

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

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

**Address: No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, ROC**

**Telephone: 886-2-2708-7698**

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### **Independent auditors' report**

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

We have audited the accompanying balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") as of December 31, 2003 and 2002, and the related 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. are merged on October 27, 2003. United World Chinese Commercial Bank Co., Ltd. is 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 investment for the subsidiaries is NT\$ 68,747 million (US\$ 2,023 million) constituting 41.17% of total assets of the Company as of December 31, 2003, and investment gain is NT\$ 3,438 million (US\$ 101 million) constituting 16.73% of income before taxes of the Company 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., which are the wholly-owned subsidiaries of the Company. Total investment for the subsidiaries is NT\$65,382 million (US\$1,884 million) constituting 47.96% of the total assets of the Company as of December 31, 2002, and investment gain is NT\$524 million (US\$15 million) constituting 4.07% of income before taxes of the Company for the year ended 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 the 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 financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. 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.

Cathay Financial Holding Co., Ltd. has prepared the consolidated financial statements as of December 31, 2003 and 2002 accompany with modificatory unqualified opinion issued by our auditors furnished upon request.



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The accompanying financial statements as of and for the years ended December 31, 2003 and 2002, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(13) to the financial statements.

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

January 27, 2004

Notice to Readers

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

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

Assets	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Current assets</b>						
Cash and cash equivalents (Notes 2,4)	\$6,322,798	\$186,019	3.79	\$11,336,312	\$326,695	8.32
Short-term investments (Notes 2,5)	2,147,421	63,178	1.29	450,255	12,976	0.33
Interest receivable	42,742	1,258	0.02	44,206	1,274	0.03
Other receivable	0	0	0.00	108,424	3,124	0.08
Deferred income tax assets-current (Notes 2,13)	21,837	642	0.01	4,069	117	0.00
Prepayments	0	0	0.00	6	0	0.00
Subtotal	8,534,798	251,097	5.11	11,943,272	344,186	8.76
<b>Long-term investments</b>						
Long-term investments in stocks (Notes 2,6)						
Long-term investments under equity method	158,086,904	4,650,983	94.67	124,872,901	3,598,643	91.60
Long-term investments under cost method	100,000	2,942	0.06	0	0	0.00
Allowance for valuation loss on long-term investments in stocks	(136,202)	(4,007)	(0.08)	(1,032,426)	(29,753)	(0.76)
Subtotal	158,050,702	4,649,918	94.65	123,840,475	3,568,890	90.84
<b>Property and equipment (Note 2)</b>						
Communication and transportation equipment	3,199	94	0.00	0	0	0.00
Other equipment	2,673	79	0.00	2,648	76	0.00
Subtotal	5,872	173	0.00	2,648	76	0.00
Less: Accumulated depreciation	(1,202)	(35)	0.00	(347)	(10)	0.00
Subtotal	4,670	138	0.00	2,301	66	0.00
<b>Other assets</b>						
Temporary payments and suspense accounts	167	5	0.00	628	18	0.00
Deferred income tax assets-noncurrent (Notes 2,13)	171,822	5,055	0.10	141,327	4,073	0.11
Deferred charges (Note 2)	231,582	6,813	0.14	395,051	11,385	0.29
Subtotal	403,571	11,873	0.24	537,006	15,476	0.40
<b>Total assets</b>	<b>\$166,993,741</b>	<b>\$4,913,026</b>	<b>100.00</b>	<b>\$136,323,054</b>	<b>\$3,928,618</b>	<b>100.00</b>
<b>Liabilities &amp; stockholders' equity</b>						
<b>Current liabilities</b>						
Collections for others	\$896	\$26	0.00	\$505	\$15	0.00
Accrued expenses	36,628	1,078	0.02	404,614	11,660	0.30
Income taxes payable	5,599	165	0.00	0	0	0.00
Dividends payable	1,477	44	0.00	962	28	0.00
Subtotal	44,600	1,313	0.02	406,081	11,703	0.30
<b>Long-term liabilities</b>						
Bonds payable (Notes 2,7,20)	25,135,091	739,485	15.05	25,016,479	720,936	18.35
Accrued Pension Liabilities	3,576	105	0.00	436	13	0.00
Subtotal	25,138,667	739,590	15.05	25,016,915	720,949	18.35
<b>Other liabilities</b>						
Temporary receipts and suspense accounts	694	20	0.00	708	20	0.00
Subtotal	694	20	0.00	708	20	0.00
<b>Total liabilities</b>	<b>25,183,961</b>	<b>740,923</b>	<b>15.07</b>	<b>25,423,704</b>	<b>732,672</b>	<b>18.65</b>
<b>Stockholders' equity</b>						
Capital stock						
Common stock (Note 8)	83,074,891	2,444,098	49.75	84,531,631	2,436,070	62.01
Capital surplus (Note 9)	53,651,046	1,578,436	32.13	56,807,974	1,637,117	41.67
Retained earnings (Note 10)						
Legal reserve	1,335,046	39,278	0.80	13,713	395	0.01
Special reserve	1,833,255	53,935	1.10	0	0	0.00
Unappropriated retained earnings	16,916,694	497,696	10.13	13,085,153	377,094	9.60
Equity adjustments						
Unrealized valuation losses on long-term equity investments	(136,202)	(4,007)	(0.08)	(1,032,426)	(29,753)	(0.76)
Cumulative conversion adjustments	176,537	5,194	0.11	199,570	5,751	0.15
Net loss not yet recognized as net pension cost	(1,971)	(58)	0.00	0	0	0.00
Treasury stock (Notes 2,10,11)	(15,039,516)	(442,469)	(9.01)	(42,706,265)	(1,230,728)	(31.33)
<b>Total stockholders' equity</b>	<b>141,809,780</b>	<b>4,172,103</b>	<b>84.93</b>	<b>110,899,350</b>	<b>3,195,946</b>	<b>81.35</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$166,993,741</b>	<b>\$4,913,026</b>	<b>100.00</b>	<b>\$136,323,054</b>	<b>\$3,928,618</b>	<b>100.00</b>

(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 financial statements.**

**Cathay Financial Holding Co., Ltd.**  
**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 \$	%
<b>Operating revenues</b> (Note 2)						
Interest income	\$426,013	\$12,534	2.02	\$442,773	\$12,760	3.14
Gain on disposal of investments	3,455	102	0.02	101,498	2,925	0.72
Gain on long-term equity investments (Notes 2,6)	20,645,091	607,387	97.96	13,575,839	391,235	96.14
Subtotal	<u>21,074,559</u>	<u>620,023</u>	<u>100.00</u>	<u>14,120,110</u>	<u>406,920</u>	<u>100.00</u>
<b>Operating costs</b> (Note 2)						
Interest expenses	(825,612)	(24,290)	(3.92)	(516,479)	(14,884)	(3.66)
Provision for securities trading losses reserve	(71,070)	(2,091)	(0.34)	0	0	0.00
Subtotal	<u>(896,682)</u>	<u>(26,381)</u>	<u>(4.26)</u>	<u>(516,479)</u>	<u>(14,884)</u>	<u>(3.66)</u>
<b>Operating gross profit</b>	<u>20,177,877</u>	<u>593,642</u>	<u>95.74</u>	<u>13,603,631</u>	<u>392,036</u>	<u>96.34</u>
<b>Operating expenses</b>						
Administrative and general expenses	(366,604)	(10,786)	(1.74)	(726,891)	(20,948)	(5.15)
<b>Operating income</b>	<u>19,811,273</u>	<u>582,856</u>	<u>94.00</u>	<u>12,876,740</u>	<u>371,088</u>	<u>91.19</u>
<b>Non-operating revenues</b>						
Gain on foreign exchange	667,733	19,645	3.17	0	0	0.00
Miscellaneous income	69,790	2,053	0.33	8,100	233	0.06
Subtotal	<u>737,523</u>	<u>21,698</u>	<u>3.50</u>	<u>8,100</u>	<u>233</u>	<u>0.06</u>
<b>Non-operating expenses</b>						
Loss on foreign exchange	0	0	0.00	(10,420)	(300)	(0.07)
Subtotal	<u>0</u>	<u>0</u>	<u>0.00</u>	<u>(10,420)</u>	<u>(300)</u>	<u>(0.07)</u>
<b>Income from continuing operations before income taxes</b>	<u>20,548,796</u>	<u>604,554</u>	<u>97.50</u>	<u>12,874,420</u>	<u>371,021</u>	<u>91.18</u>
Income taxes (Notes 2, 13)	39,967	1,176	0.19	210,733	6,073	1.49
<b>Net income</b>	<u>\$20,588,763</u>	<u>\$605,730</u>	<u>97.69</u>	<u>\$13,085,153</u>	<u>\$377,094</u>	<u>92.67</u>
<b>Earnings per share(expressed in dollars)</b> (Note 14)						
Primary earnings per share:						
Before income tax earnings per share	<u>\$2.69</u>	<u>\$0.08</u>		<u>\$2.19</u>	<u>\$0.06</u>	
After income tax earnings per share	<u>\$2.69</u>	<u>\$0.08</u>		<u>\$2.23</u>	<u>\$0.06</u>	
Fully-diluted earnings per share:						
Before income tax earnings per share	<u>\$2.65</u>	<u>\$0.08</u>		<u>\$2.19</u>	<u>\$0.06</u>	
After income tax earnings per share	<u>\$2.63</u>	<u>\$0.08</u>		<u>\$2.20</u>	<u>\$0.06</u>	
<b>Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock</b>						
Income from continuing operations before income taxes	<u>\$21,873,053</u>	<u>\$643,514</u>		<u>\$12,590,158</u>	<u>\$362,829</u>	
Net income	<u>\$21,913,019</u>	<u>\$644,690</u>		<u>\$12,800,891</u>	<u>\$368,902</u>	
<b>Earnings per share(expressed in dollars)</b> (Note 14)						
Primary earnings per share:						
Income from continuing operations before income taxes	<u>\$2.78</u>	<u>\$0.08</u>		<u>\$2.13</u>	<u>\$0.06</u>	
Net income	<u>\$2.79</u>	<u>\$0.08</u>		<u>\$2.17</u>	<u>\$0.06</u>	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	<u>\$2.74</u>	<u>\$0.08</u>		<u>\$2.13</u>	<u>\$0.06</u>	
Net income	<u>\$2.72</u>	<u>\$0.08</u>		<u>\$2.14</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 financial statements.**

**Cathay Financial Holding Co., Ltd.**  
**Statements of changes in stockholders' equity**  
**(Expressed in thousands of dollars)**  
**For the years ended December 31, 2003 and 2002**

Summary	Capital stock		Capital surplus		Retained earnings				Equity adjustments				Net loss not yet recognized as net pension cost		Treasury stock		Total			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$		
<b>Balance on January 1, 2002</b>	\$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)	(35,372,402)	(1,019,378)
Net income for year ended December 31, 2002									13,085,153	377,094									13,085,153	377,094
<b>Balance on December 31, 2002</b>	<b>\$84,531,631</b>	<b>\$2,436,070</b>	<b>\$56,807,974</b>	<b>\$1,637,117</b>	<b>\$13,713</b>	<b>\$395</b>	<b>\$0</b>	<b>\$0</b>	<b>\$13,085,153</b>	<b>\$377,094</b>	<b>\$199,570</b>	<b>\$5,751</b>	<b>\$(1,032,426)</b>	<b>\$(29,753)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$(42,706,265)</b>	<b>\$(1,230,728)</b>	<b>\$110,899,350</b>	<b>\$3,195,946</b>
<b>Balance on January 1, 2003</b>	<b>\$84,531,631</b>	<b>\$2,486,956</b>	<b>\$56,807,974</b>	<b>\$1,671,314</b>	<b>\$13,713</b>	<b>\$404</b>	<b>\$0</b>	<b>\$0</b>	<b>\$13,085,153</b>	<b>\$384,971</b>	<b>\$199,570</b>	<b>\$5,871</b>	<b>\$(1,032,426)</b>	<b>\$(30,374)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$(42,706,265)</b>	<b>\$(1,256,436)</b>	<b>\$110,899,350</b>	<b>\$3,262,706</b>
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	0	0
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	3,663,555	107,783
Treasury stock			440,119	12,948					(41,770)	(1,229)							17,321,223	509,597	17,719,572	521,316
Net income for 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)			(1,971)	(58)
Rounding					1	0											(1)	0	0	0
<b>Balance on December 31, 2003</b>	<b>\$83,074,891</b>	<b>\$2,444,098</b>	<b>\$53,651,046</b>	<b>\$1,578,436</b>	<b>\$1,335,046</b>	<b>\$39,278</b>	<b>\$1,833,255</b>	<b>\$53,935</b>	<b>\$16,916,694</b>	<b>\$497,696</b>	<b>\$176,537</b>	<b>\$5,194</b>	<b>\$(136,202)</b>	<b>\$(4,007)</b>	<b>\$(1,971)</b>	<b>\$(58)</b>	<b>\$(15,039,516)</b>	<b>\$(442,469)</b>	<b>\$141,809,780</b>	<b>\$4,172,103</b>

(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 financial statements.



**Cathay Financial Holding Co., Ltd.**  
**Statements of cash flows**  
**(Expressed in thousands of dollars)**  
**For the years ended December 31, 2003 and 2002**

	2003		2002	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$20,588,763	\$605,730	\$13,085,153	\$377,094
Adjustments:				
Amortizations	145,367	4,277	166,175	4,789
Depreciation	855	25	347	10
Provision loss on short-term investments	71,070	2,091	0	0
Investment gains recognized by equity method excess of cash dividends received	(15,066,074)	(443,250)	(2,998,434)	(86,410)
Increase(decrease) in bonds payable redemption	825,612	24,290	516,479	14,884
Effects of exchange rate changes	39,267	1,155	0	0
Decrease (increase) in short-term investments	(1,768,237)	(52,022)	(450,255)	(12,976)
Decrease (increase) in interest receivable	1,464	43	(44,206)	(1,274)
Decrease (increase) in other receivable	108,424	3,190	(108,424)	(3,125)
Decrease (increase) in prepayments	6	0	(6)	0
Decrease (increase) in deferred income tax assets-current noncurrent	(17,768)	(523)	(4,069)	(117)
	(30,496)	(897)	(141,326)	(4,073)
Decrease (increase) in temporary payments and suspense accounts	461	13	(628)	(18)
Increase (decrease) in collections for others	391	11	505	15
Increase (decrease) in accrued expenses	(367,986)	(10,826)	323,236	9,315
Increase (decrease) in Income taxes payable	5,599	165	0	0
Increase (decrease) in dividends payable	515	15	962	28
Accrued Pension Liabilities	1,169	34	436	13
accounts	(14)	0	708	20
<b>Net cash provided by (used in) operating activities</b>	<b>4,538,388</b>	<b>133,521</b>	<b>10,346,653</b>	<b>298,175</b>
<b>Cash flows from investing activities</b>				
Acquisition of long-term investments in stocks	(775,000)	(22,801)	(15,690,915)	(452,188)
Decrease capital stock of subsidiary	0	0	7,700,000	221,902
Acquisition of property and equipment	(3,224)	(95)	(2,648)	(76)
Decrease (increase) in deferred charges	18,103	533	(479,849)	(13,829)
<b>Net cash provided by (used in) investing activities</b>	<b>(760,121)</b>	<b>(22,363)</b>	<b>(8,473,412)</b>	<b>(244,191)</b>
<b>Cash flows from financing activities</b>				
Increase (decrease) in bonds payable	(707,000)	(20,800)	24,500,000	706,052
Remuneration paid to directors and supervisors	(5,400)	(159)	(4,800)	(138)
Bonus paid to employees	(1,171)	(35)	(13)	(1)
Cash dividends	(11,702,498)	(344,292)	(8,908,418)	(256,727)
Acquisition of Treasury stock	0	0	(6,123,698)	(176,475)
Disposal of Treasury stock	3,663,555	107,783	0	0
<b>Net cash provided by (used in) financing activities</b>	<b>(8,752,514)</b>	<b>(257,503)</b>	<b>9,463,071</b>	<b>272,711</b>
<b>Effects of exchange rate changes</b>	<b>(39,267)</b>	<b>(1,155)</b>	<b>0</b>	<b>0</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(5,013,514)</b>	<b>(147,500)</b>	<b>11,336,312</b>	<b>326,695</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>11,336,312</b>	<b>333,519</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at the end of year</b>	<b>\$6,322,798</b>	<b>\$186,019</b>	<b>\$11,336,312</b>	<b>\$326,695</b>
<b>Supplemental disclosure of cash flows information</b>				
Income tax paid	\$16,225	\$477	\$43,086	\$1,242
Acquisition of subsidiaries by stock conversion method	\$0	\$0	\$68,092,842	\$1,962,330
Subsidiaries are holding treasury stocks	\$0	\$0	\$7,333,863	\$211,351

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NTS33.99 and NTS34.70 to US\$1.00)

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

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

## **Notes to financial statements**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

### **1. Organization of business scope**

On December 31, 2001 Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”). On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) joined the Company, as two subsidiaries of the Company by stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. 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. 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:

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

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

#### *(2) Cash and cash equivalents*

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

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

*(3) Short-term investments*

When market value is available, short-term notes are stated at the lower of aggregate cost or market value. The costs of these notes, interest income, and gain or loss due to maturity or as a result of sales of notes are determined by the specific identification method.

Bonds are valued at the lower of cost or market value. The cost of these bonds sold is determined based on the weighted-average method.

*(4) Long - term investments in stocks*

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

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

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

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

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

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

*(5) Property and equipment*

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

Depreciation on depreciable assets is computed using the straight-line method over service lives, prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC. “The Executive Yuan Depreciation Table”. Properties still used in operations beyond their original estimated service lives are further depreciated over their newly estimated service lives.

*(6) Deferred charges*

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

*(7) Convertible bonds payable*

The stated redemption price in excess of the face value of a convertible bond is amortized by the effective interest method and is credited to the reserve for bonds redemption accounts. In addition, this amortization is treated as interest expense.

The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible bonds payable and reserve amount for bonds redemption are transferred to the accounts of capital stock and capital surplus and, accordingly, no gain or loss is recognized upon conversion.

*(8) Foreign currency transactions*

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

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

*(9) Derivative financial instruments*

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

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, options are marked to market and the resulting gains or losses are credited or charged to current income.

*(10) Income taxes*

The Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 22, “Accounting for Income Taxes”, which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and valuation allowance will be estimated, if needed. The prior year’s income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

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

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

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

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

*(11)Capital expenditure expenses*

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

*(12)Treasury stock*

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.

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of December 31, 2003 and 2002

According to the Ministry of Finance Security and Future Committee (91) article 111467 ruled that a financial institution acted in accordance with security exchange 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.

#### (13) Convenience conversion 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 NT\$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

### 4. Cash and cash equivalents

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Petty cash	\$40	\$1	\$20	\$1
Cash in banks	746,698	21,968	800	23
Time deposits	3,031,634	89,192	2,575,778	74,230
Cash equivalents	2,544,426	74,858	8,759,714	252,441
Total	\$6,322,798	\$186,019	\$11,336,312	\$326,695

### 5. Short-term investments

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Government bonds	\$217,506	\$6,399	\$450,255	\$12,976
Oversea Investments	2,000,985	58,870	0	0
Less: Allowance for valuation loss	(71,070)	(2,091)	0	0
<b>Total</b>	<b>\$2,147,421</b>	<b>\$63,178</b>	<b>\$450,255</b>	<b>\$12,976</b>

As of December 31, 2003 and 2002, the Company didn't provide collateral or guarantee on short-term investments.

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

Name of investee	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
	Book Value	Book Value	Book Value	Book Value
Under the equity method:				
Cathay Life	\$86,233,341	\$2,537,021	\$55,889,135	\$1,610,638
Cathay Century	2,896,883	85,227	2,569,340	74,044
Cathay United Bank	—	—	11,714,723	337,600
Cathay United Bank (merged)	68,153,847	2,005,115	53,667,277	1,546,608
Cathay Pacific Venture Capital Co., Ltd.	592,879	17,443	—	—
Cathay Venture Capital Corp.	73,752	2,170	—	—
Sub-Total	157,950,702	4,646,976	123,840,475	3,568,890
Under the cost method:				
Debt Instruments Depository and Clearing Co., Ltd.				
Taiwan	100,000	2,942	—	—
<b>Total</b>	<b>\$158,050,702</b>	<b>\$4,649,918</b>	<b>\$123,840,475</b>	<b>\$3,568,890</b>

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

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance on January 1	\$123,840,475	\$3,643,439	\$74,846,501	\$2,156,960
Add: Investment gains under equity method recognized	20,645,091	607,387	13,575,839	391,235
Add: Increment of investment	0	0	68,197,980	1,965,359



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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

by stock conversion method				
Add: Dividends to subsidiaries	549,329	16,162	0	0
Add: Increment of investment	675,000	19,859	15,690,915	452,188
Add (Less): Capital surplus under equity method recognized	(830,622)	(24,437)	0	0
Add (Less): Unappropriated retained earnings under equity method recognized	57,683	1,697	0	0
Add: Cumulative conversion adjustments under equity method recognized	(23,033)	(678)	9,454	272
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	17,724,647	521,466	(1,161)	(33)
Add (Less): Unrealized valuation loss on long-term equity investments under equity method recognized	896,224	26,367	(952,944)	(27,462)
Less: The Company stocks that the subsidiaries held as investments were treated as treasury stocks	(5,075)	(149)	(13,576,114)	(391,243)
Less: The Company's subsidiaries stocks by stock conversion were treated as treasury stocks	0	0	(15,672,590)	(451,660)
Less: Cash dividends received	(5,579,017)	(164,137)	(10,577,405)	(304,824)
Less: Disinvestments of the subsidiaries	0	0	(7,700,000)	(221,902)
Balance on December 31	<u>\$157,950,702</u>	<u>\$4,646,976</u>	<u>\$123,840,475</u>	<u>\$3,568,890</u>

(2) The investment gains (losses) recognized by the equity method for the years ended December 31, 2003 and 2002 are listed below:

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

Name of Investee	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Life	\$16,676,188	\$490,621	\$12,848,385	\$370,270
Cathay Century	532,513	15,667	203,445	5,863
Cathay United Bank	(73,106)	(2,151)	433,213	12,485
Cathay United Bank (merged)	3,518,271	103,509	90,796	2,617
Cathay Pacific Venture Capital Co., Ltd.	(7,121)	(210)	—	—
Cathay Venture Capital Corp.	(1,654)	(49)	—	—
Total	<u>\$20,645,091</u>	<u>\$607,387</u>	<u>\$13,575,839</u>	<u>\$391,235</u>

- A. The investment gains (losses), which were recognized, based on the audited financial statements of the Cathay Life and Cathay Century in the same current periods for the years ended December 31, 2003 and 2002.
- B. 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.
- C. We did not audit the financial statements of Cathay United Bank (merged) for the years ended December 31, 2003 and 2002. Cathay United Bank (merged) was audited by other CPAs with modificatory unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements audited by other auditors.
- D. We did not audit the financial statements of Cathay Venture Pacific Co., Ltd. for the year ended December 31, 2003. Cathay Venture Pacific Co., Ltd. was audited by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements audited by other auditors.
- E. The investment gains (losses), which were recognized based on the audited financial statements of Cathay Venture Capital Corp. in the same current periods for the year ended December 31, 2003.

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

- F. We did not audit the financial statements for the year ended December 31, 2002 of Cathay Bank a subsidiary of Cathay Financial Holding Co., Ltd. (holding company) were audited by other auditors with qualified opinions which complied with the R.O.C. Financial Institution Merger Law amortizing the losses of disposing of delinquent assets. On April 11, 2002, Cathay Bank 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 R.O.C. Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. As of December 31, 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$ 1,610,418 (US\$ 46,410) and should be recognized as current expenses. The investment gains (losses) of parent company accounted for under equity method of the losses were recognized as current expenses, provision for credit losses of its subsidiary (Cathay Bank) increased by NT\$ 1,610,418 (US\$46,410), the income before tax of its subsidiary decreased by NT\$ 1,610,418 (US\$46,410), the income tax benefit from its subsidiary increased by NT\$ 402,605 (US\$ 11,603) and the net income after tax of the subsidiary decreased by NT\$ 1,207,813 (US\$34,807) for the year ended December 31, 2002. The investment losses of parent company accounted for under equity method recognized increased by NT\$ 379,968(US\$ 10,950), the net asset from merger of additional paid-in capital decreased by NT\$ 827,845 (US\$ 23,857) for the year ended December 31, 2002.
- G. The consolidated financial statements of the Company as of and for the year December 31, 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.
- (3) As of December 31, 2003 and 2002, the Company didn't provide collateral or guarantee on long-term investments.

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

**7. 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
Add(Less): Loss (Gain) on foreign exchange	(707,000)	(20,800)	—	—
Add: 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 20, “Zero coupon convertible notes related information” for details.

**8. 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 Depositary Shares.

**9. Capital surplus**

(1) Capital surplus was the 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 at par value through exchange of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of additional paid-in capital from the share exchange which comes from the original financial institution’s unappropriated retained earnings is allowed to be distributed as cash dividends.

(3) In addition, pursuant to the Company Law, capital surplus can only be used to offset deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

**10. Retained earnings**

(1) Legal reserve

Pursuant to the Company Law, 10% and the Company's annual after-tax net income must be allocated as legal reserve until 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

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.

(3) 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.

(4) 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.

(5) 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.

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

- (6) 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.
- (7) 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.
- (8) 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.
- (9) Dividends policy
- According to the operating program, stock dividends are for the purpose of retaining operating capital. The remainder is distributed in cash, but cash dividends are a minimum of 10% of the dividends declared.
- (10) In 2003, pursuant to ROC 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\$)	2002(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

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of December 31, 2003 and 2002

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

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

### 11. Treasury stock

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

(Unit: in thousands of shares)

Reason for Transfer	January 1, 2003			December 31, 2003	Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	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
<b>Total</b>	<b>1,020,988</b>	<b>101</b>	<b>702,922</b>	<b>318,167</b>	<b>\$15,039,516</b>	<b>\$442,469</b>				

(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
<b>Total</b>	<b>63,256</b>	<b>\$3,639,300</b>	<b>\$107,070</b>				

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

**12. Personnel 、 depreciation 、 depletion and amortizations**

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 was 40 and 7, respectively, on December 31, 2003 and 2002.



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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

**13. Estimated income taxes**

(1) Income tax expenses for the years ended December 31, 2003 and 2002 are estimated as follows:

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Income before taxes	\$20,548,796	\$604,554	\$12,874,420	\$371,021
Adjustments:				
Unrealized exchange loss(gain)	(687,352)	(20,222)	0	0
Exemption from income tax on securities trade gain	0	0	(101,498)	(2,925)
Unrealized loss (gain) on market price loss (recovery) of short-term investments	71,070	2,091	0	0
Interest income of tax on a separate basis	(63,344)	(1,864)	(200,060)	(5,765)
Investment gains recognized by equity method	(20,645,091)	(607,387)	(13,575,839)	(391,235)
Unrealized bonds payable redemption premium	825,612	24,290	516,479	14,884
Others	(16,075)	(473)	65,102	1,876
Taxable income	33,616	989	(421,396)	(12,144)
Times: Taxes rate	25%	25%	25%	25%
Subtotal	8,394	247	(105,349)	(3,036)
Add: Tax on a separate basis	13,430	395	40,012	1,153
Deferred income tax expense (benefit)	(48,263)	(1,420)	(145,396)	(4,190)
Dissimilitude on estimate tax aforesaid	(13,528)	(398)	0	0
Income taxes expense (benefit)	<u>(\$39,967)</u>	<u>(\$1,176)</u>	<u>(\$210,733)</u>	<u>(\$6,073)</u>

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

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
A. Total deferred income tax liabilities	\$171,838	\$5,056	\$0	\$0
B. Total deferred tax assets	<u>\$365,497</u>	<u>\$10,753</u>	<u>\$145,396</u>	<u>\$4,190</u>

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized bonds payable redemption premium	\$1,342,091	\$39,485	\$516,479	\$14,884
b. Deductible temporary difference from unrealized loss on market price loss of short-term investments	71,070	2,091	0	0
c. Deductible temporary difference from organization costs amortization into 5 years	48,827	1,436	65,102	1,876
d. Taxable temporary difference from unrealized exchange gain	<u>(687,352)</u>	<u>(20,222)</u>	<u>0</u>	<u>0</u>
Subtotal	<u>\$774,636</u>	<u>\$22,790</u>	<u>\$581,581</u>	<u>\$16,760</u>
D. Deferred income tax assets-current	\$21,837	\$642	\$4,069	\$117
Deferred income tax liabilities-Current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net offset balance of deferred income tax assets (liabilities)-current	<u>\$21,837</u>	<u>\$642</u>	<u>\$4,069</u>	<u>\$ 117</u>
E. Deferred income tax assets-noncurrent	\$343,660	\$10,111	\$141,327	\$4,073
Deferred income tax Liabilities- noncurrent	<u>(171,838)</u>	<u>(5,056)</u>	<u>0</u>	<u>0</u>
Net offset balance of deferred income tax assets (liabilities) - noncurrent	<u>\$171,822</u>	<u>\$5,055</u>	<u>\$141,327</u>	<u>\$4,073</u>

(3) The Company's income tax returns, up to 2001, had already been examined and cleared by the Tax Authorities.

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

(5) Information related tax imputation:

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of December 31, 2003 and 2002

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

(6) Information relating of undistributed earnings:

Year	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.

## 14. Earnings per share

	For the year ended December 31, 2003								
	Income (Numerator)				Shares (denominator)	EPS			
	Before income taxes (in thousands of dollars)		After income taxes (in thousands of dollars)			Before income taxes EPS (in dollars)		After income taxes EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net Income	\$20,548,796	\$604,554	\$20,588,763	\$605,730	7,642,462,578	\$2.69	\$0.08	\$2.69	\$0.08
<b>Primary earnings per share</b>									
Net income for common stock holder	\$20,548,796	\$604,554	\$20,588,763	\$605,730	7,642,462,578	\$2.69	\$0.08	\$2.69	\$0.08
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	\$825,612	\$24,290	\$619,209	\$18,217	431,864,407				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	\$21,374,408	\$628,844	\$21,207,972	\$623,947	8,074,326,985	\$2.65	\$0.08	\$2.63	\$0.08

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

	For the year ended December 31, 2002								
	Income (Numerator)				Shares (denominator)	EPS			
	Before income taxes (in thousands of dollars)		After income taxes (in thousands of dollars)			Before income taxes EPS (in dollars)		After income taxes EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net Income	\$12,874,420	\$371,021	\$13,085,153	\$377,094					
<b>Primary earnings per share</b>									
Net income for common stock holder	\$12,874,420	\$371,021	\$13,085,153	\$377,094	5,865,793,845	\$2.19	\$0.06	\$2.23	\$0.06
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	\$516,479	\$14,884	\$387,359	\$11,163	249,797,077				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	\$13,390,899	\$385,905	\$13,472,512	\$388,257	6,115,590,922	\$2.19	\$0.06	\$2.20	\$0.06

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

(Shares)	For the years end December 31,	
	2003	2002
Shares at the beginning of year	8,453,163,100	5,838,615,765
Add: Capital stock was issued by stock conversion method	—	269,439,330
Less: Treasury stock	(313,375,701)	(203,216,123)
The Company that the subsidiaries held were treated as treasury stock	(351,650,821)	(39,045,127)
Retired treasury stock	(145,674,000)	—
Total	7,642,462,578	5,865,793,845

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

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Income before income taxes	\$21,873,053	\$643,514	\$12,590,158	\$362,829
Net income after income taxes	\$21,913,019	\$644,690	\$12,800,891	\$368,902
Before income taxes primary earnings per share (expressed in dollars)	\$2.78	\$0.08	\$2.13	\$0.06
After income taxes primary earnings per share (expressed in dollars)	\$2.79	\$0.08	\$2.17	\$0.06
Before income taxes fully – diluted earnings per share (expressed in dollars)	\$2.74	\$0.08	\$2.13	\$0.06
After income taxes fully – diluted earnings per share (expressed in dollars)	\$2.72	\$0.08	\$2.14	\$0.06

**15. Related party transactions**

*(1) Related parties*

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
UWCCB	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Venture Capital Corp.	The investee is accounted for using the equity method
Cathay 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

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

### **Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	The investee is accounted for using the equity method
Lin Yuan Property Management 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 Seward Futures Corp.)	The investee is accounted for using the equity method
Seward Leasing Ltd.	The investee is accounted for using the equity method
Seward Insurance Agent Corp.	The investee is accounted for using the equity method
Seward Property Insurance Agent Corp. (The company had been liquidated in October, 2003)	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
Seward 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
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.,
China England Company Ltd. and etc.	Investee company of Cathay United Bank(merged)
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

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

As of December 31, 2003 and 2002

(2) Significant transactions with related parties:

A. Real estate rental expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Life	\$8,207	\$241	\$8,207	\$237
	\$8,207	\$241	\$8,207	\$237

B. Cash in bank

Name	Item	For the year ended December 31, 2003			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank (merged)	Time deposits	\$3,613,802	\$919,309	0.9% ~ 1.05%	\$22,411
	Cash in bank	5,553,130	746,672	0.25% ~ 0.5%	246
			\$1,665,981		

Name	Item	For the year ended December 31, 2002			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank (merged)	Time deposits	\$106,320	\$27,047	0.9% ~ 1.05%	\$659
	Cash in bank	163,375	21,967	0.25% ~ 0.5%	7
			\$49,014		

Name	Item	For the year ended December 31, 2002			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time deposits	\$1,539,862	\$1,400,000	1.28% ~ 2.5%	\$16,730
	Cash in bank	99,354	773	0.5% ~ 1.15%	413
United World Chinese Commercial Bank	Cash in bank	10,673,341	0	1.75%	428
			\$1,400,773		

Name	Item	For the year ended December 31, 2002			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time deposits	\$44,376	\$40,346	1.28% ~ 2.5%	\$482
	Cash in bank	2,863	22	0.5% ~ 1.15%	12
United World Chinese Commercial Bank	Cash in bank	307,589	0	1.75%	12
			\$40,368		

C. Interest receivable

Name	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay United Bank (merged)	\$6	\$0	\$0	\$0
Cathay United Bank	\$0	\$0	\$435	\$13
	\$6	\$0	\$435	\$13

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

D. Temporary payments and suspense accounts

Name	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Securities Investment Co., Ltd.	\$0	\$0	\$616	\$18
	\$0	\$0	\$616	\$18

E. Insurance Expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Century	\$169	\$5	\$0	\$0
	\$169	\$5	\$0	\$0

**16. Pledged assets:** None.

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

**18. Serious damages:** None

**19. Subsequent events:** None

**20. Other important events**

(1) Pension related information

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

1. Pension funded status



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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
(1) Vested benefit obligation	(\$1,698)	(\$50)	(\$378)	(\$11)
(2) Non-vested benefit obligation	(1,878)	(55)	(394)	(11)
(3) Accumulated benefit obligation	(3,576)	(105)	(772)	(22)
(4) Additions benefits based on future salaries	(1,636)	(48)	(277)	(8)
(5) Projected benefit obligation	(5,212)	(153)	(1,049)	(30)
(6) Fair value of plan assets	0	0	0	0
(7) Vested benefit	3,152	93	480	14
(8) Funded status = (5) + (6)	(5,212)	(153)	(1,049)	(30)
(9) Unrecognized transitional net benefit obligation (net assets)	0	0	0	0
(10) Unrecognized prior service cost	0	0	0	0
(11) Unrecognized pension gain and loss	3,607	106	614	18
(12) Additional accrued pension liability	(1,971)	(58)	(337)	(10)
(13) (Accrued pension liability) /prepaid pension cost =(8)+(9)+(10)+(11)+(12)	(\$3,576)	(\$105)	(\$772)	(\$22)

**2. Actuarial Assumptions**

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

**(2) Financial instruments related information**

**(a) Derivative financial instruments:**

**1. Credit and market price risk**

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

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

2. Liquidity and cash requirement

The primary objective of IRS and foreign currency options is to limit exchange rate and interest rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments, and bearing fixed interest rates. As there will be cash inflow and cash outflow on the expiration date of an IRS contract, no material fund raising risk and cash flow risk.

3. Interest Rate Swaps (IRS)

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

(2) 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

As of December 31, 2002:

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

4. Foreign currency options

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

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

As of December 31, 2003:

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

As of December 31, 2002:

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

(b) Non-derivative financial instruments related information:

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.

(3) Zero coupon convertible notes related information:

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

Offering: The Purchaser is offering outside United States the International Notes in reliance on Regulation S under the U.S. Securities Act ("Regulation S") and 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 not bear interest except in limited circumstances.

Conversion rights:

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

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 US1,000 dollars or any integral multiple thereof) of such Holder's Notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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 US1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Repurchase in the event of change of control:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium, upon the occurrence of a change of control.

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

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:

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

**Notes to financial statements (continued)**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of December 31, 2003 and 2002**

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 PORTAL<sup>SM</sup> Market 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.

(4) The Convertible bondholders have not yet exercised their conversion rights as of December 31, 2003.

(5) As of December 31, 2003 the consolidated capital adequacy ratio was 120.71%.

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

(6) Material contract: None.

(7) Presentation of financial statements:

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

**21. Information for investment in Mainland China:** None

**22. Segment information:** None

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

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

(a) Concise balance sheets:

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY CENTURY INSURANCE CO., LTD				CATHAY UNITED BANK CO., LTD(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	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	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



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

**(b) Concise statements of income:**

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY CENTURY INSURANCE CO., LTD				CATHAY UNITED BANK CO., LTD(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	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	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 loses 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.