,930	\$2,217

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c. Actuarial assumptions

	December 31,	
	2003	2002
(a) Discount rate	3.50%	4.00%
(b) Rate of increase in future salaries	3.00%	3.00%
(c) Expected return on pension plan assets	3.50%	4.00%

C. Cathay Century

a. Pension funded status:

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
(a) Vested benefit obligation	(\$32,199)	(\$948)	(\$23,399)	(\$675)
(b) Non-vested benefit obligation	(106,402)	(3,130)	(85,163)	(2,454)
(c) Accumulated benefit obligation	(138,601)	(4,078)	(108,562)	(3,129)
(d) Additional benefits based on future salaries	(72,036)	(2,119)	(51,320)	(1,479)
(e) Projected benefit obligation	(210,637)	(6,197)	(159,882)	(4,608)
(f) Fair value of plan assets	132,542	3,899	103,020	2,969
(g) Vested benefit	80,957	2,382	53,863	1,552
(h) Funded status = (e) + (g)	(78,095)	(2,298)	(56,862)	(1,639)
(i) Unrecognized transitional net benefit obligation (net assets)	8,703	256	9,284	268
(j) Unrecognized prior service cost	0	0	0	0
(k) Unrecognized pension gain and loss	69,392	2,042	47,578	1,371
(l) Additional accrued pension liability	(6,059)	(178)	(5,542)	(160)
(m) Accrued pension liability /prepaid pension cost=(h)+(i)+(j)+(k)+(l)	(6,059)	(178)	(5,542)	(160)

b. Net periodic pension cost:

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	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
(a) Service cost	\$26,405	\$777	\$22,633	\$652
(b) Interest cost	6,544	193	5,310	153
(c) Projected return on plan assets	(4,805)	(141)	(4,031)	(116)
(d) Amortization of unrealized transit on obligation (asset)	580	17	580	17
(e) Amortization of prior service cost	0	0	0	0
(f) Amortization of gain or loss	1,580	46	1,024	30
(g) Net periodic pension cost	<u>\$30,304</u>	<u>\$892</u>	<u>\$25,516</u>	<u>\$736</u>

c. Actuarial assumptions

	December 31,	
	2003	2002
(a) Discount rate	3.70%	4.30%
(b) Rate of increase in future salaries	1.08% ~ 8.69%	1.08% ~ 8.69%
(c) Expected return on pension plan assets	3.70%	4.30%

D. Cathay United Bank (merged) adopted the SFAS No.18 “Accounting for pensions” which requires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expenses for 2003 and 2002:

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Service cost	\$282,553	\$8,313	\$241,665	\$6,964
Interest cost	117,215	3,449	153,972	4,437
Expected return on plan assets	(89,071)	(2,621)	(125,279)	(3,610)
Net amortization	50,212	1,477	37,055	1,068
Less: the recognition from the merged Bank	(26,649)	(784)	0	0
Net pension expenses	<u>\$334,260</u>	<u>\$9,834</u>	<u>\$307,413</u>	<u>\$8,859</u>

The following is reconciliation between the funded status and amounts recognized on balance sheets:

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	December 31,			
	2003(NT\$)	2002(US\$)	2002(NT\$)	2002(US\$)
Pension benefit obligation				
Vested	\$(1,768,323)	\$(52,025)	\$(462,135)	\$(13,318)
Non-vested	(277,529)	(8,165)	(1,359,971)	(39,192)
Accumulated benefit obligation	(2,045,852)	(60,190)	(1,822,106)	(52,510)
Value of future salary projections	(1,120,4	(32	(1,310,6	(37
Projected benefit obligation	(3,166,346)	(93,155)	(3,132,786)	(90,282)
Fair value of plan assets	2,642,288	77,737	2,115,712	60,972
Projected benefit obligation in excess of plan assets	(524	(15	(1,017,0	(29
Unrecognized net obligation at transition	2		2	
Unrecognized net loss	308,236	9,068	738,415	21,280
Prepaid pension cost	\$0	\$0	\$0	\$0

The actuarial assumptions used are:

	December 31,	
	2003	2002
Discount rate	3.5%	3.5%
Growth rate in compensation levels	3.5%	3.5%
Expected long-term rate of return on plan assets	3.5%	3.5%

As of December 31, 2003 and 2002, the vested benefit, based on the Cathay United Bank's (merged) pension plan, amounted to NT\$1,768,323 (US\$52,025) thousand and NT\$557,065 (US\$16,054), respectively.

E. Formerly Cathay United Bank

a. Pension funded status:

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	December 31,	
	2002(NT\$)	2002(US\$)
Benefit Obligations:		
Vested benefit obligations	(\$100,097)	(\$2,884)
Non-vested benefit obligations	(80,011)	(2,306)
Accumulated benefit obligations	(180,108)	(5,190)
Additional based on future salaries	(32,320)	(932)
Projected benefit obligations	(212,428)	(6,122)
Fair value of pensions assets	241,715	6,966
Funding status	29,287	844
Unrecognized net loss (gain)	1,052	30
Unrecognized net transition assets	(30,339)	(874)
Accrued pension liability	\$0	\$0

Vested benefits of employees who are qualified to receive retirement benefits as of December 31, 2002, amounted to NT\$197,359 (US\$5,688).

b. Net periodic pension cost:

	For the year ended December 31,	
	2002(NT\$)	2002(US\$)
Service cost	\$32,445	\$935
Interest cost	7,463	215
Actual return on plan funds	(5,211)	(150)
Amortization and deferral	(6,910)	(199)
Net periodic pensions cost	\$27,787	\$801

Actuarial assumptions:

	December 31, 2002
Discount rate	3.75%
Expected rate of increase in salaries	1.00%
Expected long-term rate of return on plan assets	3.75%

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The actual payment of pensions for 2002 amounted to NT\$5,775 (US\$166).

(2) Derivative financial instruments related information

A. The Company

a. 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.

b. 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 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.

c. Interest Rate Swaps (IRS)

(a) 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 hedging purposes, income and expenses arises upon settlement are netted off and recognized in the statement of income.

(b) The maturity dates of IRS are from May 20, 2002 to May 20, 2007.

As of December 31, 2003:

Item	Contract Amount	Due Value
IRS	USD 700,000	USD 700,000

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As of December 31, 2002:

Item	Contract Amount	Due Value
IRS	USD 700,000	USD700,000

d. Foreign currency options

The Company uses foreign currency option contract - a European option to manage currency exposures.

As of December 31, 2003:

Counterpart	Effective Date	Put Date	Amount
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	USD 594,000

As of December 31, 2002:

Counterpart	Effective Date	Put Date	Amount
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	USD 700,000

B. Cathay Life

a. Purpose

Effective December 31, 2003, Cathay Life hold derivative financial instruments: Futures, Forward Contracts and Interest Rate Swap Agreement. Futures hedge risk against stock price fluctuation; forward contracts hedge risk against foreign currency and exchange rate fluctuation; interest rate swap agreement hedges risk against interest rate fluctuation. These are tradable activities categorize as non-trade.

b. Credit and Market Risk

The counterpart of future contract buy & sell, forward exchange trade, interest swap was an international financial organization with superior creditability; in addition, Cathay Life worked with several other financial institutions to diversify risks; possibility of breaching contract, as a result, was quite low. And if they did, Cathay Life would not encounter major loss due to the nature of risk avoidance the trading had. Further, Cathay Life was exposed to varied exchange rate market risk but the possible loss can be balanced out by gain/loss, which derived from risk avoidance foreign credits and debts exchange rate assessment.

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c. Cash Flow and Demand

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

d. Product type and condition

(a) Futures

All futures transaction had offset on December 31, 2003 and 2002.

(b) Forward Contract

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

(ii) As of December 31, 2003 and 2002, Cathay Life had forward exchange contracts and CCS of approximately US\$12,376,800 and US\$6,480,000, respectively, in national value.

The year ended December 31, 2003 forward contracts are due from the period of January 3, 2003 to January 2, 2004.

		December 31, 2003			
Item	Contract	Fair Value		Due Value	
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$12,376,800	\$420,160,422	\$12,361,295	\$422,574,293	\$12,432,312

		December 31, 2002			
Item	Contract	Fair Value		Due Value	
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$6,480,000	\$224,393,948	\$6,466,684	\$224,351,730	\$6,465,468

The above-mentioned forward contracts agreement hedges against risk in association with net capital exchange rate fluctuation.

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	December 31,	
Net capital	2003	2002
Short-term investment	US\$12,376,800	US\$6,480,000

The forward contracts agreement listed loss amount is about NT\$966,356 (US\$28,431) to this company for the year ended December 31, 2003.

(c) Interest Rate Swap Agreement (IRS)

IRS agreements are applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of December 31, 2003. The agreements of IRS are summarized as following:

Category	Period	Amount
IRS	2002.09.03~2010.11.07	NT\$37,500,000 (US\$1,103,266)

C. Cathay Century

a. Credit and market risk

Cathay Century enters into forward contracts with financial institutions having good credit ratings. In addition, Cathay Century enters into contracts with many financial institutions to hedge risk. Forward hedging contracts can offset losses incurred from exchange rate fluctuation.

b. Cash flow and demand

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

c. Forward contract

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

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(b) As of December 31, 2003 and 2002, Cathay Century has forward exchange contracts of approximately US\$54,000 and US\$11,600, respectively in notional value.

D. Cathay United Bank (merged)

In the normal course of business, Cathay United Bank (merged) entered into various derivative contracts, including forward exchange contracts, interest rate swaps, and cross-currency interest rate swaps, and options. These financial instruments involve varying degrees of risks. These transactions are typically customer-driven and are not for trading purpose. 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)

Derivative Financial Instruments	December 31, 2003		
	Notional Amount	Credit Risk	Fair Market Value
For Trading Purpose			
Forward Contracts	\$2,240,227	\$136,448	\$(19,603)
For Non-trading Purpose			
Interest rate swaps	736,352	5,162	7,576
Cross-currency interest rate swaps	294,222	5,011	7,163
Derivative Financial Instruments	December 31, 2002		
	Notional Amount	Credit Risk	Fair Market Value
For Trading Purpose			
Forward Contracts	\$759,394	\$12,913	\$8,120
For Non-trading Purpose			
Interest rate swaps	177,050	7,460	24,610
Cross-currency interest rate swaps	87,510	1,982	4,961

Credit risk is the possibility of loss if counter-party fails to perform its contractual obligations under the terms of a derivative financial instrument. The above amount of credit risk represents losses, which Cathay United Bank (merged) would suffer if counterparties failed to perform according to the terms of the contract after the effects of master netting agreements.

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Foreign exchange contracts constitute agreements to exchange designated currencies at a specified date at a predetermined price. Cathay United Bank (merged) enters into foreign exchange contracts to provide foreign exchange to its clients as hedging instruments. All client positions are entered into under the approved credit limits and under the similar policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled. Certain clients are required to provide collateral, generally cash, before entering into these transactions. Such collateral is generally deemed necessary over the life of the contract to reduce Cathay United Bank's (merged) credit exposure in foreign exchange contracts.

Interest rate swaps entered into by Cathay United Bank (merged) with remaining maturities ranging from two months to eight years and six months on December 31, 2003, represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, based on a notional principal amount.

Cross-currency interest rate swaps entered into by Cathay United Bank's (merged), which have remaining maturities from two years and one month to two years and ten months on December 31, 2003 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 Cathay United Bank's (merged) foreign marketable securities, foreign certificates of deposit and foreign liquidity gap, since the swap contracts entered into by Cathay United Bank (merged) are made with major international financial institutions only within approved credit limits based on each financial institution's world ranking and credit rating. Therefore, the risks associated with these swap contracts are limited to some extent.

To limit the credit exposure arising from option transactions, Cathay United Bank (merged) maintains its transactions with major financial institutions or parties who have deposits in Cathay United Bank (merged). Consequently, Cathay United Bank (merged) does not anticipate significant loss due to credit risk.

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b. Market risk

Market risk is the potential loss arising from adverse future changes in market rates and prices, such as interest rate, foreign currency exchange rate, and price of equity securities. Market risk includes interest rate risk, equity price risk and foreign exchange rate risk. The related risks for Cathay United Bank's (merged) derivative financial instruments are as follows: (In thousands of US Dollars)

Items	December 31,	
	2003	2002
Interest rate risk	\$283,955	\$761,066
Foreign exchange risk	310,941	274,550

The overall market risk of 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 amount and period of future cash flow

The table below summarizes the expected cash outflow for Cathay United Bank's (merged) derivative financial instrument activities: (In thousands of US Dollars)

Period	December 31,	
	2003	2002
0-1 year	\$2,793	\$1,871
1-2 year	2,793	1,434
2-3 year	2,381	1,434
3-4 year	1,252	1,235
4 year	951	966

The uncertainty in future interest rate and foreign exchange rate fluctuations will affect the above expected cash outflow. The longer the time frame, the more uncertainty there will be.

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The liquidity of forward exchange contracts, which are entered into by Cathay United Bank (merged) with customers, could be low. However, when Cathay United Bank (merged) provides these financial instruments to its customers as a hedging instrument, it requires customers to provide related trading documents for approval. Since Cathay United Bank (merged) and customers both commit to perform according to the terms of forward exchange contracts, the liquidity risk of forward exchange contracts should be immaterial. In the meantime, Cathay United Bank (merged) also enters into forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because it could buy or sell forward exchange contracts at any time on secondary market. Though the liquidity of interest rate swaps and cross-currency interest rate swaps is not high, the liquidity risk associated with these financial instruments should be limited to a lesser extent because most of the trading participants will hold these financial statements to maturity.

A summary of the notional amount of Cathay United Bank's (merged) liquidity risk related to outstanding derivative financial instruments appears in the table below: (In thousands of US Dollars)

Items	Notional Amount	
	Dec. 31, 2003	Dec. 31, 2002
Interest rate swaps	\$736,352	\$177,050
Cross-currency interest rate swaps	294,222	87,510

- d. The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

When Cathay United Bank (merged) entered into forward foreign exchange contracts for trading purposes, Cathay United Bank (merged) will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. At each financial reporting date, Cathay United Bank (merged) will adjust the receivable amount based on the spot rate and recognize the differences as gains or losses in the statements of income. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

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The notional amount is not recorded for interest rate swaps. In the meantime, the differential to be received or paid which was calculated by fixed vs. floating is recorded as adjustment of interest income.

Assets and liabilities caused by cross-currency interest rate swaps are recorded at the agree-upon forward rate. The differential to be received or paid is recorded as an adjustment of interest income.

For options contracts only memorandum entries of notional principal are made on the contract date. Premiums paid or received for options purchased or sold are recorded as asset or liabilities. As of the balance sheet date, options are marked to market and the resulting gains and losses are recognized in earnings. Gain and losses on the exercise of options are recognized in the statement of income.

Only memo entries of notional principals are made on the contract date for forward rate agreements. For trading FRA, differences in the present value of interest revenue or expense on the balance sheet date are reported as exchange gains or losses. For non-trading FRA, interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expense.

e. Off-Balance-Sheet Credit Risk

Cathay United Bank (merged) entered into certain transaction with customers to repurchase or resell securities or short-term notes for business purpose. Cathay United Bank (merged) also provides various types of loans and credit card services. The term for the related loans varies and depends on the credit status of the borrowers. The interest rates for credit card loans are in 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 appear in the table below:

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	December 31,			
	2003		2002	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Securities purchase under agreements to resell	\$486,480	\$14,312	\$3,619,162	\$104,299
Securities sold under agreements to repurchase	29,749,447	875,241	21,739,849	626,509
Loan commitments	19,647,927	578,050	20,365,943	586,915
Credit card lines	218,487,571	6,427,996	34,373,577	990,593
Guaranty and Commercial letters of credit	18,894,451	555,883	14,526,641	418,635

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 requirement. The maximum amount of possible losses for the above off-balance-sheet credit related financial instruments is approximately equal to the contractual amount if borrowers failed to perform according to the terms of the contract, causing the existing collateral to become worthless.

Cathay United Bank (merged) maintains a strict policy to evaluate customers' credit rating when providing securities sold under agreements to repurchase, securities purchased under agreements to resell, 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 or liquidated the collateral. Generally, the collateral includes cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancelled by Cathay United Bank (merged) following periodic review of the customers' credit status.

E. Formerly Cathay United Bank

a. Foreign exchange forward and swap contracts

Formerly Cathay United Bank enters into foreign exchange forward contracts and swap contracts for the purpose of hedging foreign exchange risk. The foreign exchange forward contracts and swap contracts are recorded at acquisition cost

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and valued at the spot currency rate on the balance sheet date. As of December 31, 2002, receivables and payables resulting from foreign exchange forward contracts and swap contracts, which are recorded at net receivable amount, amounted to NT\$1,127 (US\$32). As of December 31, 2002, the unsettled balance of foreign exchange forward contracts and swap contracts amounted to US\$54,537, JPY 860,170 and EUR 3,500 and HK\$1,600, with maturity dates ranging from January 1, 2003 to June 12, 2003.

Credit risk arises when the transaction counterparty fails to perform its contractual obligation. When derivative financial instruments are profitable, credit risk increases. To lower credit risk effectively, formerly Cathay United Bank takes the same policy as for loans, primarily by setting credit limiting and limits its selection of counterparties to those with high credit ratings. Because the counterparties of foreign forward contracts are international banking institutions with high credit ratings, the possibility of default on the contractual obligations is very low.

Market risk is the possible loss arising from the fluctuations in market interest rates or exchange rates. To reduce interest and exchange rate exposures, formerly Cathay United Bank has maintained its net foreign currency positions within certain limits to reduce market risk.

Liquidity risk arises when the contract cannot be cleared in the anticipated time period. Formerly Cathay United Bank monitors liquidity risk by requiring credit authorization, setting position limits, maintaining stop-loss levels and using internal control procedures. To manage adverse movements in interest rates and foreign exchange rates, formerly Cathay United Bank has diversified its selection of currencies to those with high liquidity (primarily the U.S. dollar, Euro, and Japanese Yen) for interest rate and foreign exchange contracts held or issued.

b. Options

Formerly Cathay United Bank engaged in option transactions to comply with the new business of combined foreign currency deposits. Depositors include savings deposit clients and internationally well-know banks, which have to qualify under the risk management assessment of formerly Cathay United Bank. The deposit clients are those who deposit their principal in formerly Cathay United Bank and use the interest earned to buy the options. Therefore, the credit risk is very low. In order to eliminate the potential market risk, formerly Cathay United Bank will buy opposite options at the same time the clients buy their options.

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c. As of December 31, 2002, the nominal principal and fair value of derivative contracts which had not matured were as follows:

	December 31, 2002			
	Nominal principal		Fair value	
	NT\$	US\$	NT\$	US\$
Trading				
Swap contracts	\$2,407,785	\$69,389	(\$1,390)	(\$40)
Options	179,686	5,178	0	-

(3) Non-derivative financial instruments related information

A. The Company

The book value of non-derivative Financial Instruments held by the Company as of December 31, 2003, is the same as the estimated fair market value.

B. Cathay Life

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of December 31, 2003 and 2002, is the same as the estimated fair market value:

Item	December 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Short-term Investment	\$394,517,196	\$11,606,861	\$403,809,617	\$11,880,248
Long-term Investment –				
Cost method	\$44,369,985	\$1,305,383	\$46,185,526	\$1,358,797

Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Short-term Investment	\$282,050,205	\$8,128,248	\$282,050,205	\$8,128,248
Long-term Investment –				
Cost method	\$54,231,053	\$1,562,854	\$54,231,053	\$1,562,854

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C. Cathay Century

Except for the item listed in the following table, the book value of non-derivative financial instruments as of December 31, 2003 and 2002 is the same as the estimated fair market value:

Item	December 31,			
	2003		2003	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term Investment	\$2,065,103	\$2,162,167	\$60,756	\$63,612

Item	December 31,			
	2002		2002	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term Investment	\$ 2,063,054	\$2,172,225	\$59,454	\$62,600

D. Cathay United Bank (merged)

a. Fair value of non-derivative financial instruments

As of December 31, 2003 and 2002, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximate their carrying values:

Financial Assets	December 31, 2003(NT\$)		December 31, 2003(US\$)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Securities purchased	\$166,843,309	\$167,162,137	\$4,908,600	\$4,917,980
Long-term Investments	26,441,388	26,532,513	777,917	780,598

Financial Assets	December 31, 2002(NT\$)		December 31, 2002(US\$)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Securities purchased	\$105,171,935	\$106,635,506	\$3,030,891	\$3,073,069
Long-term Investments	12,153,144	12,348,770	350,235	355,872

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Fair value amounts of securities purchased and long-term investments were based on quoted market price, if available. If quoted market prices did not exist, fair values were estimated according to book value or other financial resources.

b. Others

(a) Information on concentration of credit risk

The concentrations of credit risk exist when the counter-party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. Cathay United Bank (merged) has not transacted with one single customer or entered into one single transaction, which would expose Cathay United Bank (merged) into concentration risk. However, Cathay United Bank (merged) is likely exposed to industry concentration risk. Cathay United Bank's (merged) information on concentration of credit risk is as follows:

Items	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$512,062,640	\$15,065,097	\$391,855,681	\$11,292,671
South East Asia	10,354,093	304,622	9,474,148	273,030
North East Asia	259,898	7,646	417,710	12,038
North America	6,894,411	202,836	6,602,262	190,267
Others	5,909,366	173,856	5,730,178	165,135
Total	<u>\$535,480,408</u>	<u>\$15,754,057</u>	<u>\$414,079,979</u>	<u>\$11,933,141</u>
Industry type				
Manufacturing	\$65,664,461	\$1,931,876	\$52,138,298	\$1,502,545
Financial institutions and insurance	28,320,639	833,205	25,815,297	743,957

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Leasing and real				
estate	70,914,517	2,086,334	66,797,682	1,925,005
Individuals	258,982,514	7,619,374	166,615,700	4,801,605
Others	111,598,277	3,283,268	102,713,002	2,960,029
Total	<u>\$535,480,408</u>	<u>\$15,754,057</u>	<u>\$414,079,979</u>	<u>\$11,933,141</u>
Credit Card				
Global Card	\$18,784	\$552	\$0	\$0
Platinum Card	3,081,605	90,662	0	0
Gold card	5,550,022	163,284	8,596,710	247,744
Regular card	2,792,472	82,156	2,589,786	74,633
Others	35,204	1,036	0	0
Advance	7,000	206	0	0
Total	<u>\$11,485,087</u>	<u>\$337,896</u>	<u>\$11,186,496</u>	<u>\$322,377</u>

(b) The amount of possible losses for the above credit-related loan approximated to notional amounts if borrowers failed to perform according to the terms of the contract, causing the existing collateral become worthless

E. Formerly Cathay United Bank

a. Estimated fair values of the formerly Cathay United Bank's financial instruments

The book values and the estimated fair values of formerly Cathay United Bank's financial instruments are as follows:

	<u>December 31, 2002</u>	
	<u>Book value</u>	<u>Fair value</u>
	NT\$	NT\$
Financial assets:		
Cash and due from banks	\$ 9,189,451	9,189,451
Due from Central Bank	11,645,740	11,734,851
Bills and securities purchased, net	6,698,083	6,698,083
Receivables	21,199,574	21,199,574
Loans and exchange bills negotiated and discounted	110,364,439	110,364,439
Long-term investment	5,303,964	5,389,087
Other assets	8,564,256	8,596,358
Financial liabilities:		
Due to banks	1,715,172	1,715,172
Accrued expenses	4,730,370	4,728,980
Deposits and remittances payable	158,622,263	158,622,263
Other liabilities	153,704	153,704
Off-balance-sheet financial instruments:		
Guarantees on loans and letters of credit	-	6,095,916

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	<u>December 31, 2002</u>	
	<u>Book value</u>	<u>Fair value</u>
	US\$	US\$
Financial assets:		
Cash and due from banks	\$ 264,826	264,826
Due from Central Bank	335,612	338,180
Bills and securities purchased, net	193,028	193,028
Receivables	610,939	610,939
Loans and exchange bills negotiated and discounted	3,180,531	3,180,531
Long-term investment	152,852	155,305
Other assets	246,809	247,734
Financial liabilities:		
Due to banks	49,428	49,428
Accrued expenses	136,322	136,282
Deposits and remittances payable	4,571,247	4,571,247
Other liabilities	4,430	4,430
Off-balance-sheet financial instruments:		
Guarantees on loans and letters of credit	-	175,675

The following methods and assumptions were used to estimate the fair values of financial instruments.

- (i) The book value reported in the balance sheet for short-term financial instruments approximates the fair value due to their short maturity period or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash amounts due from banks, call loans to banks, deposit reserves due from the Central Bank, receivables, other assets (excluding delinquent loans) and accrued expenses, and other liabilities.
- (ii) The fair values of bills and securities purchased and of deposit reserves for trust funds in the form of securities and of other assets are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on financial or other information.
- (iii) Loans and exchange bills negotiated and discounted, due to banks, deposits and financial debentures are the interest-bearing financial assets and liabilities, and the evaluation of collectable amount. Their book value approximates fair value.
- (iv) The fair values of financial guarantees are based on the contract value.

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b. Financial instruments with off-balance sheet credit risk

By engaging in the business of loans and issuing credit cards, formerly Cathay United Bank holds large credit commitments. During year 2002, according to the different types of loans, the interest rates on loans ranged from 2.44% to 12.47%. The maximum credit card interest rate at the reporting date was 19.89%. Formerly Cathay United Bank also provided guarantees and letters of credit to guarantee customers' performance of obligations to third parties. These agreements generally extend for up to one year. Expirations are not concentrated in any particular period.

Most of the contracts are expected to expire without any payment by formerly Cathay United Bank, and accordingly, the total contractual amounts do not necessarily represent future cash payments. The future cash flow requirement will be less than the contract amount. The maximum loss on each guarantee is equal to the contractual amount, which does not take into account the value of any collateral.

Formerly Cathay United Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. As of December 31, 2002, the ratios of secured loans to total loans (excluding credit card operations) was 78.77%, and the extent of collateral held for guarantees and letters of credit was 34.49%. Collateral for loans, guarantees, and letters of credit is usually in the form of time deposits, marketable securities, real estate, or other property. When customers are in default, formerly Cathay United Bank can forcibly execute its related collateral or security rights.

Credit card commitments are unsecured. Periodic review of cardholders' credit status is performed to adjust card limits if necessary.

Formerly Cathay United Bank required strict credit assessment in the investment in CLN, CCN and SLN. The criteria on the investment objectives were referred to the stipulation of the MOF. The assessment was based on having financial institutions with sound finances and good reputations, or the linked investing objectives ranked "long-term bond rating BBB-" or "short-term bond rating A-3 grade" and above assessed by Standard & Poor's Corporation or with "long-term bond rating Baa3" or "short-term bond rating P-3 grade" and above assessed by Moody's Investor Service. The credit ratings of the above-mentioned investing objectives were all above these grades, and no material credit risk existed during

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2002. Formerly Cathay United Bank has been periodically assessing the credit and financial position of the issuers and the linked investing objectives. When credit risks arise, formerly Cathay United Bank may take necessary action, or dispose of its investments.

C. Information on concentrations of credit risk

The concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for individuals or groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Formerly Cathay United Bank does not have material concentrations of credit risk with respect to any individual customer or counterparty but is exposed to counterparty default with respect to its portfolio concentrations in certain industries. The information on concentrations of credit risk of more than 10% of formerly Cathay United Bank's loan balance by industry is as follows:

	December 31, 2002	
	NT\$	US%
Manufacturing	\$15,344,404	\$442,202
Real estate and lease	15,600,693	449,588
Others (less than 10% of loans)	80,090,149	2,308,073
	\$111,035,246	\$3,199,863

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

(4) Discretionary account management

A. Cathay Life

In 2003 and 2002, Cathay Life fully authorized security investment trust at own expense to handle discretionary account management operation, items invested are:

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Item	December 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$2,213,351	\$65,118	\$2,247,032	\$66,109
Repurchase bonds	6,197,247	182,326	6,198,381	182,359
Short-term securities	250,024	7,356	250,081	7,357
Convertible bonds	497,528	14,638	533,182	15,686
Bonds	1,890,603	55,622	1,885,500	55,473
Cash in bank	295,962	8,707	295,962	8,707
Net other assets less liabilities	(163,411)	(4,808)	(163,411)	(4,808)
Total	<u>\$11,181,304</u>	<u>\$328,959</u>	<u>\$11,246,727</u>	<u>\$330,883</u>

Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,000,211	\$28,824	\$936,044	\$26,975
Repurchase bonds	5,077,614	146,329	5,077,614	146,329
Short-term securities	216,680	6,244	216,680	6,244
Bonds	907,013	26,139	975,373	28,109
Cash in bank	297,639	8,578	297,639	8,578
Net other assets less liabilities	(10,009)	(288)	(10,009)	(288)
Total	<u>\$7,489,148</u>	<u>\$215,826</u>	<u>\$7,493,341</u>	<u>\$215,947</u>

As of December 31, 2003 and 2002, the securities investment and trust company had recorded that Cathay Life had discretionary account management contracts in the amount of NT\$10,300,000 (US\$303,030) and NT\$7,500,000 (US\$216,138), respectively.

B. Cathay Century

Item	December 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$19,616	\$577	\$18,829	\$554
Cash in bank	32,214	948	32,124	945
Net other assets less liabilities	(64)	(2)	(64)	(2)
Total	<u>\$51,766</u>	<u>\$1,523</u>	<u>\$50,889</u>	<u>\$1,497</u>

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Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$15,348	\$442	\$15,088	\$435
Cash in bank	76,985	2,219	76,985	2,219
Net other assets less liabilities	(104)	(3)	(104)	(3)
Total	<u>\$92,229</u>	<u>\$2,658</u>	<u>\$91,969</u>	<u>\$2,651</u>

As of December 31, 2003 and 2002, the securities investment had recorded that Cathay Century had discretionary account management contracts in the amount of NT\$50,000(US\$1,471) and NT\$100,000(US\$2,882), respectively.

(5) 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 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 the limited circumstances.

Conversion rights:

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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 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.

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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 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:

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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 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 December 31, 2003.

(6) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in financial statements for the year ended of 2002 have been

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reclassified in order to be comparable with those in the financial statements for the year ended of 2003.

26. Information for investment in Mainland China: None

27. Segment information: None

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28. 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(merged)				CATHAY UNITED BANK CO., LTD	
	December 31, 2003		December 31, 2002		December 31, 2003		December 31, 2002		December 31, 2003		December 31, 2002		December 31, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$538,378,543	\$15,839,322	\$451,264,807	\$13,004,750	\$6,772,966	\$199,263	\$7,317,042	\$210,867	\$309,821,173	\$9,115,068	\$213,899,803	\$6,164,259	\$48,805,967	\$1,406,512
Exchange bills negotiated, discounted, and loans	478,362,995	14,073,639	501,695,488	14,458,083	761,767	22,411	942,396	27,158	511,762,416	15,056,264	394,578,267	11,371,132	110,364,439	3,180,531
Funds and long-term investments	394,179,994	11,596,940	300,117,029	8,648,905	2,270,550	66,801	664,228	19,142	26,441,388	777,917	12,153,144	350,235	5,303,964	152,852
Fixed assets	15,465,945	455,015	15,967,119	460,147	55,506	1,633	67,526	1,946	26,049,117	766,376	23,240,572	669,757	1,470,615	42,381
Other assets(including intangible assets)	28,337,778	833,709	16,514,127	475,912	436,349	12,838	463,067	13,344	8,353,010	245,749	8,675,240	250,007	11,155,416	321,482
Current liabilities	8,301,670	244,239	10,690,154	308,074	749,488	22,050	769,330	22,170	812,916,586	23,916,346	597,754,504	17,226,355	165,148,632	4,759,326
Long-term liabilities	736,217	21,660	3,726	107	8,584	253	7,668	221	34,119	1,004	34,119	983	0	0
Other liabilities	1,359,454,027	39,995,705	1,206,205,943	34,760,978	6,466,208	190,238	5,985,555	172,495	892,193	26,248	717,575	20,679	193,511	5,577
Capital stocks	50,686,158	1,491,208	50,686,158	1,460,696	2,317,006	68,167	2,317,006	66,773	43,182,407	1,270,445	39,715,627	1,144,543	12,346,083	355,795
Capital surplus	5,200	153	3,048	88	430	13	0	0	13,461,820	396,052	5,095,598	146,847	0	0
Retained earnings	38,590,027	1,135,335	26,228,308	755,859	754,135	22,187	372,528	10,736	11,886,259	349,699	9,122,517	262,897	(587,825)	(16,940)
Equity adjustments	(15,078)	(444)	(924,904)	(26,654)	1,287	38	2,172	62	53,720	1,580	107,086	3,086	0	0
Treasury stocks	(3,032,966)	(89,231)	(7,333,863)	(211,351)	0	0	0	0	0	0	0	0	0	0
Total assets	\$1,454,725,255	\$42,798,625	\$1,285,558,570	\$37,047,797	\$10,297,138	\$302,946	\$9,454,259	\$272,457	\$882,427,104	\$25,961,374	\$652,547,026	\$18,805,390	\$177,100,401	\$5,103,758
Total liabilities	\$1,368,491,914	\$40,261,604	\$1,216,899,823	\$35,069,159	\$7,224,280	\$212,541	\$6,762,553	\$194,886	\$813,842,898	\$23,943,598	\$598,506,198	\$17,248,017	\$165,342,143	\$4,764,903
Total stockholders' equity	\$86,233,341	\$2,537,021	\$68,658,747	\$1,978,638	\$3,072,858	\$90,405	\$2,691,706	\$77,571	\$68,584,206	\$2,017,776	\$54,040,828	\$1,557,373	\$11,758,258	\$338,855

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(b) Concise statements of income:

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY CENTURY INSURANCE CO., LTD				CATHAY UNITED BANK CO., LTD(merged)				CATHAY UNITED BANK CO., LTD			
	The year ended Dec. 31, 2003		The year ended Dec. 31, 2002		The year ended Dec. 31, 2003		The year ended Dec. 31, 2002		The year ended Dec. 31, 2003		The year ended Dec. 31, 2002		1.1.2003~26.10.2003		The year ended Dec. 31, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$474,956,405	\$13,973,416	\$451,697,947	\$13,017,232	\$12,254,223	\$360,524	\$11,150,975	\$321,353	\$30,200,713	\$888,518	\$32,942,262	\$949,345	\$10,076,237	\$296,447	\$10,503,809	\$302,703
Operating costs & expenses	(456,521,517)	(13,431,054)	(436,317,818)	(\$12,574,001)	(11,566,764)	(\$340,299)	(10,803,696)	(\$311,345)	(26,733,980)	(786,525)	(43,710,680)	(1,259,674)	(9,786,111)	(287,911)	(10,759,231)	(310,064)
Operating income	18,434,888	542,362	15,380,129	443,231	687,459	20,225	347,279	10,008	3,466,733	101,993	(10,768,418)	(310,329)	290,126	8,536	(255,422)	(7,361)
Non-operating revenues	1,572,167	46,253	718,251	20,699	14,214	418	4,773	137	223,655	6,580	316,279	9,114	60,615	1,783	31,979	922
Non-operating expenses	(236,756)	(6,965)	(39,291)	(1,132)	(8,103)	(238)	(1,369)	(39)	(1,069,987)	(31,480)	(1,475,171)	(42,512)	(29,714)	(874)	(26,395)	(761)
Operating income before taxes	19,770,299	581,650	16,059,089	462,798	693,570	20,405	350,683	10,106	2,620,401	77,093	(11,927,310)	(343,727)	321,027	9,445	(249,838)	(7,200)
Net income	17,830,597	524,583	12,846,157	370,206	592,660	17,436	234,503	6,758	2,706,059	79,613	(8,807,310)	(253,813)	(62,795)	(1,847)	(90,180)	(2,599)
Earning per share before taxes (in dollars)	\$4.01	\$0.12	\$2.98	\$0.09	\$2.99	\$0.09	\$1.51	\$0.04	\$0.65	\$0.02	(\$3.00)	(\$0.09)	\$0.03	\$0.00	(\$0.20)	(\$0.01)
Earning per share (in dollars)	\$3.61	\$0.11	\$2.39	\$0.07	\$2.56	\$0.08	\$1.01	\$0.03	\$0.67	\$0.02	(\$2.22)	(\$0.06)	(\$0.01)	(\$0.00)	(\$0.07)	(\$0.00)

Annotation 1: 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\$54,600). According to Article 15 of the ROC Financial Institution Merger Law, the losses on the transaction are amortized monthly over five years starting from April 2002. As of December 31, 2002, the unamortized losses on disposal of delinquent assets amounted to NT\$1,610,418(US\$46,410), classified as other assets. According to general accepted accounting principles, the losses should be recognized as current expenses on the transaction date. Therefore, the above accounting treatment results in decreased the provision for credit losses and increased the net income before tax of its subsidiary by NT\$316,092(US\$9,300), respectively, and the net income after tax of its subsidiary increased by NT\$237,069(US\$6,975) from January 1 to October 16, 2003. In 2002, its subsidiaries have provision for credit losses increased and net income before tax decreased by NT\$1,610,418(US\$46,410), respectively, and the net income after tax of its subsidiary decreased by NT\$1,207,813(US\$34,807). From Jan. 1 to Oct. 16, 2003, provision for credit losses of its subsidiary decreased by NT\$316,092(US\$9,300), the net income before tax of its subsidiary increased by NT\$316,092(US\$9,300), and the net income after tax of its subsidiary increased by NT\$237,069(US\$6,975). In the year December 31, 2002, provision for credit losses of its subsidiary increased by NT\$1,610,418(US\$46,410), the net income before tax of its subsidiary decreased by NT\$1,610,418(US\$46,410) and the net income after tax of its subsidiary decreased by NT\$1,207,813(US\$34,807).

Annotation 2: UWCCB and Cathay United Bank were merged on October 27, 2003. After merged, UWCCB becomes the Surviving Company but re-named under Cathay United Bank Co., Ltd.

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29. Elimination of reciprocal accounts

According to the SFC regulations, the consolidated statements should disclose as follows:

Transactions	Account Item	As of and for the years ended December 31,			
		2003 (NT\$)	2003 (US\$)	2002 (NT\$)	2002 (US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Common stock	\$96,185,570	\$2,829,820	\$105,064,872	\$3,027,806
	Capital surplus	13,467,451	396,218	5,098,647	146,935
	Legal reserve	23,836,057	701,267	30,840,658	888,780
	Special reserve	6,249,135	183,852	257,487	7,420
	Unappropriated retained earnings	315,777	9,290	145,786,975	4,201,354
	Cumulative conversion adjustments	176,131	5,182	199,570	5,751
	Unrealized valuation losses on long-term equity investments	136,202	4,007	1,015,215	29,257
	Allowance for valuation loss on long-term investments in stock	136,202	4,007	935,733	26,966
	Treasury stock	3,032,965	89,231	7,333,863	211,351
	Short-term investments	728,987	21,447	1,710,822	49,303
	Allowance for valuation loss on short-term investments	122,653	3,609	800,823	23,078
	Long-term investments in stock	157,420,273	4,631,370	137,175,271	3,953,178
	Deferred tax assets	-	-	402,605	11,602
	Other assets	-	-	1,610,418	46,410
	Gain on long-term investments	20,653,866	607,645	13,535,077	390,060
	Net income before acquisitions of the subsidiaries	-	-	9,277,294	267,357
	Provisions expenses	1,610,418	47,379	1,610,418	46,410
	Operating expenses	51,043	1,502	-	-
	Miscellaneous revenues	8,100	238	-	-
	Other operating income	486,176	14,304	-	-
	Gain on disposal of investments	838,081	24,657	181,674	5,236
	Loss on disposal of investments	-	-	44,663	1,287
	Income taxes benefit	402,605	11,845	402,605	11,602

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

Transactions	Account Item	As of and for the years ended December 31,			
		2003 (NT\$)	2003 (US\$)	2002 (NT\$)	2002 (US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Deposits and remittances payables	14,796,129	435,308	37,244,860	1,073,339
	Cash and cash equivalents	14,796,129	435,308	37,244,860	1,073,339
	Prepayments	2,450	72	2,692	78
	Accounts collected in advance	2,450	72	2,692	78
	Payables	34,412	1,012	57,430	1,655
	Receivables	34,412	1,012	57,430	1,655
	Interest income	91,167	2,682	433,148	12,483
	Interest expenses	91,167	2,682	433,148	12,483
	Premiums income	219,400	6,455	151,881	4,377
	Insurance expenses	219,400	6,455	151,881	4,377
	Rental income	245,366	7,219	199,790	5,758
	Rental expenses	245,366	7,219	199,790	5,758
	Guarantee deposits received	24,042	707	51,359	1,480
	Guarantee deposits paid	24,042	707	51,359	1,480
	Other revenues	304,237	8,951	9,746	281
	Other expenses	304,237	8,951	9,746	281
	Indemnity income	27,342	804	17,700	510
	Insurance Claims Payment	27,342	804	17,700	510
	Handing fee earned	5,603	165	-	-
	Handing fee paid	5,603	165	-	-