



# Cathay Financial Holdings 2005 Annual Report

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# Letter to Shareholders



2005 Annual Report  
Cathay Financial Holdings

Dear Shareholders,

Looking back at the global economy last year, we see changes in three key trends interest rates, exchange rates and commodity prices. First, the US Federal Reserve continued to raise interest rates, sparking increases in interest rates worldwide. Second, the People's Republic of China removed the yuan's peg to the US dollar and replaced it with a basket of currencies, which affected the movement of currency markets worldwide. And third, the sharp and volatile shifts in oil and commodities prices placed significant pressure on industrial growth. Overall, the global economy posted steady growth with robust stock markets, stable bond markets and volatile currency markets. Under mess international markets conditions, Taiwan saw a relatively sluggish economic performance with a weaker currency and low interest rates.

Even with a rapidly changing market environment, Cathay Financial Holding Co., Ltd., through the hard work and efforts of both management and employees, was able to continue to create value for its shareholders in 2005. With respect to the life insurance business, Cathay Life Insurance maintained its place as the market leader in Taiwan, with first-year premium revenues exceeding NT\$110 billion. The Shanghai subsidiary of Cathay Life Insurance commenced operations in February 2005. With the organizational structure and overall business development proceeding smoothly, this subsidiary has already shown excellent performance. A second office in Mainland China was opened in Nanjing in February 2006 to further expand our business to Jiangsu Province. On the banking side, with Lucky Bank joining the Cathay Group, the total number of banking branches reached 140, allowing the group to provide more convenient and better services to our customers. Although Taiwan's banking industry was adversely affected by the consumer credit bubble last year, Cathay United Bank was able to maintain its excellent asset quality by setting aside NT\$9 billion in provision reserves. The second half of last year also saw the successful launch of the group's Cathay Real Estate Investment Trust (REIT) No. 1, which raised a total of NT\$13.93 billion was 3.5 times oversubscribed. The REIT provides a further proof of our ability to introduce new and innovative financial products and corss-sell across the group. In 2005, Cathay Financial Holdings' total revenues amounted to NT\$626.132 billion, with a network of 652 offices servicing around approximately 10 million customers. As of the end of last year, our consolidated assets surpassed the NT\$3 trillion mark to hit NT\$3.06 trillion.

Looking forward to 2006, the group faces even more challenges ahead. The domestic economy will be affected by the changing political situation both at home and abroad, the interest rate movements of major developed economies, potential changes in China's currency policy and movements in the commodities markets. Confronted by these challenges, Cathay Financial Holdings will continue to carry out its "Dual Engines-Insurance and Banking" strategy to maintain solid and stable growth, aggressively expand its overseas offices and cautiously seek out and assess alliance partners in order to become the leading financial institution in Chinese markets.

In 2006, with the guidance of our shareholders, all of our employees at Cathay Financial Holdings will continue to maintain their high level of dedication and professionalism and strive to maximize returns for our shareholders.

Sincerely,

*Hong-tu Tsai*  
Chairman

Cathay Financial Holdings will continue to carry out its "Dual Engines-Insurance and Banking" strategy to maintain solid and stable growth, aggressively expand its overseas offices and cautiously seek out and assess alliance partners in order to become the leading financial institution in Chinese markets.

### The Management Team of Cathay Financial Holdings

Mr. Jinn-shing Leou, Mr. Chang-ken Lee, Mr. Tiao-kuei Huang, Ms. Grace Chen, Mr. Hsien-chung Lin and Mr. Chia-sheng Chang (from left to right)



Cathay Life Insurance formed the joint venture life insurance subsidiary with China Eastern Airlines Group in Shanghai.



Cathay Charity Foundation awarded the "Mr. Wan-lin Tsai Memorial Scholarships".

Overview of Cathay  
Financial Holding  
Company Ltd.  
Company Profile



2005  
Cathay Financial Holdings Annual Report

In response to the continued diversification and globalization of financial markets, and in order to provide more comprehensive financial services to our customers, Cathay Financial Holding Company Ltd. (CFH) was established on the December 31, 2001 with registered capital of NT\$120 billion. CFH's subsidiaries include Cathay Life Insurance, Cathay United Bank, Lucky Bank, Cathay Century Insurance, Cathay Securities, Cathay Capital Management, Cathay Pacific Venture Capital, Cathay Venture Capital and Cathay II Venture Capital. In addition, We will continue to seek attractive partners in order to achieve better economies of scale. Leveraging off our extensive sales network islandwide and large sales force, we will continue to consolidate the resources of the group to generate synergies from integrated marketing and provide our customers with not only "one-stop shopping", but also more professional and personalized services

- Total Assets: NT\$3.06 trillion
- Total Revenues: NT\$626.132 billion
- No. of branches and sales offices: 652
- No. of Customers: Approximately 10 million
- No. of Employees: Approximately 32,200



Cathay Group sponsored the "Taipei Lantern Festival".



Cathay charity foundations jointly held the island-wide summer blood donation event.

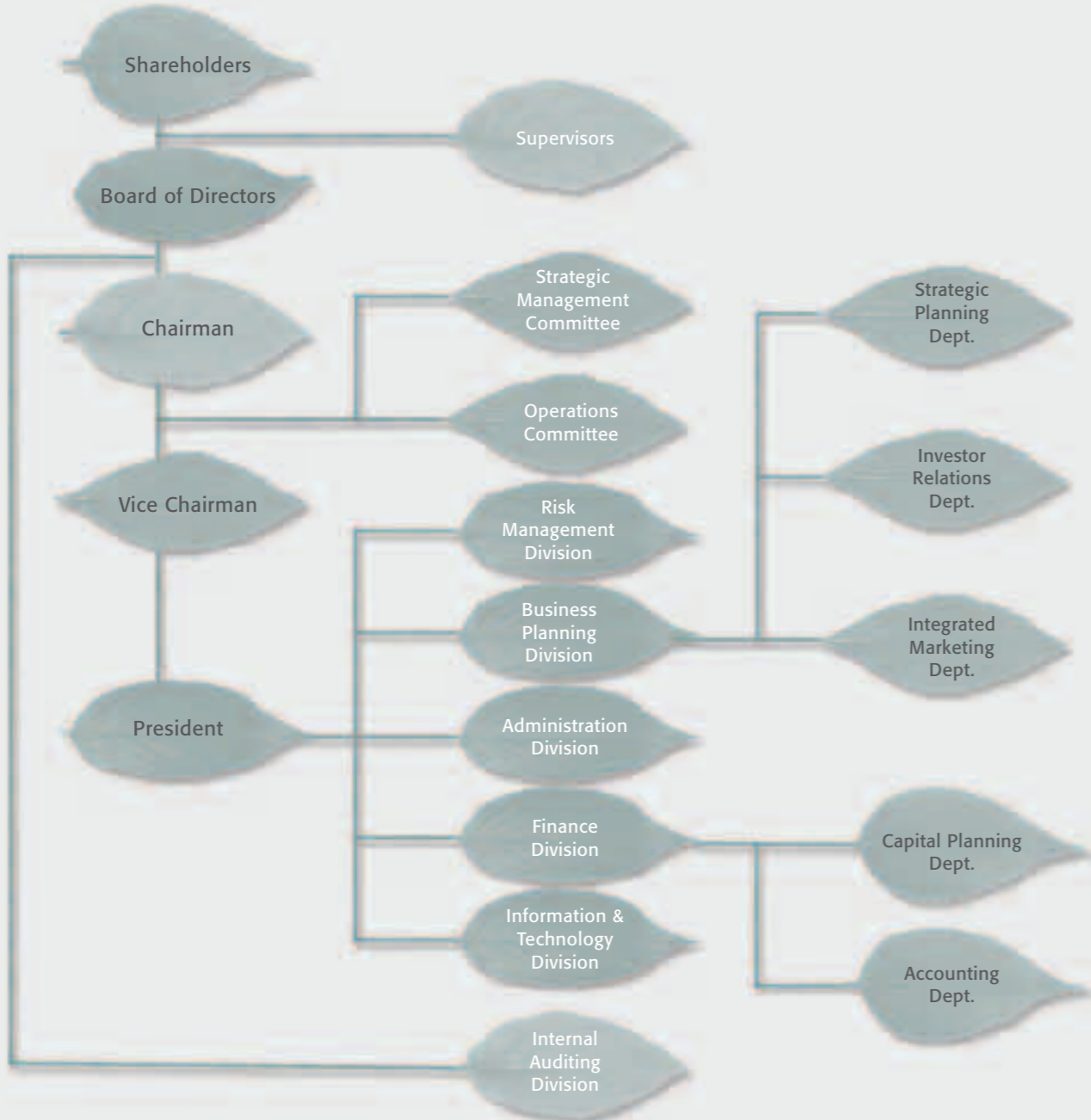


Cathay Group sponsored the outdoor performance of Cloud Gate Dance Theater for the tenth year.

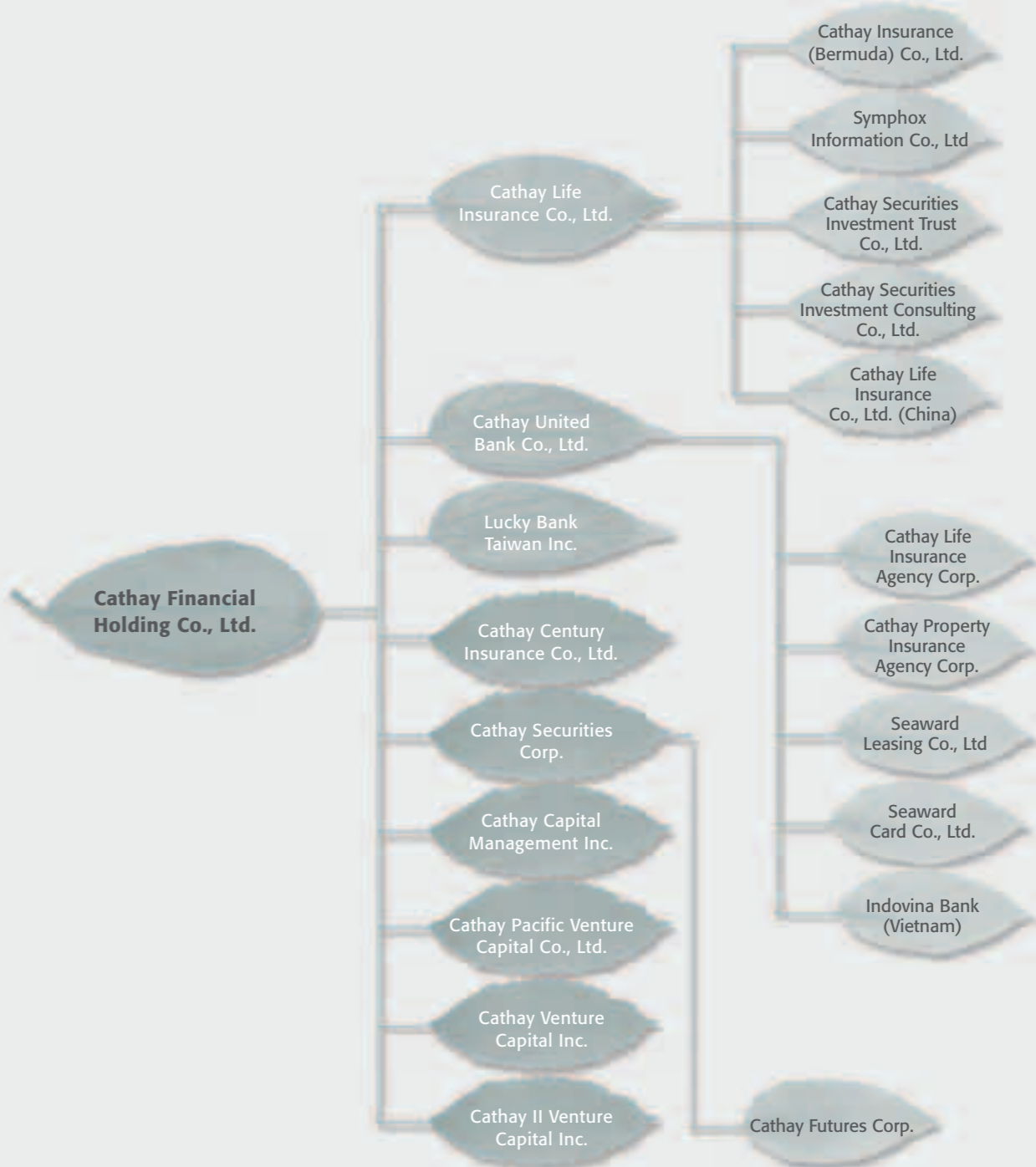
*Cathay Financial  
Holdings*



Organization



Parent and Subsidiaries Structure





## Board of Directors, Supervisors and Key Managers

### Board of Directors

Name	Education	Main Experience
Hong-tu Tsai	J.D., Southern Methodist University	Chairman, Cathay Life Insurance
Tseng-yun Tsai	B.A., Tokai University	Honorary Vice Chairman, Cathay Financial Holdings
Gregory K.H.Wang	B.A., Tamkang University	Chairman, Cathay United Bank
Liang Chang	Ph.D., New York State University	Chairman, Jardine Matheson Group (Taiwan)
Shiou-ling Lin	B.A., National Taiwan University	Consultant, Lee & Li, Attorneys at Law
Roger M. H. Lee	B.A., National Chengchi University	Vice Chairman, Cathay United Bank
Tiao-kuei Huang	M.A., National Tsing Hua University	President, Cathay Life Insurance

### Supervisors

Name	Education	Main Experience
Wan-teh Tsai	B.A., Tokyo Liberal Arts University	Permanent Supervisor, Cathay Life Insurance
Fu Chien	Ph.D., Yale University	Chairman, Cathay Charity Foundation

### Executive Officer

Position	Name	Education
Chairman	Hong-tu Tsai	J.D., Southern Methodist University

### Key Managers

Position	Name	Education
President	Tiao-kuei Huang	M.A., National Tsing Hua University
Chief Auditor	Jinn-shing Leou	M.A., Iowa University
Chief Strategy Officer	Chang-ken Lee	M.B.A., University of Pennsylvania
Chief Financial Officer	Grace Chen	M.B.A., National Chengchi University
Division Head	Hsien-chung Lin	B.A., Soochow University
Division Head	Chia-sheng Chang	Ph.D., Case Western Reserves University

### Shares and Capital

Share Type	No. of Outstanding Shares	Value
Common Shares	8,524,223,396	NT\$85,242,233,960

## 2006 Business Goals and Strategies

Cathay Financial Holdings' goal is to maximize returns for our shareholders, customers and employees. In 2006, CFH and all its subsidiaries will aggressively carry out the following strategies to further improve our operating efficiency.

### ■ Focus on product innovation and provide a full range of financial services

In 2005, Cathay Financial Holdings launched its first REIT, triggering a new growth momentum in the domestic capital markets and attracting substantial investor interest. We will continue to keep abreast of the latest trends in financial services both at home and abroad in order to strengthen our capabilities in designing and developing new and more sophisticated financial products that can better meet our customers' needs. CFH will seek to provide its customers with more personalized and comprehensive financial planning services consistent with its goal to establish a reputation as the most reliable and trusted financial institution in the market.

### ■ Accelerate the integration of group resources to maximize cross-selling synergies

CFH will continue to develop an organizational structure based on the "Dual Engines - Insurance and Banking" to better utilize the vast customer base of the group and exploit cross-selling opportunities. At the same time, CFH will accelerate its organizational restructuring to take advantage of the strengths of each subsidiary and increase its operating flexibility and efficiency. Through integrated marketing and cross-selling, CFH will further strengthen the core competitiveness of the group, reduce operating costs, improve resources sharing and fully exploit group synergies.

### ■ Seek M&A opportunities to expand scale

On the back of the government's policy to improve the overall competitiveness of the financial industry and carry out financial reforms, consolidation in the domestic financial industry is expected to continue. In August 2005, CFH successfully completed the acquisition of Lucky Bank. CFH will continue to pursue and evaluate attractive targets for mergers and acquisitions in line with its objective of becoming a more professional, diversified and internationalized regional financial institution.

### ■ Be the leading financial institution in Chinese markets

Aiming to become the leading financial institution in Chinese markets, CFH is focused on markets in Taiwan, the US, Hong Kong, Mainland China, Vietnam and Malaysia. In Mainland China, Cathay Life Insurance set up a life insurance joint venture, Cathay Life Insurance Company, Ltd. (China), with China Eastern Airlines Group in Shanghai in February 2005. This subsidiary's operating performance and results have won the recognition of the China Insurance Regulatory Commission, which thus approved the company's application in August 2005 to set up a new branch in Jiangsu Province. Through its subsidiaries, CFH will continue to launch operations in Hong Kong, Vietnam and the US, in order to provide the best financial services to its customers.

## Capital Utilization Plan

### ■ Expand the scope of financial services

As the financial service industry becomes increasingly diversified and global, CFH will continue to develop a full range of financial services both domestically and internationally. In addition, each of CFH's subsidiaries will work closely to consolidate the group's resources to aggressively expand in our targeted overseas markets. At the same time, CFH will seek out potential merger and acquisition targets and integrate their competitive advantages with ours in order to build a more comprehensive financial service platform. CFH aims to build up solid and stable financial operations both locally and abroad to establish the group as a player equal to international financial institutions.

### ■ Continue to support the integration and restructuring of our subsidiaries

CFH plays an active role in assisting its subsidiaries in implementing their restructuring and integration plans. CFH will continue to provide full financial and technical assistance and support to the integration of front-end sales, support services, product design, distribution channels and systems development.

### ■ Upgrade information technology systems

To enhance the group's long-term competitiveness, CFH will develop comprehensive information technology systems to meet the needs of the organization's future expansion and process improvements, taking into consideration information compatibility, expandability and security. CFH aims to satisfy the increasingly diverse needs of its customers by further lowering costs and increasing efficiency.

### ■ Adopt a dynamic approach to capital management

CFH is adopting a dynamic approach to capital management that is consistent with the company's growth strategy and relevant regulations on capital requirements and dividend distributions. CFH seeks to facilitate the allocation of capital to its subsidiaries in order to meet their business needs and achieve higher capital efficiency.

# Cathay Life Insurance Co., Ltd.



## Message from the President

Looking back on 2005, the global economy saw slower growth due to rising interest rates and oil price hikes. With the domestic economy falling behind our expectations and interest rates slowing down, the life insurance market had a difficult year. Despite these hardships, the major life insurance players were able to aggressively grab market share with their strategic niche products, resulting in a year-in-year increase in new insurance policies.

Faced with a fast-changing market, Cathay Life Insurance has adopted an aggressive and effective strategy to secure its market leadership. These include first and foremost, maintaining financial stability, as well as executing appropriate product strategies to increase profitability and competitiveness, recruiting high-caliber sales professionals and management associate to enhance our manpower resources, building up Cathay as the leading brand in the new market for retirement products, and utilizing the advantages and resources of the group to exploit marketing synergies. Thanks to the combined efforts of all our staffs, premium income from new policies surpassed the NT\$100 billion for the first time and reached NT\$112.7 billion. Total premium income amounted to NT\$337.6 billion with 9.15 million life insurance policies in force as of the end of last year.

While we grow our business, we have adhered to the corporate philosophy of building a solid and stable operation. Not only have we been rated as the "Best Brand for Consumers" for many years, we have also received outstanding credit ratings from local and international credit rating agencies. In return, Cathay Life has endeavored to fulfill its corporate responsibility through different types of social contributions. These include providing support and aid to disaster and casualty victims and poverty-stricken people through volunteer workers and non-profit organizations, holding the event "Joint Reading Program for Parents and Children" for assisting immigrated foreign mothers to learn and study with their children, sponsoring cultural events such as outdoor performances of the Cloud Gate Dance Theater, the Children's Drawing Competition and the New Artists Exhibition, as well as sports activities such as women's basketball and table tennis, top Olympic players and new sports talent. Cathay Life has won numerous recognitions and was the recipient of the Cabinet's Council for Cultural Affairs' "Best Cultural Sponsor Award" for many years, representing the highest recognition of Cathay Life's contribution on cultural and social events.

Looking into 2006, the year promises to be even more challenging in light of the consolidation of financial holding companies and increased competition for business and talent. We will continue to focus on our strategy of offering "professional expertise, innovative products and services, as well as superior marketing capability," in order to further enhance our competitive advantages. To support further business growth, we will focus on fulfilling our customers' needs through new product and channel development and integrate group resources in order to provide comprehensive financial services. In terms of management, we will continue to build a highly efficient professional management team and upgrade our e-business to boost marketing efficiency. Financially, we will strive to further improve capital efficiency through better asset allocation. Lastly, we will continue to pursue overseas expansion and aggressively penetrate the Mainland Chinese market following the establishment of our Shanghai subsidiary. At the same time, we will speed up the expansion plan for Vietnam to pave the way for our long-term objective of becoming the leading financial institution in the region.

With the solid support of our customers and senior executives, we will do our best in the coming years to continue to deliver the best service and performance as an expression of our deepest gratitude to our supporters.

Sincerely,

*Tiao-kuei Huang*  
President

We will continue to focus on our strategy of offering "professional expertise, innovative products and services, as well as superior marketing capability," in order to further enhance our competitive advantages.

### The Management Team of Cathay Life Insurance

Mr.Young-jann Lee ,Mr.Tiao-kuei Huang ,Mr.Chia-sheng Chang ,Mr.Jinn-shing Leou ,Mr.Jiunn-liang Lin ,Mr. Ming-ho Hsiung ,Mr.Fa-te Chang and Mr.Li-san Ho(from left to right)



Cathay Life Insurance won major awards at the first "Insurance Excellence Awards".



Cathay Charity Foundation initiated the campaign "Reading Together for New Comers" to help emigrated foreign mothers to study with their children.

# Cathay Life Insurance Co., Ltd.



Founded in August 1962, Cathay Life Insurance Co., Ltd. became the first listed private insurance company in Taiwan in November 1964. Over the past four decades, with the support of our entire employees and shareholders, Cathay Life has been able to maintain steady revenue, asset and policy growth, making it the number one life insurer on the island. In response to rapid changes in the market and the industry, Cathay Life has actively developed and built an efficient electronic operation system. This, coupled with an extensive customer network and customer needs driven services, has enabled Cathay Life to further enhance its market competitiveness.

### Personnel

No. of employees: 26,209

Average age: 40.9

Average no. of years employed: 8.4 years

### Board of Directors

Name	Education	Main Experience
Hong-tu Tsai	J.D., Southern Methodist University	Chairman, Cathay Financial Holdings
Cheng-ta Tsai	B.A., Chinese Cultural University	Chairman, Wan Pao Development Co., Ltd.
Tiao-kuei Huang	M.A., National Tsing Hua University	President, Cathay Life Insurance
Fa-te Chang	B.A., National Chung Hsing University	Executive Vice President, Cathay Life Insurance
Ming-ho Hsiung	M.A., Iowa University	Executive Vice President, Cathay Life Insurance
Young-jann Lee	M.A., National Taiwan University	Executive Vice President, Cathay Life Insurance
Chia-sheng Chang	Ph.D., Case Western Reserves University	Chief Information Officer, Cathay Life Insurance
Chang-ken Lee	M.B.A., University of Pennsylvania	Chief Strategy Officer, Cathay Financial Holdings
Jiunn-liang Lin	B.A., National Taiwan Normal University	Executive Vice President, Cathay Life Insurance
Chung-yuan Chu	M.A., Columbia University	Vice Chairman, May Fung Co., Ltd.
Chin-lin Hsu	Tatung University	President, Jiunn Yuan Enterprise Inc.
Wei-ming Lu	Kainan Commercial & Technical School	Chairman, Seng Hong Co., Ltd.
Li-san Ho	M.A., Northeastern University	Executive Vice President, Cathay Life Insurance
Cheng-chiu Tsai	M.A., Keio University (Japan)	Chairman, Cathay Century Insurance
Tsong-han Tsai	M.A., Harvard University	Vice President, Tong Ji Enterprise

### Supervisors

Name	Education	Main Experience
Wan-teh Tsai	B.A., Tokyo Liberal Arts University	Tenure Supervisor, Cathay Financial Holdings
Kai-mou Chen	B.S., National Taiwan University	President, Cathay General Hospital
Jyh-ming Lin	B.S., National Taiwan University	Administrative Vice President, Cathay General Hospital

### Executive Officer

Position	Name	Education
Chairman	Hong-tu Tsai	J.D., Southern Methodist University

### Key Managers

Position	Name	Education
President	Tiao-kuei Huang	M.A., National Tsing Hua University
Executive Vice President	Fa-te Chang	B.A., National Chung Hsing University
Executive Vice President	Ming-ho Hsiung	M.A., University of Iowa
Chief Auditor	Jinn-shing Leou	M.A., Iowa University
Executive Vice President	Young-jann Lee	M.A., National Taiwan University
Chief Information Officer	Chia-sheng Chang	Ph.D., Case Western Reserves University
Executive Vice President	Li-san Ho	M.A., Northeastern University
Executive Vice President	Jiunn-liang Lin	B.A., National Taiwan Normal University

### Business Scope

Sales of life insurance policies and other related businesses



Cathay Life Insurance provided sponsorship for the promising Olympic players for the second year.

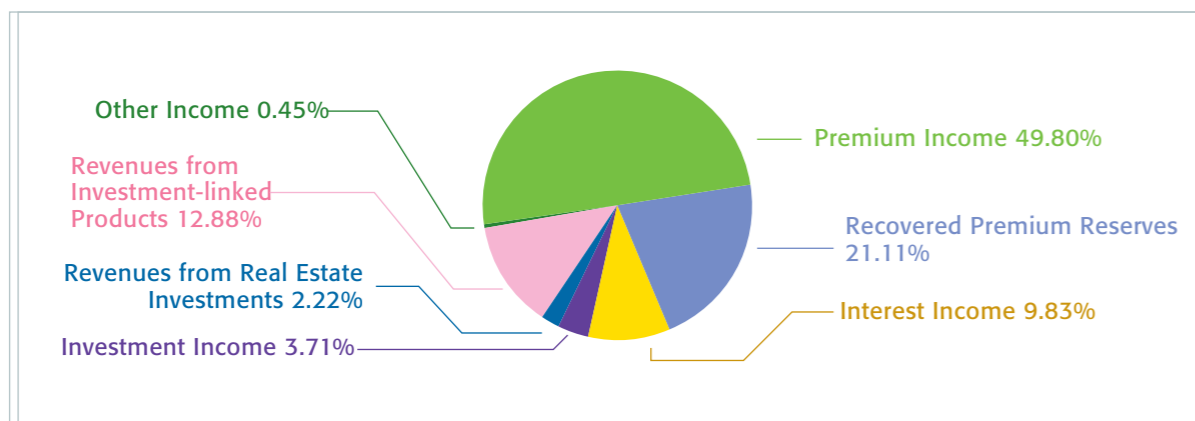


Cathay Life Insurance actively cultivated women basketball and women table tennis players; the women basketball team won the championship for the 14th consecutive year.



### 2005 Revenue Breakdown

Item	Amount	Unit: NT\$ million	
		% of Total	
Premium Income	276,010	49.80	
Recovered Premium Reserves	116,971	21.11	
Interest Income	54,499	9.83	
Investment Income	20,571	3.71	
Revenues from Real Estate Investments	12,321	2.22	
Revenues from Investment-linked Products	71,368	12.88	
Other Income	2,504	0.45	
<b>Total</b>	<b>554,244</b>	<b>100.00</b>	



### 2006 Business Goals and Strategies

#### ■ Products:

1. Aggressively pursue product innovation and differentiation in order to meet market needs and maintain our competitiveness.
2. Continue to promote integrated marketing and pursue cross-selling synergies; build up Cathay as the leading brand in the new market for retirement products.

#### ■ Distribution:

1. Set a strategy for determining and developing the optimal scale for sales channels and push hard to penetrate the banking and securities channels in order to maintain our market leadership.
2. Form strategic alliances or develop e-commerce services to create marketing themes and enhance sales channel efficiency.

#### ■ Organization:

1. Recruit high-caliber sales people and management associate, assist staff in acquiring professional licenses, and improve managers' leadership and management capabilities.
2. Continue to implement an incentive-based performance evaluation and job-based salary systems and build a highly efficient organizational structure.

#### ■ Back-office operations:

1. Continue to develop an electronic system for enhancing sales efficiency and further strengthening our competitive advantages.
2. Provide exclusive and value-added customer services and strengthen customer loyalty through comprehensive customer-oriented financial services.
3. Integrate service operation platforms and develop more efficient service operational procedures without sacrificing service quality.

### 2006 Operational Targets

Item	Target	Unit: NT\$ million
New Life Insurance Policy Coverage	542,539	
Effective Life Insurance Policy Coverage	7,793,760	
Total Premium Income	328,410	



Cathay Life Insurance awarded the highest amount of scholarships among our peers to children of insurance customers.



Cathay Charity Foundation held the "Children Growth Camp" for young students in the remote areas.



# Cathay United Bank Co., Ltd.



2005 Annual Report  
Cathay Financial Holdings

## Message from the Chairman

Since the merger between United World Chinese Commercial Bank and Cathay United Bank at the end of 2003, Cathay United Bank has seen steady growth in all its business fields due to the increasing synergies from the group's integration. As of the end of 2005, total assets amounted to NT\$1,074 billion, growing 5% year-on-year; deposits and loans reached NT\$829.3 billion and NT\$631.8 billion, increasing 7% and 6% respectively, during the same period. The number of credit cards outstanding amounted to 3,760,000, rising 7% year-on-year. Pre-provision earnings were NT\$25.9 billion. However, in line with the government's policy to tighten consumer credit expansion and maintain solid asset quality, we provided bad-debt reserves of NT\$9 billion by year-end, resulting in a pre-tax profit of NT\$5.1 billion, with a return on assets of 0.49%, a return on equity of 6.46%, a non-performing loan ratio of 1.73% and a capital adequacy ratio of 13.65%.

To cope with future business developments and further strengthen our risk control mechanisms, we underwent reorganization at the year-end and merged the credit card group with the consumer banking group. Hence, we now have three business groups: Corporate Banking Group, Consumer Banking Group and Investment Trust Group. We also set up a new Risk Management Division. Accordingly, there are five managerial divisions: Auditing, Administration, Information System, Finance and Risk Management. With our overseas expansion, we opened two representative offices in Hanoi and Ho Chi Minh City and a branch in Chu Lai, Vietnam. Adding the six branches of Indovina Bank, a subsidiary of Cathay United Bank, we have a total of nine offices in Vietnam. We are not only the largest Taiwanese bank in Vietnam in terms of the number of offices; we can also provide complete financial services to Taiwanese businesses in Vietnam. This has facilitated our building the market niche for becoming an international financial institution. In other areas, our service network has remained the same.

Due to our solid performance on business and sales growth and asset quality improvement, the Taiwan Rating Corporation has upgraded our credit rating four times in a row since the merger, to the current credit rating "twAAA" achieved in September 2005, making us one of only two banks with the highest credit rating in Taiwan. At the same time, S&P also upgraded our long-term credit rating to "A". In addition, the successful offering of the 15-year US\$500 million subordinated bonds by Cathay United Bank in New York in September 2005 has made us the bank with the highest capital adequacy ratio among all our peers in Taiwan. This indicated foreign investors' high recognition and support for Cathay United Bank.

To strengthen our market position and also provide feedback to customers and society, we were the first bank to hold the first "Architecture Exhibition" in northern and central Taiwan, and the "Classic European Exhibition", providing a full range of cross-business services for the benefit of the customers, the public and Cathay United Bank. As to our long-term support for charity and cultural events, we continued to promote the "Big Tree Project", donating a total of NT\$11 million in financial aid and children's books to poverty-stricken students in remote areas. We also published the art collection journal "Blossom", representing our long-term support for local arts development, and have received high recognition. In addition, we again won the "Contribution in Promoting Social Education Award" from the Ministry of Education and the "Social Service Award" from the Chinese Library Society.

Looking into the future, we will continue to carry out the "Dual Engines" development strategy of the Cathay group, to achieve a better balance of corporate banking, consumer banking and wealth management businesses, and provide customers with complete and comprehensive financial services. We will also work closely with the other subsidiaries of the Cathay group to better utilize the group resources and position ourselves as the group's banking platform that offers "one-stop shopping" services to our over 10 million customers. We will aggressively expand our overseas presence to establish Cathay Financial Holdings as the leading financial institution in Chinese markets!

Sincerely,

*Gregory K. H. Wang*  
Chairman



position ourselves as the group's banking platform that offers "one-stop shopping" services to our over 10 million customers.

### The Management Team of Cathay United Bank

Mr. Chang-Ken Lee, Mr. Roger M. H. Lee, Mr. J. H. Chen, Ms. Grace Chen, Mr. Gregory K. H. Wang, Ms. Peggy Wang, Mr. Joseph S. Jao, Mr. Tzu-Pei Chen and Mr. Daniel Tung (from left to right)



Cathay United Bank and Miramar City Development jointly held a signing ceremony for a 10-year, NT\$5 billion syndicated loan.



Cathay United Bank opened its Chu Lai Branch, Vietnam.

# Cathay United Bank Co., Ltd.



Cathay United Bank was established through the merger of United World Chinese Commercial Bank and Cathay United Bank on October 27, 2003. There are currently 111 branches in Taiwan and a total of 122 offices, including four branches, six representative offices and one marketing office overseas, offering a wide array of corporate banking, consumer banking (including credit cards) and wealth management financial services. In addition, there are over 1,600 full-function automated teller machines (ATMs) and electronic banking services. Being ranked as the second largest private bank in Taiwan, Cathay United Bank accounted for 4% of the banking industry's total assets. In respect to credit rating, Cathay United Bank garnered a twAAA rating for long-term credit and a twA-1 rating for short-term credit from Taiwan Ratings Corp., an A3 rating for long-term credit and a P-1 rating for short-term credit from Moody's Investors Service, and an A rating for long-term credit and an A-1 rating for short-term credit from Standard & Poor's.

#### Personnel

No. of full-time employees: 4,190  
 Average age: 31.9  
 Average no. of years employed: 5.50 years

#### Board of Directors

Name	Education	Main Experience
Gregory K. H. Wang	B.A., Tamkang University	Chairman, Cathay United Bank
Roger M. H. Lee	B.A., National Chengchi University	Vice Chairman, Cathay United Bank
Hoc-kim Loi	Shiamen Shuan Shih High School	Director, ROC Overseas Chinese Invested Businesses Promotion Association
Tsu-pei Chen	B.A., National Chengchi University	President, Cathay United Bank
Sheng-yann Lii	Ph.D., University of Pittsburgh	President, Bank of Taiwan
William C.W. Huang	M.A., University of Washington	Chairman, Tai Long Industrial Co., Ltd.
Tiong-tay Chung	M.A., Sichuan Fudan University	Chairman, Philippine Bank of Communications
Irene Lee	B.A., UC Berkeley	Chairman & CEO, Japan HI Group
Boon-teong Chan	M.A., New York University	Chairman, Coastal Realty Group (HK)
Joseph S. Jao	M.B.A., University of Missouri	Chief Senior Executive Vice President, Cathay United Bank
Peggy Wang	B.A., National Taiwan University	Chief Senior Executive Vice President, Cathay United Bank
Grace Chen	M.B.A., National Chengchi University	Chief Senior Executive Vice President, Cathay United Bank
Daniel Tung	M.B.A., University of Indiana	Chief Senior Executive Vice President, Cathay United Bank

#### Supervisors

Name	Education	Main Experience
Feng-jung Tu	B.A., National Taiwan University	Vice Chairman, Cathay Life Insurance
Chi-hsiung Chen	B.A., National Taiwan University	Executive Vice President, Chunghwa Post Co., Ltd.
Lu-chueh Huang	B.A., Feng Chia University	Vice Chairman, Cathay Construction

#### Executive Officer

Position	Name	Education
Chairman	Gregory K. H. Wang	B.A., Tamkang University

#### Key Managers

Position	Name	Education
President	Tzu-pei Chen	B.A., National Chengchi University
Chief Auditor	J. H. Chen	B.A., Fu-Jen Catholic University
Chief Risk Control Officer	Chang-ken Lee	M.B.A., University of Pennsylvania
Chief Senior Executive Vice President	Joseph S. Jao	M.B.A., University of Missouri
Chief Senior Executive Vice President	Peggy Wang	B.A., National Taiwan University
Chief Senior Executive Vice President	Grace Chen	M.B.A., National Chengchi University
Chief Senior Executive Vice President	Daniel Tung	M.B.A., University of Indiana

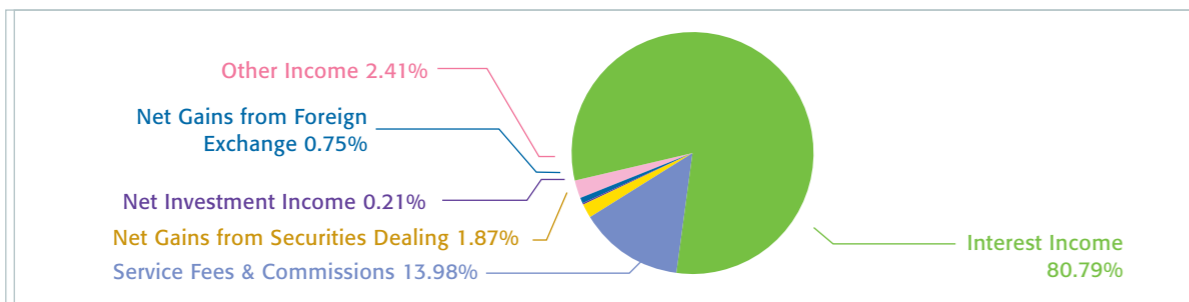
#### Business Scope

1. All types of deposits
2. Loans and credits
3. Checks discounting
4. Securities investments
5. Domestic remittances
6. Cashing of commercial paper
7. Issuance of domestic letters of credit
8. Corporate bond guarantees
9. Domestic guarantees
10. Payment and collection agency
11. Sales of government bonds and bills, corporate bonds and stocks
12. Securities underwriting
13. Securities dealing
14. Custody and warehousing services
15. Rental of safekeeping boxes
16. All other agency services covered by our business license and/or approved by the regulatory authorities
17. Credit card business
18. Gold nugget/coin and silver coin agency/services
19. Sell/buy foreign currencies (cash and traveler's checks)
20. Import and export foreign exchange transactions, inbound/outbound wire transfer, foreign currency deposits, loans and guarantees
21. Financial derivatives business as permitted by the regulatory authorities
22. Trust services in compliance with existing Trust laws and subject to approval by the proper regulatory authorities
23. Stock certification
24. Broking, dealing, certification and underwriting of negotiable money market instruments
25. Securities issuance, transfer, registration, and interests/dividends/bonus disbursement agency/consulting services
26. Trustee for bond issuance and related agency services
27. Will executor and estate administrator
28. Discretionary investment trust services



### Revenue Breakdown for 2005

Item	Amount	Percentage
Interest Income	39,492	80.79%
Service Fees & Commissions	6,835	13.98%
Net Gains from Securities Dealing	914	1.87%
Net Investment Income	101	0.21%
Net Gains from Foreign Exchange	364	0.75%
Other Income	1,180	2.41%
<b>Total</b>	<b>48,886</b>	<b>100.00%</b>



### Business Goals and Strategies for 2006

#### ■ Deposits:

- Promote the multi channels for automated transactions in order to reduce processing costs.
- Utilize database analytical tools to enhance customer services and relationship.
- Develop multi-features deposit accounts with higher product added-value.

#### ■ Loans:

- Implement data mining technologies for customer relationship management and utilize the database analysis for grouping customers based on their demographic characteristics and offer appropriate products according to their life stage.
- Exploit cross-selling with existing customers and utilize the project marketing system for customer maintenance.
- Implement the Risk Based Pricing (RBP) approach according to customers' risk levels.
- Approve and extend credit for standard products with centralized review and appraisal procedures in order to achieve standardized and consistent quality for credit extension.
- Enhance the investigation techniques of risk management and the precaution systems for constant monitoring of asset quality.
- Support the government's policy to promote loans to SMEs, develop investment advisory services for large corporations, and combine our financial and banking expertise and corporate operations to offer consulting, fundraising, investment, risk hedging services on fundraising, M&A activities, strategic alliance, local and overseas investments and financial instrument investment.
- Establish the MyB2B as the global cash management platform, expand our overseas network and increase offshore assets in order to provide a full range of financial services.
- Develop new foreign currency loan products for expanding the offshore business.

#### ■ Credit Cards:

- Conduct customer segmentation to achieve segmented marketing, plan and offer exclusive benefits and services, and carry out CRM based on different consumer types.
- Strengthen cross-industry joint marketing activities for improving customer service quality, increasing card usage, and continuously generate earnings.
- Add enhanced features to credit cards and improve cross-selling sales performance by combining banking products and efforts of the group's affiliated companies.
- Strive hard to build a safe and comprehensive electronic transaction platform to facilitate and encourage on-line transactions.
- Utilize the "Customer Credit Evaluation and Scoring System", an objective statistical and analytical tool, to improve the qualities of credit card and loan applications and processing in accordance with differentiated credit extension and pricing policy.
- Promote the shift to IC cards for Cathay United Bank's Combo cards, ATM cards and credit cards, as required by local administrative authorities, as well as international credit card organizations.

#### ■ Wealth Management:

- Strengthen joint marketing within the group to further expand assets, customer base and service scopes of our wealth management business in order to maximize cross-business sales.
- Utilize the "PEC Wealth Planning Program" combining our vast customer base and wide product line to offer service differentiation and provide customers with better asset protection and stable long-term yields.
- Actively train and expand the number of wealth management specialists to provide more comprehensive financial services and boost sales revenue.
- Promote the concept of utilizing trusts and design standard investment trust products; raise sales and marketing skills at all the bank's branches and other sales channels to better realize the potential from cross-selling within the group.
- Strengthen development of other trust services, including investment trusts and securitization of real estate, personal trusts and New Taiwan Dollar-based structured products.
- Aggressively court well-managed mutual funds, discretionary investment trust funds, foreign investors and depositary receipts issuers to expand our custody business.
- Solicit clients for securities certification through cooperation with accounting firms and explore the potential corporate customer base.
- Expand product line-up by offering all kinds of trust services and introducing offshore securities products with varying terms, currencies and investment targets to satisfy customers' requirements for more diverse products.

#### ■ Other businesses:

- Set up a financial engineering department that is patterned after international banks' model to focus on developing trading equities, derivatives and other innovative and sophisticated financial products in order to achieve better balance and diversification of risks and returns.
- Strengthen the function of Treasury Marketing Unit and actively cooperate with the bank's wealth management and corporate banking businesses in joint marketing efforts to develop innovative and customized products for our major clients.

### Business Goals and Strategies for 2006

Item	Target
Deposits	\$937,720
Loans (including revolving credit of credit cards)	\$763,000
No. of Credit Cards	3,850,000

Unit: NT\$ million

# Lucky Bank Taiwan Inc.



Lucky Bank officially became a member of Cathay Financial Group.

### Message from the Chairman

The year 2005 saw relatively stable growth for the global economy. Even though the oil price hikes were way above market expectations, interest rates and economic growth worldwide were still considered steady. The trade and budget deficit problem of the US government worsened and, without further improvement in its economic status, the US dollar is expected to remain weak. The China economy has shown strong momentum, causing pressure for the Renminbi to further appreciate and also drive the strong economic recovery of Asian countries.

Along with the domestic economic recovery, the property market has stabilized, pushing the construction sector to bottom out. All our staffs have worked hard to increase demand deposits to lower our operating costs, while we aggressively develop clients with outstanding credits and actively liquidated the overdue loans. As of end of 2005, deposits and loans totaled NT\$88.397 billion and NT\$59.405 billion respectively. The non-performing loan ratio was reduced to 2.1% from 2.58% of 2004, with coverage ratio increasing to 40.73% from 35.44% of 2004. This has shown the significant improvement from our efforts on enhancing asset quality and improving management efficiency. In respect to information technology development, we have endeavored to promote electronic operations and have already completed the full infrastructure of the internal network system. All credit extension approvals and internal correspondences have been carried out in electronic forms. We have seen significant improvement in operational efficiency and further reduction of operations costs which allowed us to generate better performance and higher overall competitiveness.

Looking onto 2006, the global economy will see an even harsher environment due to soaring oil prices, the weak US dollar and the worldwide tightened monetary policy driven by the US interest rate rise. We will continue to adhere to the solid and stable strategy of improving our operation quality and competitiveness. We have set a target amount of NT\$89.856 billion for deposits and will focus on increasing demand deposits for lowering costs and maintaining high liquidity for financial soundness. As to the loans, we will emphasize the development of outstanding credit clients and aggressive processing of overdue loans, with a target amount of NT\$62.709 billion.

In September 2005, Lucky Bank officially became a member of the Cathay group. Under the leadership of Chairman Tsai and Vice Chairman Tsai, we will exploit the synergies from joint marketing and offer our customers a full range of financial services through the integrated resources from each subsidiary of the group and cross-selling of financial products including life insurance, property insurance, securities, mutual funds and credit cards. With support of the customers and combined efforts of our staffs, we will continue to upgrade our service quality, maintain customer relationship, strengthen competitiveness, and work hand in hand with the group's subsidiaries aiming to create the best performance!

Sincerely,  
*Roger M.H. Lee*  
Chairman



we will continue to upgrade our service quality,  
maintain customer relationship,strengthen competitiveness,  
and work hand in hand with the group's subsidiaries aiming to create the best performance!

The Management  
Team of Lucky Bank  
Mr. Peter Y.C. Lai, Mr. Roger  
M.H. Lee and Mr. Shung-ho  
Chang(from left to right)



# Lucky Bank Taiwan Inc.



Formerly known as the Taichung Central Co-operative, Lucky Bank was founded in 1947 with its credit department spun off as the Taichung 7th Credit Co-operative in 1971. We experienced difficulty both with organization and business at the inception with a capital of NT\$3 million and deposits and loans of NT\$160 million and NT\$120 million respectively. However, with the strenuous efforts of our staffs, we have rapidly grown our business and won top performance ratings from the relevant authorities.

At the inception of the reorganization, we had only two branches: the business department and the Chung-chen Branch. Under the hard work and management of our predecessors for over two decades, we have gradually won the trust and recognition of the public, resulting in rapid growth in the number of customers and scale of business. To cope with the business expansion need, we moved our headquarters to the Chi Guo Building at No. 35, Sec. 1, Chung-hwa Road, Taichung, at the end of 1992. A grand building with 17 floors above ground and 4 floors in the basement, it is located in the prime center area of Taichung City and has become the symbol of Lucky Bank.

In recent years, the government actively pushed through with financial deregulation and internationalization. Hence, a larger business scope and need for new business has become the goal for Lucky Bank. In 1995, the Ministry of Finance announced the "Criterion and Procedures on Reorganization by Credit Co-operatives to Commercial Banks" and we were already well prepared. Therefore, we were successfully reorganized as a regional commercial bank on September 1, 1997. Afterwards, we acquired the Hsinchu 6th Credit Co-operative and Chang-hwa 2nd Co-operative. Including the eight newly set up branches, our service network grew to 32 branches from 13 branches as of end of 1997, with the business areas expanding from Taichung City to Taichung County, Chang-hwa County, Chang-hwa City, Hsin-chu County, Hsin-chu City and Taoyuan City.

Throughout the years, we have followed the principle of supporting the government's financial policy, promote industrial and commercial development and serve the public. At the same time, we have adhered to the philosophy of being "visionary, practical and service-oriented" and positioned Lucky Bank as the bank for the public. Looking into the future, we will continue to focus on our core business and provide innovative financial products and services. As our philosophy, we will keep abreast of market developments with vision, manage with a practical and solid attitude and provide customer-oriented services, while continuously strengthening the cultivation of financial talents in order to provide more professional and personalized services.

**Personnel**  
 No. of employees: 682  
 Average age: 36.63 years  
 Average no. of years employed: 10.5

### Board of Directors

Name	Education	Main Experience
Roger M. H. Lee	B.A., National Chengchi University	Chairman, Lucky Bank

### Board of Directors

Name	Education	Main Experience
Peter Y.C. Lai	M.A., Tamkang University	President, Lucky Bank
Shung-ho Chang	B.A., Feng Chia University	Vice President, Lucky Bank
Li-san Ho	M.A., Northeastern University	Executive Vice President, Cathay Life Insurance
Peggy Wang	B.A., National Taiwan University	Vice President, Cathay United Bank
C.W. Yang	B.A., National Chengchi University	Assistant Vice President, Cathay United Bank
Hsin-hsun Chen	B.A., Feng Chia University	Assistant Vice President, Cathay United Bank
Vincent S.B. Wang	M.A., University of California	Assistant Vice President, Cathay United Bank
K.T. Chang	B.A., Fu Jen University	Assistant Vice President, Cathay United Bank

### Supervisors

Name	Education	Main Experience
Lu-chuch Huang	B.A., Feng Chia University	Vice Chairman, Cathay Construction
Daniel Tung	M.B.A., University of Indiana	Vice President, Cathay United Bank

### Executive Officer

Position	Name	Education
Chairman	Roger M.H. Lee	B.A., National Chengchi University

### Key Managers

Position	Name	Education
President	Peter Y.C. Lai	M.A., Tamkang University
Vice President	Shung-ho Chang	B.A., Feng Chia University
Chief Auditor	Hsien-yi Chen	Financial Management Institution of the Army



The management of Lucky Bank had an outing with employees to the Encore Garden.



Lucky Bank held the company's year-end party.

## Lucky Bank Taiwan Inc.

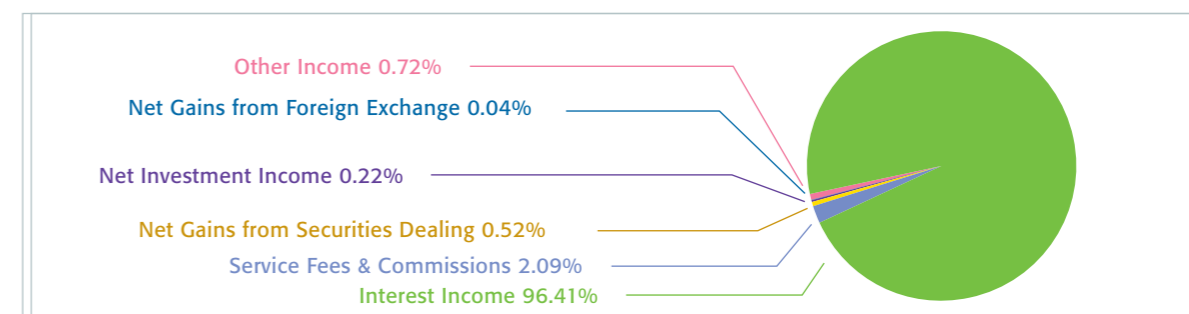


### Business Scope

1. Check account deposits
2. Demand deposits
3. Term deposits
4. Short-term and mid-term loans
5. Checks discounting
6. Investments in government bonds, money market instruments, corporate bonds and financial debentures
7. Domestic remittances
8. Cashing of commercial papers
9. Issuance of domestic letters of credit
10. Domestic guarantees
11. Payment and collection agency
12. Sales of government bonds and bills, corporate bonds and stocks
13. Custody and warehousing services
14. Rental of safekeeping boxes
15. All other agency services covered by our business license
16. Sell/buy foreign currencies (cash and traveler's checks)

### Revenue Breakdown for 2005

Item	Unit: NT\$thousand	
	Amount	Percentage
Interest Income	2,047,724	96.41%
Service Fees & Commissions	44,309	2.09%
Net Gains from Securities Dealing	11,167	0.52%
Net Investment Income	4,768	0.22%
Net Gains from Foreign Exchange	813	0.04%
Other Income	15,256	0.72%
<b>Total</b>	<b>2,124,037</b>	<b>100.00%</b>



### Business Goals and Strategies for 2006

- Deposits:
  1. Develop deposit business with corporate and group customers and exploit the employee payroll remittance business.
  2. Actively develop new customers and increase the share of demand deposits to lower costs.
  3. Enhance the planning and management of the deposit and remittance business and streamline operational procedures for lowering operations costs.
- Loans:
  1. Grow the customer base of loans to diversify risks and increase market share.
  2. Carefully select and manage borrowers and continuously strengthen the credit review process and after-lending follow-up management, with asset protection as our top consideration.
  3. Establish a dedicated work unit for centralized processing of corporate banking business.
  4. Endeavor to process overdue loans and actively carry out debt collection matters.
- Basic Foreign Exchange and Related Agency Services:
  1. Promote agency services in the re-exporting business to increase foreign exchange transaction volume and effectively control risk.
  2. Promote the short-term loans of clients in the re-importing business to increase our earnings.
- Other Businesses:
  1. Provide customers with more diverse and comprehensive financial products through the group's joint marketing efforts for the benefit of both our customers and Lucky Bank.

### Operational Targets for 2006

Unit: NT\$ million	
Item	Target
Deposits	\$89,856
Loans	\$62,709

# Cathay Century Insurance Co., Ltd



## Message from the Chairman

In spite of soaring commodities prices and US interest rate, the global economy sustained steady growth in 2005. In the local scene, however, the economy did not perform well due to weak domestic demand as well as low investment and consumption growth. The rising incidence of natural disasters, such as Hurricane Katrina which caused massive insurance losses amounting to US\$40 billion to US\$60 billion, presented an even greater challenge to insurers worldwide.

Faced with the severe challenges from a rapid changing market environment both locally and internationally, the importance of risk management, internal control mechanisms and financial structure has become all the more pronounced for non-life insurance companies. For example, in 2005 the high-tech company, Advanced Semiconductor Engineering, suffered huge losses from a fire right after getting insured. Cathay Century Insurance was one of ASE's few property insurers that had arranged for full-reinsurance coverage and thus was able to transfer most of the loss to the international reinsurers. The massive losses did not have a significant impact on Cathay Century Insurance's earnings because our assets and special reserves have increased every year on the back of our long-term professional and prudent management. In 2005, our written premiums increased by 7.1%, outpacing the industry's 3.3% growth. In addition to that, we received from the international credit rating agency Standard and Poor's an A- credit rating and from Moody's an A3 credit rating, confirming our outstanding operational performance and solid financial liquidity. Despite a very challenging market environment in 2005, we managed to deliver a relatively good overall performance and profitability. Thanks to the support and assistance of all the employees of our affiliated companies.

In 2005, we also developed 40 insurance products and ranked as No. 1 in the industry in terms of the number of approved insurance products. To further enhance our efficiency, we utilized electronic systems for our operational procedures and built a B2B platform to provide our customers with more convenient e-services. Therefore, we received the "E-Commerce Excellence Award" in the first Taiwan Insurance Excellence Awards - a recognition of our efforts in enhancing operational technologies.

Outlook for 2006, backed by our solid and reliable operations, we will aggressively compete in and penetrate new sales channels, develop new products, promote and strengthen integrated marketing and cultivate professional talent, with the aim of achieving our three main goals of increasing our market share, broadening our business scope and ranking among the top three players in 2007. Further to these, with our financial strength, we will provide the public with the most comprehensive protection coverage and the best quality service.

We are grateful for the efforts of all our employees and would also like to thank the various customers, reinsurance partners, and executives from the Group for their guidance and support. As we face the challenges of 2006, both the management and employees will continue to promote a "practical, dedicated and sincere" attitude to serving and meeting the expectations of our customers.

Sincerely,

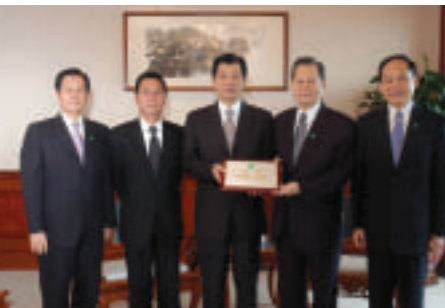
*Cheng-chiu Tsai*  
Chairman



As we face the challenges of 2006, both the management and employees will continue to promote a "practical, dedicated and sincere" attitude to serving and meeting the expectations of our customers.



Mr. Cheng-chiu Tsai was elected as new Chairman of Cathay Century Insurance.



Mr. Wan-chie Mar, former President, retired.



The Management Team of Cathay Century Insurance

Mr. Wen-yuan Hong, Mr. T. James Yang, Mr. Y. F. Wu, Mr. Min-yang Wu, Mr. Cheng-chiu Tsai and Mr. J. H. Hsu (from left to right)

# Cathay Century Insurance Co., Ltd



Founded in 1993, Cathay Century Insurance currently ranks as Taiwan's fifth largest property insurance company. Since its inception, Cathay Century Insurance has upheld its business philosophy of maintaining stable operations with an equal emphasis on quality and quantity. In addition to being awarded the ISO9001 certification for our car insurance claims services and loss prevention systems, Cathay Century Insurance also garnered superior credit ratings with a "twAA+" mark from Taiwan Ratings Corp., an "A-" from Standard and Poor's, and an "A3" from Moody's. With our consolidation into Cathay Financial Holding Co. in 2002, we expect to further expand our business by offering customers more comprehensive and professional services with the help and support of our affiliates and the group's integrated resources.

**Personnel**  
No. of employees: 866  
Average age: 34.6  
Average no. of years employed: 7.4 years

### Board of Directors

Name	Education	Main Experience
Cheng-chiu Tsai	M.A., Keio University (Japan)	Chairman, Cathay Century Insurance
C. Y. Lee	B.A., National Chung Hsing University	Consultant, Cathay Century Insurance
Y. F. Wu	B.A., Tamkang University	President, Cathay Century Insurance
K. C. Tsai	College	Chairman, Central Construction Co., Ltd.
Hsien-chung Lin	B.A., Soochow University	Head of Administration Division, Cathay Financial Holdings; Assistant Vice President, Cathay Life Insurance
Chu-yao Lu	B.A., Shih Hsin University	President, Wen Yi Investment Co., Ltd.
Min-yang Wu	M.A., Georgia State University	Vice President, Cathay Century Insurance
J. H. Hsu	B.A., Soochow University	Vice President, Cathay Century Insurance

### Supervisors

Name	Education	Main Experience
R. C. Sun	B.A., Tainan Commercial College	Tenure Supervisor, Cathay Century Insurance
Ching-tien Su	B.A., National Taipei Teachers College	Supervisor, Cathay Century Insurance

### Executive Officer

Position	Name	Education
Chairman	Cheng-chiu Tsai	M.A., Keio University (Japan)

### Key Managers

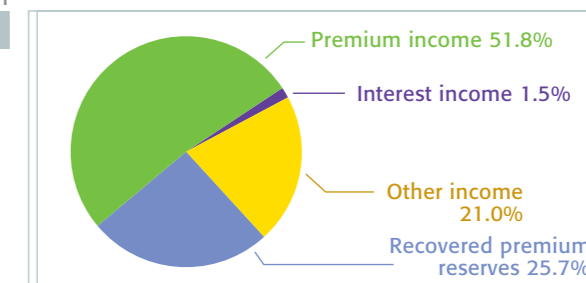
Position	Name	Education
President	Y. F. Wu	B.A., Tamkang University
Chief Auditor	Wen-yuan Hong	B.A., Tamkang University
Vice President	T. James Yang	M.A., University of California
Vice President	Min-yang Wu	M.A., Georgia State University
Vice President	J. H. Hsu	B.A., Soochow University

### Business Scope

Sales of all kinds of non-life insurance products (including motor, fire, marine, engineering, casualty and other property) and related businesses.

### 2005 Revenue Breakdown Unit: NT\$ million

Item	Amount	% of Total
Premium income	8,912	51.8
Recovered premium reserves	4,429	25.7
Other income	3,625	21.0
Interest income	263	1.5
<b>Total</b>	<b>17,229</b>	<b>100.00</b>



### 2006 Business Goals and Strategies

- **Expand sales channels and increase revenue sources**
  1. Develop new distribution channels, increase sources of application submissions and broaden sales network.
  2. Continue to strengthen relationships with insurance brokers and develop corporate clients; aggressively pursue public bids for government infrastructure projects to enlarge our written premium scale.
  3. Actively recruit great sales talent as well as expand our sales organization.
- **Promote integrated marketing and develop innovative products**
  1. Explore the vast resource potential of Cathay Financial Holdings' subsidiaries and affiliated companies; exploit cross-selling opportunities to provide non-life insurance products to the group's customers.
  2. Keep abreast of changes in the market and consumption trends and explore new markets and business opportunities by continuously developing new insurance products.
  3. Utilize information technologies to streamline processing procedures and enhance operational efficiency.
- **Cultivate professional talents and stress on top-quality service**
  1. Build up the depth and scope of professional expertise, cultivate multi-skill talents and encourage employees to acquire professional financial certification and enhance foreign language skills.
  2. Develop employee management skills, build a corporate culture of creative thinking and enhance overall competitiveness through group learning and continuous self-advancement.
  3. Strengthen personnel's service quality and enthusiasm, as well as their ability to solve customer's problems on spot.
- **Reinforce risk management and develop a flexible financial operation system**
  1. Implement sound risk control systems in line with a fast-growing business and maintain strong financial liquidity that will sustain a solid and healthy financial structure.
  2. Flexibly invest in fixed-yield financial products and increase the turnover rate of capital utilization in order to increase financial returns.
  3. Aggressively trade in local and international stock and bond markets to increase financial returns and improve financial stability.

### 2006 Operational Targets Unit: NT\$ million

Item	Target
Motor Insurance	5,300
Fire Insurance	2,010
Marine Insurance	570
Engineering Insurance	420
Casualty Insurance	850
Other Property Insurance	850
<b>Total</b>	<b>10,000</b>



# Cathay Securities Corporation



2005 Annual Report  
Cathay Financial Holdings

國家一號不動產投資信託基金  
令人矚目的豐元業績！



In 2005, Cathay Securities served as lead arranger for Cathay No.1 REIT, raising NT\$13.93 billion.

### Message from the Chairman

In 2005, the global economy recovered strongly and stock markets worldwide surged on the back of record-breaking oil and gold prices. In particular, the emerging markets outperformed, as robust consumption and an influx of international funds sustained the bull market's uptrend. The Taiex also benefited from the inflow of international funds with net foreign buying reaching NT\$719.4 billion in 2005, which helped lift the index to close the year at 6548.34, a gain of 6.6% year-on-year. Looking ahead, the global economy is forecast to maintain steady growth, which should benefit stock markets worldwide. Despite the increase last year, the performance of the Taiwan stock market still lagged behind international markets. However, this could provide the local exchange with more room to rise this year, aided by the increased demand for global electronics and continuous inflow of international funds into the region.

The year 2005 marked the second year of our company's establishment. Under the guidance of the Cathay Group's senior executives, we have gradually developed our business and operations. Thanks to the efforts of all our employees, we achieved a pre-tax profit of NT\$85.781 million. We were also able to move our Boai Branch operations to our new Guanqian Branch and our Xinyi Branch operations to our new Banqiao Branch. Our total brokerage volume last year amounted to NT\$196.7 billion, representing a 0.42% market share. We also served as the lead arranger for the successful Cathay Real Estate Investment Trust (REIT) No. 1 of Cathay Life Insurance, which raised a total of NT\$13.93 billion. Aided by the support of all employees of Cathay Financial Holdings, the REIT was 3.5 times oversubscribed.

Looking into 2006, we will continue to develop an islandwide brokerage service network in line with our goal to build a securities service platform. Our Kaohsiung Branch, which is under planning, is slated for a grand opening in the first quarter and will provide brokerage services to our customers in southern Taiwan. We will also start offering margin lending and stock lending services once we have obtained the requisite regulatory approvals. With respect to securities underwriting, aside from working closely with Cathay Life Insurance on developing REITs that meet market demand, we will explore other opportunities in order to establish ourselves as the niche securities firm for REITs. As to the development of new financial products, we will further strengthen the structuring and offering of new products in 2006, especially the issuance and placement of warrants which is one of our product focuses this year.

Lastly, on behalf of the company, I would like to extend our deepest gratitude to all of those who have provided us with their guidance and support. We remain committed to our strategy of being "small but beautiful" and will continue to reinforce the Cathay Group's philosophy of building a solid and stable business by establishing a firm foundation, enhancing our competitive advantages, leveraging the resources of the group and expanding the range of products and services offered to our customers in order to maximize the returns of the Cathay Group.

Sincerely,  
*Eliot C.M. Wu*  
Chairman



we are committed to establishing a firm foundation, enhancing our competitive advantages, leveraging the resources of the group and expanding our range of products and services in order to maximize the returns of the Cathay Group on the back of our "small but beautiful" corporate strategy.

### The Management Team of Cathay Securities Corporation

Mr. Tsu-jien Cheng, Mr. David P. Sun, Mr. Eliot C.M. Wu, Mr. Yen-fei Lee and Mr. Chun-sheng Chen (from left to right)



# Cathay Securities Corporation



Founded in August 2004, Cathay Securities to date has paid-in capital of NT\$3.7 billion. In addition to adhering to the Cathay Group's philosophy of building a solid and stable operation, we will continue to develop new businesses and products that enhance the group's comprehensive range of financial products and services. At the same time, we will seek to integrate and leverage the group's resources to increase our revenue and earnings opportunities. We aim to build a solid and stable operation as a niche market player that is "small but beautiful".

In addition to building a solid foundation for development, we will utilize the group's resources for developing our own market niche. Our future operating strategy will focus on growing our brokerage business, including increasing the number of branches, engaging in margin lending and stock lending, increasing the trading volume of institutional clients and promoting cross-selling by setting up securities service areas in the group's banking branches. Aside from these, we will continue to strengthen our ability to develop customized financial products and are planning to apply for a business license to issue warrants to further broaden our product line. Following our successful launch of the Cathay REIT No. 1 in 2005, we will continue to explore other asset securitization and underwriting opportunities. With the combined resources of the group, we aim to develop core clients and improve our operating performance.

Backed by the group's integrated resources, we will continue to work hard to maximize the returns of our shareholders, customers and employees.

#### Personnel

No. of employees: 147

Average age: 34.8 years

Average no. of years employed: 1.1 years

#### Board of Directors

Name	Education	Main Experience
Eliot C.M. Wu	M.B.A., University of Michigan	Chairman, Cathay Securities
David P. Sun	M.B.A., Harvard University	President, Cathay Securities
Tsu-jien Cheng	B.A., Hamilton College (USA)	Senior Vice President, Cathay Securities
Jen-ho Chang	M.B.A., Warwick University	Vice President, Cathay Capital Management
Thomas Liu	M.B.A., M.I.T.	Manager, Cathay Financial Holdings

#### Supervisor

Name	Education	Main Experience
Shao-chou Huang	B.A., Feng Chia University	Assistant Vice President, Cathay Financial Holdings
Wan-chie Ma	M.A., Tamkang University	Former-President, Cathay Century Insurance

#### Executive Officer

Position	Name	Education
Chairman	Eliot C.M. Wu	M.B.A., University of Michigan

#### Key Managers

Position	Name	Education
President	David P. Sun	M.B.A., Harvard University
Senior Vice President	Tsu-jien Cheng	B.A., Hamilton College (USA)

#### Business Scope

1. Central exchange securities brokering
2. Central exchange securities dealing
3. Over-the-counter securities brokering
4. Over-the-counter securities dealing
5. Securities underwriting
6. Futures dealing and futures trading assistance
7. Margin lending and stock lending
8. Other authorized securities-related businesses

#### 2006 Business Goals and Strategies

1. Focus on solid and stable operations and seek opportunities to integrate and leverage the resources of the group.
2. Conduct and develop business with integrity and honesty; adhere to the code of conduct as specified in the Securities and Exchange Law and relevant securities rules and regulations.
3. Develop and implement internal control and audit systems that strengthen our operations.
4. Strengthen employee management, as well as the development and training of employees.
5. Strive for efficient cost control to maximize profitability.

#### 2006 Operational Targets

Item	Goal
No. of opened securities accounts	23,000
% of market turnover	0.50%

# Cathay Capital Management Inc.



# Cathay Pacific Venture Capital Co., Ltd.



Cathay Capital Management is a subsidiary of Cathay Financial Holdings. Its main business covers venture capital management and private equity investment management.

### Board of Directors and Supervisor

Title	Name	Education	Main Experience
Chairman	Shang-chi Liu	M.B.A., National Taiwan University	Assistant Vice President, Cathay Life Insurance
Director	Chang-ken Lee	M.B.A., University of Pennsylvania	Vice President, Cathay Financial Holdings
Director	Jen-ho Chang	M.Sc Warwick University	Vice President, Cathay Capital Management
Supervisor	Shu-ying Wu	M.B.A., University of Michigan	General Manager, Cathay Life Insurance

### Executive Officer

Position	Name	Education
Chairman/President	Shang-chi Liu	M.B.A., National Taiwan University

### Business Scope

Management for venture capital funds, business and investment consulting services.

### 2005 Revenue Breakdown

Item	Amount	Percentage
Service fees	54,650	100.00
Total revenues	54,650	100.00

Unit: NT\$thousand



### 2006 Business Strategies

1. Keep tab of the latest industry trends involving our invested companies and seek out opportunities to invest upstream or downstream for vertical or horizontal integration.
2. Closely monitor the business operations and conditions of our invested companies in order to determine when to exit or participate in new investment opportunities.
3. Leverage off the integrated resources of our invested companies to create new business opportunities and/or develop new technologies aiming to strengthen operations of our invested companies.
4. Cooperate with other investment management companies to facilitate our search for new deals and investment opportunities.

Cathay Pacific Venture Capital was founded on April 16, 2003 as a subsidiary of Cathay Financial Holdings. Mainly involved in investing in high growth technology industries, Cathay Pacific Venture Capital aims to generate maximum returns on its investments.

### Board of Directors and Supervisor

Position	Name	Education	Main Experience
Chairman	Mei-hsiung Huang	B.A., National Taiwan University	Chairman, Cathay Pacific Venture Capital
Director	Paul Wang	Ph.D., Carnegie Mellon University	Chairman, Pacific Venture Partners
Director	Shu-ying Wu	M.B.A., University of Michigan	General Manager, Cathay Life Insurance
Supervisor	Jen-ho Chang	M.Sc Warwick University	Vice President, Cathay Capital Management

### Executive Officer

Position	Name	Education
Chairman	Mei-hsiung Huang	B.A., National Taiwan University
President	Giunn-jie Huang	M.A., National Chengchi University

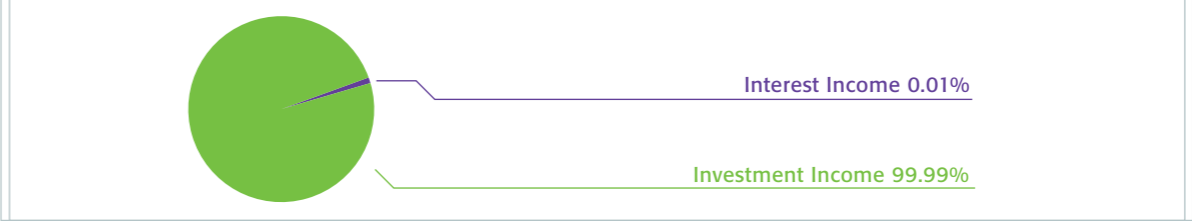
### Business Scope

Venture capital

### 2005 Revenue Breakdown

Item	Amount	% of Total
Investment Income	36,762	99.99
Interest Income	4	0.01
Total	36,766	100.00

Unit: NT\$thousand



### 2006 Business Strategies

1. Target industries: IC, communications, optoelectronics and electronic components.
2. Investment areas:
  - i. Asia: R&D of new technologies, business development, regional expansion and technology transfer.
  - ii. US: Seek out companies interested in expanding into Asia, primarily companies led by Asian-Americans.
3. Investment strategy:
 

The fund is focused on investments in mature-stage and pre-IPO companies in order to reduce investment risk. We will invest in the restructuring of such companies using as a leverage the resources of their respective industry's strategic alliance partners.

# Cathay Venture Capital Inc.



# Cathay II Venture Capital Inc.



Cathay Venture Capital Inc. focuses on investments in high growth industries to maximize the investment returns.

### Board of Directors & Supervisor

Position	Name	Education	Main Experience
Chairman	Shang-chi Liu	M.B.A., National Taiwan University	Assistant Vice President, Cathay Life Insurance
Director	Ming-hui Wu	B.A, Statistics, National Chengchi University	Chairman, San Ching Engineering
Director	Shuen-yu Chuang	M.B.A., MIT	General Manager, Cathay Life Insurance
Supervisor	Ze-ming Yang	M.A., University of California	Vice President, Cathay Century Insurance

### Executive Officer

Position	Name	Education
Chairman/President	Shang-chi Liu	M.B.A., National Taiwan University

### Business Scope

Venture capital

### 2005 Income Breakdown

Item	Amount	Unit: NT\$thousand	% of Total
Investment Income	117,611		91.65
Interest and Dividend Income	10,721		8.35
Total	128,332		100.00



### 2006 Business Strategies

1. Target industries: Local and global industries that offer long-term growth potential, specifically, companies we have researched that have proven to produce high added-value in the industry value chain.
2. Investment area(s): Focus on the Taiwan market
3. Investment type: Concentrate on growth-stage companies

Cathay II Venture Capital Inc. was set up on April 12, 2004 as a subsidiary of Cathay Financial Holdings, and focuses on investments in industries that offer high growth and returns.

### Board of Directors & Supervisor

Position	Name	Education	Main Experience
Chairman	Shang-chi Liu	M.B.A., National Taiwan University	Assistant Vice President, Cathay Life Insurance
Director	Yi-cheng Liu	M.B.A., University of Pennsylvania	Assistant Vice President, Cathay Financial Holdings
Director	Shuen-yu Chuang	M.B.A., MIT	General Manager, Cathay Life Insurance
Supervisor	Shu-ying Wu	M.B.A., University of Michigan	General Manager, Cathay Life Insurance

### Executive Officer

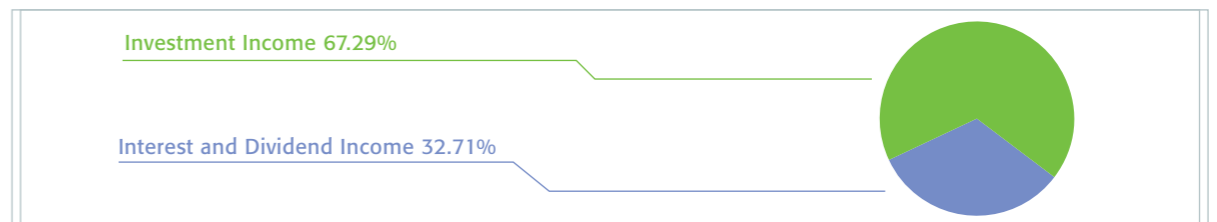
Position	Name	Education
Chairman/President	Shang-chi Liu	M.B.A., National Taiwan University

### Business Scope

Venture capital investments

### 2005 Income Breakdown

Item	Amount	Unit: NT\$thousand	% of Total
Investment Income	17,225		67.29
Interest and Dividend Income	8,374		32.71
Total	25,599		100.00



### 2006 Business Strategies

1. Target industries: Local and global industries that offer long-term growth potential, specifically, companies we have researched that have proven to produce high added-value in the industry value chain.
2. Investment area(s): Focus on the Taiwan market
3. Investment type: Concentrate on growth-stage companies

## Overseas Branches and Offices



### Cathay Life Insurance Co., Ltd.

**Shanghai Subsidiary:**  
 Address: 32nd Floor, No. 88, Jinmao Tower, Century Boulevard, Pudong New Area, Shanghai, China  
 Tel: 86-21-61006168 (General Line)  
 Fax: 86-21-61001682  
 Website: www.cathaylife.cn  
 e-mail: service@cathaylife.cn

**Jiangsu Branch:**  
 Address: 5th Floor, Huijie Plaza, No. 268, Zhongshan Road, Xuanwu District, Nanjing, Jiangsu Province, 210008 China  
 Tel: 86-25-83718688 (General Line)

**Hong Kong Representative Office:**  
 Address: Room 4704, 47th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong  
 Tel: 852-2802-7726  
 Fax: 852-2824-9277  
 e-mail: hongkong.rep@cathlife.com.tw

**Beijing Representative Office:**  
 Address: Room 1008, 10th Floor, Capital Times Square, 88 Changan West Street, Xicheng District, Beijing, China  
 Tel: 8610-8391-3425  
 Fax: 8610-8391-3427  
 e-mail: beijing.rep@cathlife.com.tw

**Chengdu Representative Office:**  
 Address: Room 2301, 23rd Floor, Sichuan China Construction Bank Building, 88 Tudu Street, Chengdu, China  
 Tel: 86-28-86766498  
 Fax: 86-28-86766500  
 e-mail: chengdu.rep@cathlife.com.tw

**Tokyo Representative Office:**  
 Address: 2nd Floor, No. 3-2-8 Kyobashi, Central District, Tokyo, Japan  
 Tel: 81-3-3272-8818  
 Fax: 81-3-3271-7599  
 e-mail: cathaylifetokyo@yahoo.co.jp

**Hanoi Representative Office:**  
 Address: Unit 04, 15th Floor, Prime Center Building, 53 Quang Trung Street, Hai Ba Trung District, Hanoi, Vietnam  
 Tel: 84-4-9438555  
 Fax: 84-4-9438556  
 e-mail: 6300000@cathlife.com.tw

### Cathay United Bank Co., Ltd.

**Los Angeles Agency**  
 Address: 725 S. Figueroa Street, Suite 4150, Los Angeles, CA 90017-5441 U. S. A.  
 Tel: 1-213-243-1234  
 Fax: 1-213-627-6817

**Hong Kong Branch**  
 Address: Suite 4704-06, 47th Floor, Central Plaza, 18 Harbour Road, Wanchai Hong Kong  
 Tel: 852-2877-5488  
 Fax: 852-2527-0966

**Shanghai Representative Office**  
 Address: 18G, New Shanghai International Tower, 360 Pudong South Road, Pudong New Area, Shanghai 200120, China  
 Tel: 86-21-6886-3785  
 Fax: 86-21-6886-3787

### Cathay United Bank Co., Ltd.

**Labuan Branch (Malaysia)**  
 Address: Level 3(C), Main Office Tower, Financial Park Labuan Complex Jalan Merdeka, 87000, Labuan F.T., Malaysia  
 Tel: 60-87-452-168 60-87-453-168  
 Fax: 60-87-453-678

**Kuala Lumpur Marketing Office**  
 Address: Lot 13A, 13th Floor, UBN Tower 10, Jalan P. Ramlee 50250, Kuala Lumpur, Malaysia  
 Tel: 60-3-2070-6729 60-3-2031-7628  
 Fax: 60-3-2078-9057

**Singapore Representative Office**  
 Address: 6 Battery Road #16-06/07 Singapore 049909  
 Tel: 65-6324-1958 65-6324-4331  
 Fax: 65-6324-1959

**Manila Representative Office**  
 Address: Unit 5A, 5th Floor, Citibank Center, 8741 Paseo de Roxas, Makati City 1200, Metro Manila Philippines  
 Tel: 63-2-751-1161  
 Fax: 63-2-751-1163

**Bangkok Representative Office**  
 Address: 13th Floor, Sathorn City Tower 175, South Sathorn Rd., Tungmahamek Sathorn, Bangkok 10120, Thailand  
 Tel: 66-2-679-5316 66-2-679-5317  
 Fax: 66-2-679-5318

**Hanoi Representative Office**  
 Address: 3F, 16 Ham Long Street, Hanoi, Vietnam  
 Tel: 844-945-4166 844-945-4167  
 Fax: 844-945-4168

**Ho Chi Minh City Representative Office**  
 Address: Ground Floor, 26 Ho Tung Mau Street, District 1, Ho Chi Minh City, Vietnam  
 Tel: 848-821-5128~30  
 Fax: 848-821-5131

**Chu Lai Branch (Vietnam)**  
 Address: No. 123, Tran Quy Cap, Tam Ky Town, Quang Nam Province, Vietnam  
 Tel: 845-108-13035~42  
 Fax: 845-108-13043~44

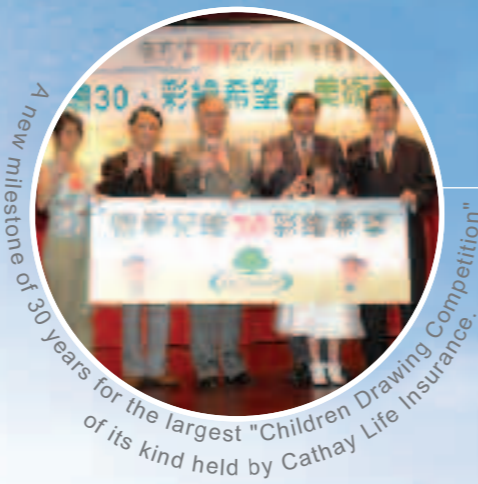
### Cathay Century Insurance Co., Ltd.

**Shanghai Representative Office:**  
 Address: Room 1206A, 12st Floor, Marine Tower, 1 Pudong Avenue, Pudong New Area, Shanghai 200120, China  
 Tel: 86-21-68860929  
 Fax: 86-21-68861829  
 E-mail: shanghai.rep@cathay-ins.com.tw

# The Year in Review/Honors and Accolades

Credit Ratings of Cathay Financial Holdings and Subsidiaries as of 2005

Company	Cathay Financial Holdings	Cathay Life Insurance	Cathay United Bank	Cathay Century Insurance	Cathay Securities
Moody's	Baa1	A2	A3	A3	N.A.
S&P	A-	A	A	A-	N.A.
Taiwan Rating	twAA+	twAAA	twAAA	twAA+	twA+



A new milestone of 30 years for the largest "Children Drawing Competition" of its kind held by Cathay Life Insurance.

## January

- Cathay Financial Holdings donated US\$15 million in aid to the tsunami victims in South Asia.
- Cathay United Bank launched its W@Card, the first card in Taiwan to offer a flexible installment payment feature.
- Cathay United Bank and MasterCard International Incorporated launched a joint e-ticket/IC card in southern Taiwan.

## February

- Cathay Life Insurance set up its Shanghai subsidiary through a joint venture with China Eastern Airlines, commencing operations on February 24, 2005.
- Cathay Group sponsored the Taipei Lantern Festival.
- Cathay Charity Foundation re-elected its board of directors. Mr. Fu Chien, the former president of the Control Yuan, was elected as the new Chairman.
- Cathay Charity Group further donated NT\$2,280,000 to Red Cross International for the tsunami aid campaign.

## March

- Cathay Life Insurance won awards for "Best in Product Innovation," "Best in Talent Cultivation" and "Best Public Welfare Image" in the first Insurance Excellence Awards hosted by the Taiwan Insurance Institute; while Cathay Century Insurance won the "Best in E-Commerce Award" and was nominated for "Excellence in Talent Cultivation" and "Excellence in Customer Service" categories.
- Cathay Life Insurance sponsored the "Cultivating Elite Olympic Players Fund" for the second consecutive year.
- Cathay Life Insurance was the first life insurance company to launch a 24-hour ATM service for investment-type mortgage loans.
- Cathay United Bank held the first "Architecture Exhibition of 2005" in Taipei and Taichung.
- Cathay United Bank Cultural and Charity Foundation donated NT\$ 11 million and 5,500 children's books under the "Big Tree Project" to poverty-stricken children in five counties, to cover their lunch and tuition expenses.

## April

- Cathay Life Insurance held its 2005 Overseas Summit in Sydney Australia.
- Cathay Life Insurance launched the first floating rate return on principal life insurance policy that pays the interest spread as a bonus for insured customers.
- Cathay United Bank held a Presidential handover ceremony in honor of incoming President Tsu-pei Chen and outgoing president Roger H.L. Wu.
- Cathay United Bank opened its Hanoi Representative Office.

## May

- Cathay Life Insurance won for the second time in the bidding for "Taiwan's Child Care Center Children Group Insurance" that provides coverage for 280,000 children.
- Cathay Life Insurance paid out scholarships amounting to about NT\$50 million, the highest among all its peers, to the children of its insured customers.
- Cathay United Bank launched the "CMA Elite Recruitment Program" and held a campus recruitment roadshow.

## June

- Cathay Group's charity foundations jointly held the successful "Big Tree Campaign - Love for Hometowns," a summer event aimed at encouraging blood donations and collected 2.5 million cc of blood at 87 locations islandwide.
- Cathay United Bank held the "Chanting Psalms in Baroque" concert in honor of its VIP customers.
- Cathay Century Insurance's fifth board of directors held its first meeting; Mr. Cheng-chiu Tsai was elected as Chairman.
- The Xinyi Branch of Cathay Securities was relocated and renamed as the Banqiao Branch. Cathay Securities completed its new share issuance on June 20 with its paid-in capital increasing to NT\$3.7 billion.

## July

- Cathay Group sponsored the outdoor performance of Cloud Gate Dance Theater of Taiwan for the tenth consecutive year. It was the theater group's first performance on Kinmen Island.

## August

- Cathay Century Insurance signed the "Agreement for Cooperation on Losses and Damage Prevention Technologies" with the Industrial Technology Research Institute and the Chinese Union of Professional Civil Engineering Association in order to strengthen risk management capability.
- The Boai Branch of Cathay Securities was re-located and renamed as the Guanqian Branch.

## September

- Lucky Bank held its election of board of directors and supervisors, officially becoming a subsidiary of the Cathay Group.
- Cathay REIT No. 1, the first REIT introduced by Cathay Financial Holdings, was officially launched with Cathay Securities as the lead arranger and successfully raised NT\$13.93 billion.
- Cathay United Bank opened its Ho Chi Minh City Representative Office.
- Cathay United Bank and Mairamar City Development jointly held a signing ceremony for a NT\$5 billion 10-year syndicated loan.
- The Offshore Banking Unit of Cathay United Bank complete the fixed-price issuance of US\$500 million of 15-year subordinated bonds in New York.

## October

- Cathay Life Insurance started allowing insurance payments through Cathay United Bank's ATMs islandwide.
- Cathay United Bank signed an agreement with Powerchip Semiconductor Corp for a NT\$15 billion 5-year syndicated loan.
- Cathay United Bank held the "Classic European Exhibition" to celebrate the second anniversary of the bank's merger, and published the art collection journal "Blossom".

## November

- Cathay Life Insurance was the first insurance company to obtain the approval of the Financial Supervisory Commission (FSC) to issue electronic application forms for life insurance policies.
- Cathay Financial Holdings became the triple winner in terms of return on assets, return on equity and pre-tax profits, as disclosed by the FSC.
- Cathay United Bank opened its Chu Lai Branch in Vietnam.

## December

- Cathay Life Insurance launched its "electronic billing service system."
- Cathay Life Insurance held its 30th Annual Children's Drawing Competition and sent the top three winners to compete overseas.
- To address concerns involving the bird flu epidemic, Cathay Century Insurance launched a very timely product called "Extra Coverage for Bird Flu Consolation Payment."
- Cathay Charity Foundation awarded "Mr. Wan-ling Tsai Memorial Scholarships."



Cathay Life Insurance held its 2005 Overseas Summit in Yokohama, Japan, with 2,000 outstanding employees attending this major event.



Cathay United Bank held the first "Architecture Exhibition" and attracted a huge crowd of audiences in Taipei and Taichung.



Cathay United Bank held the "Classic European Exhibition" and published the art collection journal "Blossom".

# Honors and Accolades earned by Cathay Financial Holdings and Subsidiaries

# Financial Overview



- Ranked by Forbes' International Top 2000 as the leading company among all Taiwanese companies.
- Ranked by Commonwealth Magazine's Taiwan Top 1000 as the No. 1 financial holding company in the country.
- Financial Times' Worldwide 500 Largest Companies in 2005, the only financial institution from Taiwan to be included in the rankings.
- Ranked by Business Today Magazine in the "Management Performance Assessment of Financial Holding Companies" as the top player in the Strategy, Financial Condition and Management Quality categories.
- Ranked as the No. 1 financial holding company for overall management performance in the composite index comparison surveys of National Chengchi University and Shih Chien University.
- Ranked as the No. 1 financial holding company for overall management performance in the composite index comparison surveys of National Chengchi University and Shih Chien University.
- Awards won in the first "Insurance Excellence Award" held by the Taiwan Insurance Institute:
  - Cathay Life Insurance won awards for "Product Innovation," "Talent Cultivation" and "Philanthropy."
  - Cathay Century Insurance won the "E-Commerce" award.
- Cathay Life Insurance won the "Best Consumer Brands Award" by Taiwan's Breakthrough Magazine for the sixth consecutive year.
- Cathay Life Insurance was awarded the "Extraordinary Brand Award" by Readers' Digest Magazine, besting all other Taiwanese insurance companies.
- Cathay Life Insurance won the "No. 1 Service Award" by AtNext Magazine for the second consecutive year, while Cathay United Bank ranked No. 2 among all banks in the consumer banking field.

Best value for customers

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

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

We have audited the accompanying balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") as of December 31, 2004 and 2005 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 conducted our audits in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

Notice to Readers

The accompanying 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 Holdings 2005 Annual Report

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English Translation of Financial Statements Originally Issued in Chinese  
Cathay Financial Holding Co., Ltd.  
Balance sheets

December 31, 2004 and 2005  
(Expressed in thousands of dollars)

Assets	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
<b>Current assets</b>					
Cash and cash equivalents	2,4	\$20,472,483	\$645,006	\$10,448,439	\$318,550
Tax refund receivable		589,326	18,567	589,326	17,967
Interest receivable		293	9	45,557	1,389
Other receivable		584,594	18,418	2,369,120	72,229
Deferred income tax assets-current	2,12	149,698	4,717	6,368	194
Subtotal		21,796,394	686,717	13,458,810	410,329
<b>Long-term investments</b>					
Long-term investments in stocks	2,5				
Long-term investments under equity method		178,515,166	5,624,296	188,168,647	5,736,849
Long-term investments under cost method		100,000	3,151	100,000	3,049
Allowance for valuation loss on long-term investments in stocks		(110,435)	(3,479)	(68,263)	(2,081)
Subtotal		178,504,731	5,623,968	188,200,384	5,737,817
<b>Property and equipment</b>					
Property and equipment	2				
Transportation and communication equipment		3,199	101	2,550	78
Other equipment		3,880	122	4,787	146
Subtotal		7,079	223	7,337	224
Less: Accumulated depreciation		(2,258)	(71)	(2,362)	(72)
Net		4,821	152	4,975	152
<b>Other assets</b>					
Refundable deposits		-	-	2,628,000	80,122
Temporary payments and suspense accounts		1	-	21	1
Deferred income tax assets -noncurrent	2,12	-	-	194,674	5,935
Deferred charges	2	66,627	2,099	119	3
Subtotal		66,628	2,099	2,822,814	86,061
<b>Total assets</b>		<b>\$200,372,574</b>	<b>\$6,312,936</b>	<b>\$204,486,983</b>	<b>\$6,234,359</b>

Assets	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
<b>Liabilities &amp; stockholders' equity</b>					
<b>Current liabilities</b>					
Collections for others		\$761	\$24	\$1,151	\$35
Accrued expenses		53,546	1,687	124,268	3,789
Income taxes payable		145,714	4,591	462,698	14,106
Dividends payable		2,316	73	5,114	156
Other payable		987,900	31,125	2,746,963	83,749
Subtotal		1,190,237	37,500	3,340,194	101,835
<b>Long-term liabilities</b>					
Bonds payable	19	23,774,560	749,041	13,405,171	408,694
Accrued pension liabilities		8,037	253	10,965	335
Subtotal		23,782,597	749,294	13,416,136	409,029
<b>Other liabilities</b>					
Deferred income tax liabilities -noncurrent		49,794	1,569	-	-
Temporary receipts and suspense accounts		709	22	15	-
Subtotal		50,503	1,591	15	-
<b>Total liabilities</b>		<b>25,023,337</b>	<b>788,385</b>	<b>16,756,345</b>	<b>510,864</b>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	7	83,167,130	2,620,262	85,242,234	2,598,849
<b>Capital surplus</b>					
Additional paid-in capital	8	53,524,308	1,686,336	62,592,220	1,908,299
Treasury stock transactions		5,424,265	170,897	5,491,169	167,414
Others		10,124	319	11,696	357
<b>Retained earnings</b>					
Legal reserve	9	3,026,715	95,360	6,009,431	183,214
Special reserve		122,653	3,864	226,579	6,908
Unappropriated retained earnings		30,640,997	965,375	28,146,255	858,117
<b>Equity adjustments</b>					
Unrealized valuation losses on long-term equity investments		(110,435)	(3,479)	(68,263)	(2,081)
Cumulative conversion adjustments		(96,005)	(3,025)	81,154	2,474
Net loss not yet recognized as net pension cost		(5,560)	(175)	(1,837)	(56)
Treasury stock	2,10	(354,955)	(11,183)	-	-
<b>Total stockholders' equity</b>		<b>175,349,237</b>	<b>5,524,551</b>	<b>187,730,638</b>	<b>5,723,495</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$200,372,574</b>	<b>\$6,312,936</b>	<b>\$204,486,983</b>	<b>\$6,234,359</b>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)  
The accompanying notes are an integral part of these financial statements.



English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of income

For the years ended December 31, 2004 and 2005  
(Expressed in thousands of dollars, except earning per share)

	Notes	2004		2005	
		NT \$	US \$	NT \$	US \$
Operating revenues	2				
Interest income		\$194,076	\$6,115	\$940,097	\$28,661
Income from long-term equity investments	2,5	29,689,400	935,394	22,277,613	679,196
Other operating income		71,070	2,239	-	-
Subtotal		29,954,546	943,748	23,217,710	707,857
Operating costs	2				
Interest expenses		(723,072)	(22,781)	(1,227,327)	(37,419)
Provision for securities trading losses reserve		(41,783)	(1,317)	-	-
Subtotal		(764,855)	(24,098)	(1,227,327)	(37,419)
Operating gross profit		29,189,691	919,650	21,990,383	670,438
Operating expenses					
Administrative and general expenses		(382,621)	(12,055)	(334,713)	(10,205)
Operating income		28,807,070	907,595	21,655,670	660,233
Non-operating revenues					
Gain on foreign exchange		956,637	30,140	300,815	9,171
Miscellaneous income		121,846	3,839	9,541	291
Subtotal		1,078,483	33,979	310,356	9,462
Non-operating expenses					
Loss on disposal of property and equipment		-	-	(473)	(14)
Subtotal		-	-	(473)	(14)
Income from continuing operations before income taxes		29,885,553	941,574	21,965,553	669,681
Income taxes expense	2,12	(58,398)	(1,840)	(178,500)	(5,442)
Net income		\$29,827,155	\$939,734	\$21,787,053	\$664,239
Earnings per share(expressed in dollars)					
Primary earnings per share:	13				
Income from continuing operations before income taxes		\$3.71	\$0.12	\$2.60	\$0.08
Net income		\$3.70	\$0.12	\$2.57	\$0.08
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		\$3.60	\$0.11	\$2.57	\$0.08
Net income		\$3.57	\$0.11	\$2.54	\$0.08
Pro-forma information as if subsidiaries' investment in the Company were not treated as treasury stock:					
Income from continuing operations before income taxes		\$30,041,879	\$946,499	\$21,962,594	\$669,591
Net income		\$29,983,481	\$944,659	\$21,784,094	\$664,149
Earnings per share(expressed in dollars)					
Primary earnings per share:					
Income from continuing operations before income taxes		\$3.72	\$0.12	\$2.59	\$0.08
Net income		\$3.71	\$0.12	\$2.57	\$0.08
Fully-diluted earnings per share:					
Income from continuing operations before income taxes		\$3.61	\$0.11	\$2.57	\$0.08
Net income		\$3.58	\$0.11	\$2.53	\$0.08

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)  
The accompanying notes are an integral part of these financial statements.





English Translation of Financial Statements Originally Issued in Chinese  
**Cathay Financial Holding Co., Ltd.**  
**Statements of changes in stockholders' equity**

For the years ended December 31, 2004 and 2005  
 (Expressed in thousands of dollars)

Summary	Common stock				Capital surplus				Retained earnings				Equity adjustments				Total					
									Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investments				Cumulative conversion adjustments		Net loss not yet recognized as net pension cost	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2004	\$83,074,891	\$2,617,356	\$53,651,046	\$1,690,329	\$1,335,046	\$42,062	\$1,833,255	\$57,759			\$16,916,694	\$532,977	\$(136,202)	\$(4,291)	\$176,537	\$5,562	\$(1,971)	\$(62)	\$(15,039,516)	\$(473,835)	\$141,809,780	\$4,467,857
Appropriations and distributions for 2003																						
Legal reserve					1,691,669	53,298					(1,691,669)	(53,298)										
Special reserve							(1,710,602)	(53,895)			1,710,602	53,895										
Cash dividends											(16,105,155)	(507,409)									(16,105,155)	(507,409)
Remuneration paid to directors and supervisors											(5,700)	(179)									(5,700)	(179)
Bonus paid to employees											(1,611)	(51)									(1,611)	(51)
Convertible notes converted into common stock	92,239	2,906	422,591	13,314																	514,830	16,220
Cash dividends to subsidiaries			22,194	699																	22,194	699
Capital surplus			10,124	319																	10,124	319
Cumulative conversion adjustments															(272,542)	(8,587)					(272,542)	(8,587)
Gains on unrealized value recoveries of long-term equity investments													25,767	812							25,767	812
Disposal of treasury stock			4,737,927	149,273																	11,450,763	360,768
Treasury stock			114,815	3,618							(9,319)	(294)									3,233,798	101,884
Net income for the year ended December 31, 2004											29,827,155	939,734									29,827,155	939,734
Net loss not yet recognized as net pension cost																	(3,589)	(113)			(3,589)	(113)
Balance on December 31, 2004	\$83,167,130	\$2,620,262	\$58,958,697	\$1,857,552	\$3,026,715	\$95,360	\$122,653	\$3,864			\$30,640,997	\$965,375	\$(110,435)	\$(3,479)	\$96,005	\$(3,025)	\$(5,560)	\$(175)	\$(354,955)	\$(11,183)	\$175,349,237	\$5,524,551
Balance on January 1, 2005	\$83,167,130	\$2,535,583	\$58,958,697	\$1,797,521	\$3,026,715	\$92,278	\$122,653	\$3,739			\$30,640,997	\$965,375	\$(110,435)	\$(3,367)	\$96,005	\$(2,927)	\$(5,560)	\$(170)	\$(354,955)	\$(10,822)	\$175,349,237	\$5,346,012
Appropriations and distributions for 2004																						
Legal reserve					2,982,716	90,936					(2,982,716)	(90,936)										
Special reserve							103,926	3,169			(103,926)	(3,169)										
Cash dividends											(21,187,334)	(645,955)									(21,187,334)	(645,955)
Remuneration paid to directors and supervisors											(5,700)	(174)									(5,700)	(174)
Bonus paid to employees											(2,119)	(65)									(2,119)	(65)
Convertible notes converted into common stock	2,075,104	63,266	9,067,913	276,461																	11,143,017	339,727
Cash dividends to subsidiaries			8,749	267																	8,749	267
Capital surplus			1,572	48																	1,572	48
Cumulative conversion adjustments															177,159	5,401					177,159	5,401
Gains on unrealized value recoveries of long-term equity investments													42,172	1,286							42,172	1,286
Treasury stock			58,154	1,773																	354,955	10,822
Net income for the year ended December 31, 2005											21,787,053	664,239									21,787,053	664,239
Net loss not yet recognized as net pension cost																	3,723	114			3,723	114
Balance on December 31, 2005	\$85,242,234	\$2,598,849	\$68,095,085	\$2,076,070	\$6,009,431	\$183,214	\$226,579	\$6,908			\$28,146,255	\$858,117	\$(68,263)	\$(2,081)	\$81,154	\$2,474	\$(1,837)	\$(56)	\$-	\$-	\$187,730,638	\$5,723,495

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)  
 The accompanying notes are an integral part of these financial statements.



English Translation of Financial Statements Originally Issued in Chinese  
Cathay Financial Holding Co., Ltd.  
Statements of cash flows

For the years ended December 31, 2004 and 2005  
(Expressed in thousands of dollars)

	2004		2005	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Net income	\$29,827,155	\$939,734	\$21,787,053	\$664,239
Adjustments:				
Amortizations	146,688	4,622	59,248	1,806
Depreciation	1,055	33	1,180	36
Losses on disposal of property and equipment	-	-	473	15
Investment income recognized by equity method excess of cash dividends received	(13,212,631)	(416,277)	(4,308,166)	(131,347)
Increase in bonds payable redemption premium	716,399	22,571	569,524	17,364
Effects of exchange rate changes	571,275	17,999	(595,759)	(18,163)
Decrease in short-term investments	2,147,421	67,657	-	-
Decrease in tax refund receivable	42,621	1,343	-	-
Decrease (increase) in interest receivable	42,449	1,337	(45,264)	(1,380)
Increase in other accounts receivable	(526,142)	(16,577)	(1,784,526)	(54,406)
(Increase) decrease in deferred income tax assets-current	(127,862)	(4,028)	143,330	4,370
Decrease (increase) in deferred income tax assets-noncurrent	171,822	5,413	(194,674)	(5,935)
Decrease (Increase) in temporary payments and suspense accounts	166	5	(20)	(1)
(Decrease) increase in collections for others	(135)	(4)	391	12
Increase in accrued expenses	16,918	533	70,722	2,156
Increase in income taxes payable	145,714	4,591	316,983	9,664
Increase in dividends payable	840	26	2,799	85
Increase in other accounts payable	291,901	9,197	1,759,063	53,630
Increase in accrued pension liabilities	872	27	6,650	203
Increase (decrease) in temporary receipts and suspense accounts	14	-	(693)	(21)
Increase (decrease) in deferred income tax liabilities-noncurrent	49,794	1,569	(49,794)	(1,518)
Net cash provided by operating activities	20,306,334	639,771	17,738,520	540,809
Cash flows from investing activities				
Acquisition of long-term investments in stocks	(4,116,560)	(129,696)	(4,744,726)	(144,656)
Disposal of property and equipment	-	-	950	29
Acquisition of property and equipment	(1,207)	(38)	(2,757)	(84)
Decrease in deferred charges	18,267	576	7,259	221
Increase in refundable deposits	-	-	(2,628,000)	(80,122)
Net cash used in investing activities	(4,099,500)	(129,158)	(7,367,274)	(224,612)
Cash flows from financing activities				
(Decrease) increase in bonds payable	(1,562,099)	(49,216)	204,104	6,223
Remuneration paid to directors and supervisors	(5,700)	(179)	(5,700)	(174)
Bonus paid to employees	(1,611)	(51)	(2,119)	(65)
Cash dividends	(16,105,155)	(507,409)	(21,187,334)	(645,955)
Disposal of treasury stock	16,188,690	510,041	-	-
Net cash used in financing activities	(1,485,875)	(46,814)	(20,991,049)	(639,971)
Effects of exchange rate changes	(571,275)	(17,999)	595,759	18,163
Increase (decrease) in cash and cash equivalents	14,149,684	445,800	(10,024,044)	(305,611)
Cash and cash equivalents at the beginning of year	6,322,799	199,206	20,472,483	624,161
Cash and cash equivalents at the end of year	\$20,472,483	\$645,006	\$10,448,439	\$318,550
Supplemental disclosure of cash flows information				
Interest paid during the period	\$971	\$31	\$594,782	\$18,134
Interest paid (excluding capitalized interest)	\$971	\$31	\$594,782	\$18,134
Income tax paid	\$5,054	\$159	\$28,399	\$866
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$514,830	\$16,220	\$11,143,017	\$339,726

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)  
The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Financial Holding Co., Ltd.  
Note to financial statements

(Expressed in thousands of dollars except for share and per share data unless otherwise stated)  
December 31, 2004 and 2005

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

### 1. Organization and business scope

On December 31, 2001 Cathay Life Insurance Co., Ltd. ("Cathay Life") was reincorporated as Cathay Financial Holding Co., Ltd. (the "Company") through stock conversion pursuant to provisions of the Republic of China ("ROC") Financial Holding Company Act ("Financial Holding Company Act") and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. ("Cathay Century") and Cathay United Bank Co., Ltd. ("Cathay United Bank") were merged into the Company through stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. ("UWCCB") became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank merged on October 27, 2003. UWCCB was the surviving company, and the merged bank was re-named Cathay United Bank Co., Ltd. ("Cathay United Bank (merged)"). On May 12, 2004 the Company build-in a wholly owned subsidiary of Cathay Securities Corporation ("Cathay Securities"). On June 30, 2005, an investment strategy of Lucky Bank, Inc. ("Lucky Bank") was approved by the Financial Supervisory Commission, Executive Yuan. As of December 31, 2005 the Company had acquired its ownership interest of 81.35%. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities.

As of December 31, 2004 and 2005, the total numbers of employees were 59 and 64, respectively.

### 2. Summary of significant accounting policies

We prepared the financial statement in accordance with generally accepted accounting principles, "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies". The summary of significant accounting policies is as follows:

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

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

#### (2) Cash and cash equivalents

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

#### (3) Long - term investments

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

Long-term investments in listed companies in which the Company's ownership interest is less than 20% of the voting stock, and which the Company lacks significant influence over operating and financial policies of the investee, are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's



ownership interest accounted for less than 20% of the common stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and is already less than cost, the market value becomes the new cost basis and the difference is accounted for as if it were a realized loss, and included in the determination of net income. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares held. Upon sales of long-term equity investments (accounted for under the cost method), any difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

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

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method accounts.

If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

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

#### B. Transactions with affiliated companies

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

#### (4) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from the respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the ROC. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

#### (5) Deferred charges

Deferred charges are expenses where the associated economic benefit extends more than one year. Deferred charges are amortized over the economic useful life by the straight-line method.

#### (6) Impairment of assets

Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 on each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment

loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment annually, or more frequently if events or changes in circumstance indicate goodwill impairment. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- A. first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- B. if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

Thus, reversal of impairment loss on goodwill is prohibited.

Impairment loss (reversal) is classified as non-operating losses/ (income).

#### (7) Convertible notes

The excess of the redemption price over the par value of a convertible notes are credited to redemption premium payable and amortized using the interest method. This amortization is recorded as interest expense.

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

#### (8) Foreign currency transactions

Foreign currency transactions are recorded in NT dollars at the spot rate when the conversion occurs. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income in the period of actual conversion or settlement. Long-term investment in foreign currency is accounted for as cumulative conversion adjustments and is treated as adjustments of stockholders' equity. Assets and liabilities denominated in foreign currencies are restated at the balance sheet date exchange rates, and resulting gains or losses are credited or charged to current income.

#### (9) Derivative financial instruments

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

For cross-currency swap contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. The interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, on each settlement date, is recorded as gain or loss.

For option contracts, only memo entries of notional principal amounts are made on the contract date. Premiums paid or received are recorded as assets or liabilities. As of the balance sheet date, outstanding option contracts are marked-to-market and the gains and losses are recognized in the current statement of income. Gains or losses on the exercise of options are recognized in the current period.

#### (10) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. An allowance is provided under assessment of the realizability of deferred tax asset. Adjustments of prior years' income tax payable are included in current income tax expense. In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries adopt the linked-tax system for tax filings and pay a 10% surcharge on their undistributed retained earnings under the



consolidated income tax return. If there are any tax effects due to the adoption of the linked-tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

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

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

#### (11) Capital expenditure expenses

Capital expenditure is capitalized and amortized over its useful life if the amount is significant and may generate revenues in future periods. Otherwise, it is expensed in the year as incurred.

#### (12) Treasury stock

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

According to the Ministry of Finance Securities and Futures Commission (91) article 108164:

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

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

#### (13) Pension plan

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

The Labor Pension Act of ROC ("the Act"), which adopts a defined contribution scheme, takes effect from July 1,

2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

In compliance with SFC regulations, the Company and its subsidiaries follow the ROC SFAS No. 18, "Accounting for Pensions". When providing defined benefit plans, an actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets; when providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense for the employee's employment period.

#### (14) Convenience conversion US dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2004 and 2005 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$31.74 and NT\$32.80 provided by Federal Reserve Bank of New York of December 31, 2004 and 2005 are used for the conversion.

### 3. Accounting changes: None

### 4. Cash and cash equivalents

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Petty cash	\$60	\$2	\$60	\$2
Cash in banks	15,707,437	494,878	5,557,619	169,439
Time deposits	2,673,595	84,234	4,376,042	133,416
Cash equivalents	2,091,391	65,892	514,718	15,693
<b>Total</b>	<b>\$20,472,483</b>	<b>\$645,006</b>	<b>\$10,448,439</b>	<b>\$318,550</b>

### 5. Long-term investments in stocks

Name of investee	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Under the equity method:				
Cathay Life	\$90,571,820	\$2,853,555	\$97,592,064	\$2,975,368
Cathay United Bank (merged)	80,149,348	2,525,184	77,928,075	2,375,856
Cathay Century	2,966,117	93,450	3,194,216	97,385
Cathay Securities	3,458,434	108,961	4,015,333	122,419
Cathay Pacific Venture Capital Co., Ltd.	583,715	18,391	568,960	17,346
Cathay Venture Capital Co., Ltd.	69,538	2,191	224,835	6,855
Cathay II Venture Capital Co., Ltd.	586,314	18,472	605,369	18,456
Cathay Capital Management Inc.	19,445	613	40,077	1,222
Lucky Bank	-	-	3,931,455	119,861
<b>Subtotal</b>	<b>178,404,731</b>	<b>5,620,817</b>	<b>188,100,384</b>	<b>5,734,768</b>
Under the cost method:				
Debt Instrument Depository and Clearing Co., Ltd. Taiwan	100,000	3,151	100,000	3,049
<b>Total</b>	<b>\$178,504,731</b>	<b>\$5,623,968</b>	<b>\$188,200,384</b>	<b>\$5,737,817</b>



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

	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Balance on January 1	\$157,950,702	\$4,976,393	\$178,404,731	\$5,439,168
Add: Investment gains under equity method recognized	29,689,400	935,394	22,277,613	679,196
Add: Increment of investment	4,116,560	129,696	4,744,726	144,656
Add: Cash dividends to subsidiaries	22,194	699	8,749	267
Add: Capital surplus under equity method recognized	10,124	319	1,572	48
(Less) add : Cumulative conversion adjustments under equity method recognized	(272,542)	(8,587)	177,159	5,401
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	3,339,295	105,208	413,109	12,595
Add: Gains on unrealized value recoveries of long-term equity investments under equity method recognized	25,767	812	42,173	1,286
Less: Cash dividends received	(16,476,769)	(519,117)	(17,969,448)	(547,849)
Balance on December 31	\$178,404,731	\$5,620,817	\$188,100,384	\$5,734,768

(2) The investment gains (losses) account for by the equity method for the years ended December 31, 2004 and 2005 are listed below:

Name of Investee	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$15,386,051	\$484,753	\$17,846,968	\$544,115
Cathay United Bank (merged)	13,767,747	433,766	3,831,829	116,824
Cathay Century	587,903	18,522	607,838	18,532
Cathay Securities	(41,566)	(1,309)	56,899	1,735
Cathay Pacific Venture Capital Co., Ltd.	(8,372)	(264)	(15,547)	(474)
Cathay Venture Capital Co., Ltd.	(3,744)	(118)	5,538	169
Cathay II Venture Capital Co., Ltd.	(7,904)	(249)	13,273	405
Cathay Capital Management Inc.	9,285	293	36,131	1,101
Lucky Bank	-	-	(105,316)	(3,211)
Total	\$29,689,400	\$935,394	\$22,277,613	\$679,196

A. Combined with the voting rights of its subsidiaries, the Company had significant influence on Cathay Venture Capital Co., Ltd. Thus the investment losses/gains of Cathay Venture Capital Co., Ltd. for the years ended December 31, 2004 and 2005 were recognized under equity method based on the audited financial statements in the respective periods.

B. The financial statements of Cathay Pacific Venture Capital Co., Ltd. for the years ended December 31, 2004 and 2005 were audited by another auditor and unqualified opinions were expressed by the auditor. The Company recognized the losses on investments in Cathay Pacific Venture Capital Co., Ltd. based on the aforementioned audited reports.

(3) Effective from January 1, 2005, the Company adopted SFAS No. 7 "Consolidated Financial Statements" which was revised on December 9, 2004. The revised SFAS No. 7 no longer allows excluding subsidiaries which the total assets and operating revenues are less than 10% of the parent company respectively from the consolidated financial statements. In addition,

restating prior periods consolidated financial statements is not required in the year of adoption. The consolidated financial statements of the Company as of and for the year ended December 31, 2004 exclude Cathay Pacific Venture Capital Co., Ltd., Cathay II Venture Capital Co., Ltd., Cathay Venture Capital Co., Ltd., Cathay Life Insurance Ltd. (Shanghai), Lin Yuan Property Management Co., Ltd., Symphox Information Co., Ltd., Cathay Futures Corp., Seaward Leasing Ltd., Indovina Bank, Cathay Capital Management Inc. Cathay Bank Life Insurance Agency of Association, Seaward Card Co., Ltd., Cathay Insurance (Bermuda) Co., Ltd., Cathay Securities Investment Co., Ltd., Cathay Pacific Partners Co., Ltd., Cathay Bank Property Agency of Association and China England Co., Ltd. because its total assets and operating revenues were less than 10% of the total assets and operating revenues of the Company. In addition the others subsidiaries were recorded in the consolidated financial statements.

(4) The consolidated financial statements of the Company as of and for the year ended December 31, 2005 excluded Cathay Capital Management Inc., Cathay Bank Life Insurance Agency of Association, Seaward Card Co., Ltd., Cathay Insurance (Bermuda) Co., Ltd., Cathay Securities Investment Co., Ltd., Cathay Pacific Partners Co., Ltd., Cathay Bank Property Agency of Association and China England Co., Ltd. due to their respective total assets and operating revenues were insignificant to the Company. All other subsidiaries were included in the consolidated financial statements.

(5) There was no collateralized or pledged long-term investments of the Company as of December 31, 2004 and 2005.

## 6. Bonds payable

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

Please see note 19(3), "Zero coupon convertible notes related information" for details.

## 7. Common stock

As of December 31, 2004 and 2005, the numbers of common with a par value of NT\$10 (US\$0.3) shares issued, were 8,316,713 thousand shares and 8,524,223 thousand shares, respectively.

On December 31, 2001, the Company listed its shares of stock on Taiwan Stock Exchange (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depository Shares (GDSs).

## 8. Capital surplus

(1) The capital surplus of the Company consists of premium of stock conversion from consolidation, equity method adjustments from investee companies and transactions of treasury stocks. Capital surplus as of December 31, 2004 and 2005 were NT\$58,958,697 (US\$1,857,552) and NT\$68,095,085 (US\$2,076,070), respectively and both were inclusive of NT\$267,215 (US\$8,147) the undistributed retained earnings of subsidiaries before the stock conversion. Before conversion into a financial holding company, NT\$267,215 (US\$8,147)



constituted retained earnings of certain subsidiaries of the Company.

(2) The additional paid-in capital from the conversion of shares was generated from the conversion of the shares between the subsidiaries and 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 conversion which comes from the original financial institution's undistributed retained earnings is allowed to be distributed as cash dividends.

(3) In addition, pursuant to the Company Law, capital surplus can only be used to offset the deficit or to increase the share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stocks funded by 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.

## 9. Retained earnings

### (1) Legal reserve

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

### (2) Unappropriated retained earnings

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.

B. The distribution of the 2003 earnings was approved in the shareholders' meeting on June 3, 2004. The distribution resulted from retained earnings of NT\$20,588,763 (US\$648,669) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$27,960) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,817), respectively. The Company declared cash dividends of NT2 dollars (US0.06 dollars) on each common share and such dividends were paid on July 9, 2004.

C. On June 3, 2005, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2004. The Company declared cash dividends and cash bonus of NT2.5 dollars (US0.08 dollars) per common share and such dividends were paid on July 11, 2005.

D. Cathay Life originally held 156,927 thousand shares of the Company. After conversion into a financial holding company, Cathay Life's treasury stock has been treated as the Company's treasury stock without any stockholder rights. As of December 31, 2005, Cathay Life had transferred all such treasury shares to employees.

E. The Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

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

G. In accordance with SFC regulations, posterior to 2002 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 are exempted from distributing as special reserve.

### H. Dividends policy

The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations with excess cash from retained earnings distributed in cash, but cash dividends must be a minimum of 10% of the total dividends declared.

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

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

Name of Investee	For the years ended December 31,	
	2004(NT\$)	2004(US\$)
a. Distributions		
Bonus paid to employees-cash	\$2,119	\$67
Bonus paid to employees-stock	-	-
Remuneration paid to directors and supervisors	5,700	180
b. After income taxes earnings per share:		
(expressed in dollars)	\$3.70	\$0.12
Pro forma earnings per share: (expressed in dollars)	\$3.70	\$0.12

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

## 10. Treasury stock

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

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

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

Reason for acquisition	January 1, 2005	Increase	Decrease	December 31, 2005	Book value (NT\$)	Book value (US\$)	(Unit: in thousands of shares)			
							Per share Book value (in NT dollars)	Per share Book value (in US dollars)	Per share Market value (in NT dollars)	Per share Market value (in US dollars)
Subsidiaries transferred shares to employees	51,551	-	51,551	-	\$-	\$-	\$-	\$-	\$-	\$-
The Company that the subsidiaries held were treated as treasury stock	11,705	-	4,808	6,897	354,955	11,183	51.47	1.62	63.00	1.98
Subsidiaries' stocks held by the Company after conversion which are treated as treasury stock	254,911	-	254,911	-	-	-	-	-	-	-
Total	318,167	-	311,270	6,897	\$354,955	\$11,183	-	-	-	-



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

(Unit: in thousands of shares)

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

## 11. Personnel, depreciation, depletion and amortization expenses

Item	For the year ended December 31,2004 (NT\$)			For the year ended December 31,2005 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$131,548	\$131,548	\$-	\$161,797	\$161,797
Labor & health Insurance expenses	-	3,008	3,008	-	3,989	3,989
Pension expenses	-	3,687	3,687	-	7,640	7,640
Other expenses	-	1,826	1,826	-	1,460	1,460
Depreciation	-	1,055	1,055	-	1,180	1,180
Depletion	-	-	-	-	-	-
Amortizations	-	146,688	146,688	-	59,248	59,248

Item	For the year ended December 31,2004 (US\$)			For the year ended December 31,2005 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$4,145	\$4,145	\$-	\$4,933	\$4,933
Labor & health Insurance expenses	-	95	95	-	122	122
Pension expenses	-	116	116	-	233	233
Other expenses	-	58	58	-	45	45
Depreciation	-	33	33	-	36	36
Depletion	-	-	-	-	-	-
Amortizations	-	4,622	4,622	-	1,806	1,806

## 12. Estimated income taxes

(1)Income tax expenses for the years ended December 31, 2004 and 2005 are estimated as follows:

	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Income before income taxes	\$29,885,553	\$941,574	\$21,965,553	\$669,681
Adjustments:				
Interest income of tax on a separate basis	(19,636)	(619)	(52,289)	(1,594)
Investment gains recognized by equity method	(29,689,400)	(935,394)	(22,277,613)	(679,196)
Unrealized bonds payable redemption premium	716,399	22,571	561,179	17,109
Unrealized exchange (gain) loss	(1,652,397)	(52,060)	304,140	9,273
Realized exchange gain	687,352	21,656	585,200	17,842
Unrealized loss on market price recovery of short-term investment	(71,070)	(2,239)	-	-
Others	(15,067)	(475)	(9,507)	(290)
Taxable income	(158,266)	(4,986)	1,076,663	32,825
Times: Taxes rate	25%-10	25%	25%-10	25%
Subtotal	(39,576)	(1,247)	269,156	8,206
Add: Tax on a separate basis	3,927	124	10,457	319
Deferred income tax expense (benefit)	93,755	2,954	(101,138)	(3,084)
Dissimilitude on estimate tax after time	292	9	25	1
<b>Income taxes expense</b>	<b>\$58,398</b>	<b>\$1,840</b>	<b>\$178,500</b>	<b>\$5,442</b>

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

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
A. Total deferred income tax assets	\$658,632	\$20,751	\$395,185	\$12,048
B. Total deferred income tax liabilities	\$558,728	\$17,603	\$194,143	\$5,919
	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized redemption premium payable of convertible notes	\$2,015,012	\$63,485	\$1,539,850	\$46,947
b. Deductible temporary difference from organization costs amortization into 5 years	32,551	1,025	16,275	496
c. Deductible temporary difference from pension expenses	4,449	140	11,099	338
d. Taxable temporary difference from unrealized gain on foreign exchange	(2,234,913)	(70,413)	(776,574)	(23,676)
e. Deductible temporary difference from unrealized loss on foreign exchange	582,515	18,353	13,517	412
<b>Total</b>	<b>\$399,614</b>	<b>\$12,590</b>	<b>\$804,167</b>	<b>\$24,517</b>
D. Deferred income tax assets-current	\$149,698	\$4,716	\$6,368	\$194
Deferred income tax liabilities-current	-	-	-	-
Net offset balance of deferred income tax assets (liabilities)-current	<b>\$149,698</b>	<b>\$4,716</b>	<b>\$6,368</b>	<b>\$194</b>
E. Deferred income tax assets-noncurrent	\$508,934	\$16,034	\$388,817	\$11,854
Deferred income tax liabilities- noncurrent	(558,728)	(17,603)	(194,143)	(5,919)
Net offset balance of deferred income tax assets (liabilities)-noncurrent	<b>\$(49,794)</b>	<b>\$(1,569)</b>	<b>\$194,674</b>	<b>\$5,935</b>



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

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

(5)Information related tax imputation:

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Balance of imputation credit account	\$362,239	\$11,413	\$1,681,979	\$51,280

	For the years ended December 31,	
	2004 (Actual)	2005 (Estimate)
Imputation credit account ratio	7.58%	7.62%

(6)Information relating of undistributed earnings:

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

The undistributed earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

### 13.Earnings per share

	For the year ended December 31, 2004								
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS			
	Before income taxes		After income taxes			Before income taxes EPS (in dollars)		After income taxes EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net Income	\$29,885,553	\$941,574	\$29,827,155	\$939,734					
Primary earnings per share									
Net income for common stock holder	\$29,885,553	\$941,574	\$29,827,155	\$939,734	8,064,662	\$3.71	\$0.12	\$3.70	\$0.12
Effect of potentially dilutive common stock									
Convertible notes payable	716,398	22,571	537,299	16,928	446,119				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$30,601,951	\$964,145	\$30,364,454	\$956,662	\$8,510,781	\$3.60	\$0.11	\$3.57	\$0.11

	For the year ended December 31, 2005								
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS			
	Before income taxes		After income taxes			Before income taxes EPS (in dollars)		After income taxes EPS (in dollars)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net Income	\$21,965,553	\$669,681	\$21,787,053	\$664,239					
Primary earnings per share									
Net income for common stock holder	\$21,965,553	\$669,681	\$21,787,053	\$664,239	8,462,518	\$2.60	\$0.08	\$2.57	\$0.08
Effect of potentially dilutive common stock									
Convertible notes payable	569,524	17,364	427,143	13,023	229,010				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	\$22,535,077	\$687,045	\$22,214,196	\$677,262	\$8,761,528	\$2.57	\$0.08	\$2.54	\$0.08



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

(in thousands of shares)	For the years ended December 31,	
	2004	2005
Shares at the beginning of year	8,307,489	8,316,713
Add: The subsidiaries were sold The Company's stock	(243,725)	(3,169)
Convertible notes conversion	898	148,974
<b>Total</b>	<b>8,064,662</b>	<b>8,462,518</b>

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

	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Income before income taxes	\$30,041,879	\$946,499	\$21,962,594	\$669,591
Net income after income taxes	\$29,983,481	\$944,659	\$21,784,094	\$664,149
Before income taxes primary earnings per share (expressed in dollars)	\$3.72	\$0.12	\$2.59	\$0.08
After income taxes primary earnings per share (expressed in dollars)	\$3.71	\$0.12	\$2.57	\$0.08
Before income taxes fully-diluted earnings per share (expressed in dollars)	\$3.61	\$0.11	\$2.57	\$0.08
After income taxes fully-diluted earnings per shares (expressed in dollars)	\$3.58	\$0.11	\$2.53	\$0.08

## 14.Related party transactions

### (1)Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay II Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Capital Management Inc.	Subsidiary of the Company
Lucky Bank	Subsidiary of the Company
Cathay Venture Capital Co., Ltd.	The investee is accounted for using the equity method
Lin Yuan Property Management Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Life Insurance Ltd. (Shanghai)	Subsidiaries' investee is accounted for using the equity method
Symphox Information Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Securities Investment Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Bank Life Insurance Agency of Association (merged with Seaward Insurance Agent Corp. on February 5, 2004, Cathay Bank Life Insurance Agency of Association was the surviving company)	Subsidiaries' investee is accounted for using the equity method
Cathay Futures Corp.	Subsidiaries' investee is accounted for using the equity method
Cathay General Hospital	Their chairman is the Company's chairman
Seaward Leasing Ltd.	Subsidiaries' investee is accounted for using the equity method
Seaward Card Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Indovina Bank	Subsidiaries' investee is accounted for using the equity method
Cathay Bank Property Agency of Association	Subsidiaries' investee is accounted for using the equity method
Cathay Pacific Partners Co.,Ltd.	Subsidiaries' investee is accounted for using the equity method
China England Co., Ltd.	Investee company of Seaward Leasing Ltd.
Pao Shin Securities	Subsidiaries' investee is accounted for using the equity method
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Cathay Charity Foundation	Cathay Life is the major sponsor of the foundation
Lin Yuan Investment Co.,Ltd.	Their chairman is a second immediate family member of the Company's chairman
Cathay Real Estate Development Co., Ltd.	Affiliate



(2) Significant transactions with related parties:

A. Cash in bank

As of and for the year ended December 31, 2004				
Name	Item	Ending balance(NT\$)	Rate	Interest income(NT\$)
Cathay United Bank (merged)	Time deposits	\$41,462	1.00%	\$5,824
	Cash in bank	5,767	0.10%	524
Total		\$47,229		\$6,348

As of and for the year ended December 31, 2004				
Name	Item	Ending balance(US\$)	Rate	Interest income(US\$)
Cathay United Bank (merged)	Time deposits	\$1,306	1.00%	\$183
	Cash in bank	182	0.10%	17
Total		\$1,488		\$200

As of and for the year ended December 31, 2005				
Name	Item	Ending balance(NT\$)	Rate	Interest income(NT\$)
Cathay United Bank (merged)	Time deposits	\$3,585,383	1.15%-4.375%	\$182,861
	Cash in bank	1,982	0.10%	67
Total		\$3,587,365		\$182,928

As of and for the year ended December 31, 2005				
Name	Item	Ending balance(US\$)	Rate	Interest income(US\$)
Cathay United Bank (merged)	Time deposits	\$109,311	1.15%-4.375%	\$5,575
	Cash in bank	60	0.10%	2
Total		\$109,371		\$5,577

B. Interest receivable

December 31,				
Name	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay United Bank (merged)	\$50	\$2	\$6,972	\$213

C. Other accounts receivable

Name	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay United Bank (merged)	\$508,186	\$16,011	\$2,245,837	\$68,471
Cathay Century	76,408	2,407	100,943	3,077
Cathay Capital Management Inc.	-	-	7,782	237
Cathay Securities	-	-	14,558	444
Total	\$584,594	\$18,418	\$2,369,120	\$72,229

D. Acquisition of property and equipment information:

December 31,					
Name	Item	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$-	\$-	\$1,850	\$56

E. Disposal of property and equipment information:

For the year ended December 31, 2004: None.

For the year ended December 31, 2005					
		Amount		Loss	
Name	Item	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$950	\$29	\$(473)	\$(14)

F. Other accounts payable

Name	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$409,990	\$12,917	\$2,171,620	\$66,208
Cathay United Bank (merged)	571,606	18,009	571,606	17,427
Cathay Pacific Venture Capital Co., Ltd.	5,906	186	665	20
Cathay II Venture Capital Co., Ltd.	-	-	3,072	94
Total	\$987,502	\$31,112	\$2,746,963	\$83,749

## G. Operating expense

Name	For the years ended December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
Cathay Life	\$8,718	\$275	\$10,138	\$309
Symphox Information Co., Ltd.	223	7	412	13
Seaward Leasing Ltd.	204	6	902	27
Seaward Card Co., Ltd.	853	27	382	12
Lucky Bank	-	-	1,900	58
<b>Total</b>	<b>\$9,998</b>	<b>\$315</b>	<b>\$13,734</b>	<b>\$419</b>

15.Pledged assets: None.

16.Other important matters and contingent liabilities: None.

17.Serious damages: None.

18.Subsequent events: None.

19. Other important events

(1) Pension related information

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

A. Pension fund status

	December 31,			
	2004(NT\$)	2004(US\$)	2005(NT\$)	2005(US\$)
a. Vested benefit obligation	\$(3,668)	\$(116)	\$(5,350)	\$(163)
b. Non-vested benefit obligation	(4,785)	(151)	(6,726)	(205)
c. Accumulated benefit obligation	(8,453)	(267)	(12,076)	(368)
d. Additions benefits based on future salaries	(4,548)	(143)	(6,095)	(186)
e. Projected benefit obligation	(13,001)	(410)	(18,171)	(554)
f. Fair value of plan assets	416	13	1,112	34
g. Funded status=e+f	(12,585)	(397)	(17,059)	(520)
h. Unrecognized pension gain and loss	10,108	319	7,931	242
i. Additional accrued pension liability	(5,560)	(175)	(1,837)	(56)
j. (Accrued pension liability)/prepaid pension cost=g+h+i	<b>\$(8,037)</b>	<b>\$(253)</b>	<b>\$(10,965)</b>	<b>\$(334)</b>
k. Vested benefit	<b>9,173</b>	<b>289</b>	<b>14,041</b>	<b>428</b>

B. Actuarial Assumptions

	For the years ended December 31,	
	2004	2005
a. Discount rate	3.0%	3.0%
b. Expected rate of increase in salaries	3.0%	3.0%
c. Expected long-term rate of return on plan assets	3.0%	3.0%

(2) Financial instruments related information

A. Derivative financial instruments related information:

a.Purpose

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

b.Credit and market risks

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

c.Cash flow and demand

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

d.Interest rate swaps (IRS)

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

(b)As of December 31, 2004:

Counterpart	Effective	Period	Contract amount	Contract value
Goldman Sachs International	2002.5.20	2002.5.20-2005.5.20	<b>USD700,000</b>	<b>USD700,000</b>

As of December 31, 2005: None.

e.Cross-currency swaps (CCS)

(a)For CCS contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. The interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, is recorded as revenue or expense on each settlement date.

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

(c)As of December 31, 2005:

Counterpart	Effective	Period	Contract amount	Contract value	Fair value
Goldman Sachs International	2005.3.3	2005.3.7-2010.3.7	<b>USD500,000</b>	<b>USD500,000</b>	<b>USD450,342</b>

f.Foreign currency options

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

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

As of December 31, 2005:

Counterpart	Effective	Period	Contract amount	Contract value	Fair value
Goldman Sachs International	2005.3.3	2005.3.7-2010.3.7	<b>USD500,000</b>	<b>USD500,000</b>	<b>USD514,800</b>



## B. Non-derivative financial instruments related information

Assets	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$20,472,483	\$20,472,483	\$645,006	\$645,006
Other receivable	584,594	584,594	18,418	18,418
Long-term investments in stocks	178,504,731	178,504,731	5,623,968	5,623,968
Deferred charges	66,627	66,627	2,099	2,099
<b>Liabilities</b>				
Other payable	987,900	987,900	31,125	31,125
Bonds payable	23,774,560	23,774,560	749,041	749,041

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

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

- Short-term financial instruments are stated at carrying amount on the balance sheet date. The carrying amounts of the accounts such as cash and cash equivalents, and receivables approximate their fair value because of the short maturities of these instruments.
- The market prices are used to determine the values of long-term investments in stocks if the market prices are available. Otherwise, carrying values or other financial information are used to estimate the fair values.
- The guarantee deposits paid are stated of the carrying amounts due to the fair values approximated to the carrying amounts.

## (3) Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd.

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The notes do not bear interest except in the limited circumstances.

Conversion rights:

Subject to certain conditions, each holder of the notes (the "Holder") has the right during the conversion period

to convert its notes (or any portion thereof being US\$1,000 dollars in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period.

Repurchase at the option of the holder:

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

Repurchase in the event of desisting:

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

Redemption at the option of the Company:

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

Tax redemption:

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

Redemption amount at maturity:



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

**Negative pledge:**

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

**Further issues:**

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

**Governing law:**

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

**Status quo:**

As of December 31, 2005, the Company has converted US\$336,303 convertible notes at conversion price of NT\$54.15 dollars (US\$1.65 dollars) or NT\$51.94 dollars (US\$1.58 dollars) per share, into 216,734 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$9,490,504 (US\$299,008), which are recognized as capital surplus. As of December 31, 2005 the Holder had exercised the repurchase right with US\$2,500 by par value, the Company had repurchased such Holder's notes at par value plus the redemption premium with US\$214.

**(4) Capital adequacy ratio on a consolidated basis**

As of December 31, 2004 and 2005 the consolidated capital adequacy ratios were 153.89% and 166.35%, respectively.

**(5) Material contract: None.**

**(6) Presentation of financial statements:**

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

**20. Information for investment in Mainland China:**

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

**21. Segment information: None.**





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

## (1) Concise balance sheets:

Items/Period	Cathay Life		Cathay United Bank	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	NT\$	NT\$	NT\$	NT\$
Current assets	\$571,371,303	\$655,206,150	\$371,856,922	\$364,114,078
Bills and loans-net	450,828,752	442,686,793	585,618,279	616,026,087
Funds and long-term investments	537,449,975	648,434,334	37,399,221	63,450,216
Fixed assets	14,924,869	14,134,371	24,794,199	24,743,550
Other assets	50,146,644	107,326,473	4,696,134	5,727,092
Current liabilities	8,191,707	9,980,160	893,869,496	960,672,183
Long-term liabilities	1,431,436	1,631,044	-	-
Other liabilities	1,524,526,580	1,758,584,852	50,135,101	35,460,765
Capital stocks	50,686,158	50,686,158	43,182,407	46,420,518
Capital surplus	12,591	13,153	13,463,074	13,464,276
Retained earnings	39,956,516	46,896,873	23,830,886	17,968,156
Equity adjustments	(83,445)	(4,119)	(116,209)	75,125
Total assets	\$1,624,721,543	\$1,867,788,121	\$1,024,364,755	\$1,074,061,023
Total liabilities	\$1,534,149,723	\$1,770,196,056	\$944,004,597	\$996,132,948
Total stockholders' equity	\$90,571,820	\$97,592,065	\$80,360,158	\$77,928,075

Items/Period	Lucky Bank		Pao Shin Securities	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	NT\$	NT\$	NT\$	NT\$
Current assets	\$23,114,986	\$32,110,553	\$176,138	\$169,378
Bills and loans-net	62,805,013	58,895,205	-	-
Funds and long-term investments	477,021	406,807	9,150	9,150
Fixed assets	2,077,376	1,691,124	100,337	59,687
Other assets	995,913	859,345	101,035	100,548
Current liabilities	84,971,458	90,037,348	13,287	6,291
Long-term liabilities	292,006	276,907	9,590	11,013
Other liabilities	3,471	3,675	40,149	40,686
Capital stocks	3,146,000	3,146,000	312,000	312,000
Capital surplus	463,482	463,482	-	-
Retained earnings	610,999	106,866	11,634	(31,227)
Equity adjustments	(17,107)	(71,244)	-	-
Total assets	\$89,470,309	\$93,963,034	\$386,660	\$338,763
Total liabilities	\$85,266,935	\$90,317,930	\$63,026	\$57,990
Total stockholders' equity	\$4,203,374	\$3,645,104	\$323,634	\$280,773

Items/Period	Cathay Century		Cathay Securities	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	NT\$	NT\$	NT\$	NT\$
Current assets	\$7,725,799	\$7,178,916	\$4,199,265	\$3,721,177
Bills and loans-net	788,350	1,321,212	-	-
Funds and long-term investments	2,579,776	3,572,477	18	18
Fixed assets	80,022	69,034	37,551	107,180
Other assets	485,382	550,967	243,472	306,041
Current liabilities	1,201,945	1,291,528	1,018,191	107,344
Long-term liabilities	9,209	6,869	1,810	2,586
Other liabilities	7,268,050	8,199,992	1,871	9,153
Capital stocks	2,317,006	2,317,006	3,500,000	3,700,000
Capital surplus	1,909	2,021	-	258,434
Retained earnings	861,358	875,348	(41,566)	56,899
Equity adjustments	(148)	(158)	-	-
Total assets	\$11,659,329	\$12,692,606	\$4,480,306	\$4,134,416
Total liabilities	\$8,479,204	\$9,498,389	\$1,021,872	\$119,083
Total stockholders' equity	\$3,180,125	\$3,194,217	\$3,458,434	\$4,015,333

Items/Period	Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	NT\$	NT\$	NT\$	NT\$
Current assets	\$1,402,266	\$1,680,284	\$3,033,242	\$1,756,393
Bills and loans-net	5,593,705	6,117,367	-	-
Funds and long-term investments	-	-	-	1,122,021
Fixed assets	38,210	85,013	23,719	26,731
Other assets	26,466	38,921	13,000	885,204
Current liabilities	5,951,177	6,661,394	16,655	21,039
Long-term liabilities	-	-	-	-
Other liabilities	115,515	184,889	-	697,235
Capital stocks	795,625	820,500	3,092,240	3,256,400
Capital surplus	106,857	131,578	-	-
Retained earnings	91,473	123,224	(38,934)	(184,325)
Equity adjustments	-	-	-	-
Total assets	\$7,060,647	\$7,921,585	\$3,069,961	\$3,790,349
Total liabilities	\$6,066,692	\$6,846,283	\$16,655	\$718,274
Total stockholders' equity	\$993,955	\$1,075,302	\$3,053,306	\$3,072,075





Items/Period	Cathay Life		Cathay United Bank	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	US\$	US\$	US\$	US\$
Current assets	\$18,001,616	\$19,975,797	\$11,715,719	\$11,101,039
Bills and loans-net	14,203,804	13,496,549	18,450,481	18,781,283
Funds and long-term investments	16,932,892	19,769,339	1,178,300	1,934,458
Fixed assets	470,222	430,926	781,166	754,377
Other assets	1,579,920	3,272,149	147,956	174,606
Current liabilities	258,088	304,273	28,162,240	29,288,786
Long-term liabilities	45,099	49,727	-	-
Other liabilities	48,031,713	53,615,392	1,579,556	1,081,121
Capital stocks	1,596,917	1,545,310	1,360,504	1,415,260
Capital surplus	397	401	424,168	410,496
Retained earnings	1,258,869	1,429,783	750,815	547,810
Equity adjustments	(2,629)	(126)	(3,661)	2,290
Total assets	\$51,188,454	\$56,944,760	\$32,273,622	\$32,745,763
Total liabilities	\$48,334,900	\$53,969,392	\$29,741,796	\$30,369,907
Total stockholders' equity	\$2,853,554	\$2,975,368	\$2,531,826	\$2,375,856

Items/Period	Lucky Bank		Pao Shin Securities	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	US\$	US\$	US\$	US\$
Current assets	\$728,260	\$978,980	\$5,550	\$5,164
Bills and loans-net	1,978,734	1,795,585	-	-
Funds and long-term investments	15,029	12,403	288	279
Fixed assets	65,450	51,559	3,161	1,820
Other assets	31,377	26,200	3,183	3,065
Current liabilities	2,677,110	2,745,041	419	192
Long-term liabilities	9,200	8,442	302	336
Other liabilities	109	112	1,265	1,240
Capital stocks	99,118	95,915	9,830	9,512
Capital surplus	14,602	14,131	-	-
Retained earnings	19,250	3,258	366	(952)
Equity adjustments	(539)	(2,172)	-	-
Total assets	\$2,818,850	\$2,864,727	\$12,182	\$10,328
Total liabilities	\$2,686,419	\$2,753,595	\$1,986	\$1,768
Total stockholders' equity	\$132,431	\$111,132	\$10,196	\$8,560

Items/Period	Cathay Century		Cathay Securities	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	US\$	US\$	US\$	US\$
Current assets	\$243,409	\$218,869	\$132,302	\$113,451
Bills and loans-net	24,838	40,281	-	-
Funds and long-term investments	81,278	108,917	1	1
Fixed assets	2,521	2,105	1,183	3,267
Other assets	15,293	16,798	7,670	9,330
Current liabilities	37,869	39,376	32,079	3,272
Long-term liabilities	290	209	57	79
Other liabilities	228,987	250,000	59	279
Capital stocks	73,000	70,640	110,271	112,805
Capital surplus	60	62	-	7,879
Retained earnings	27,138	26,688	(1,310)	1,735
Equity adjustments	(5)	(5)	-	-
Total assets	\$367,339	\$386,970	\$141,156	\$126,049
Total liabilities	\$267,146	\$289,585	\$32,195	\$3,630
Total stockholders' equity	\$100,193	\$97,385	\$108,961	\$122,419

Items/Period	Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005
	US\$	US\$	US\$	US\$
Current assets	\$44,062	\$51,197	\$95,565	\$53,548
Bills and loans-net	175,764	186,392	-	-
Funds and long-term investments	-	-	-	34,208
Fixed assets	1,201	2,590	747	815
Other assets	832	1,186	410	26,988
Current liabilities	186,997	202,968	525	641
Long-term liabilities	-	-	-	-
Other liabilities	3,630	5,633	-	21,257
Capital stocks	25,000	25,000	97,424	99,281
Capital surplus	3,358	4,009	-	-
Retained earnings	2,874	3,755	(1,227)	(5,620)
Equity adjustments	-	-	-	-
Total assets	\$221,859	\$241,365	\$96,722	\$115,559
Total liabilities	\$190,627	\$208,601	\$525	\$21,898
Total stockholders' equity	\$31,232	\$32,764	\$96,197	\$93,661



## (2) Concise income statement:

Items/Period	Cathay Life		Cathay United Bank	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	NT\$	NT\$	NT\$	NT\$
Operating revenues	\$528,792,877	\$554,243,919	\$41,851,027	\$48,885,722
Operating costs & expenses	(512,880,225)	(539,357,918)	(25,322,607)	(43,437,703)
Operating income	15,912,652	14,886,001	16,528,420	5,448,019
Non-operating revenues	2,106,927	2,297,854	1,287,486	151,693
Non-operating expenses	(2,757,105)	(478,601)	(147,659)	(486,969)
Operating income before taxes	15,262,474	16,705,254	17,668,247	5,112,743
Net income (loss)	15,618,806	17,922,656	13,879,247	3,852,743
Earning per share before taxes (in dollars)	\$3.02	\$3.30	\$3.81	\$1.10
Earning per share (in dollars)	\$3.09	\$3.54	\$2.99	\$0.83

Items/Period	Lucky Bank		Pao Shin Securities	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	NT\$	NT\$	NT\$	NT\$
Operating revenues	\$2,275,011	\$2,124,037	\$38,773	\$26,131
Operating costs & expenses	(1,849,323)	(1,943,351)	(69,741)	(56,144)
Operating income	425,688	180,686	(30,968)	(30,013)
Non-operating revenues	16,799	24,240	33,102	23,618
Non-operating expenses	(7,131)	(367,579)	-	(36,438)
Operating income before taxes	435,356	(162,653)	2,134	(42,833)
Net income (loss)	481,809	(166,788)	2,134	(42,861)
Earning per share before taxes (in dollars)	\$1.38	\$(0.52)	\$0.07	\$(1.37)
Earning per share (in dollars)	\$1.53	\$(0.53)	\$0.07	\$(1.37)

Items/Period	Cathay Century		Cathay Securities	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	2004.5.12-12.31	For the year ended Dec. 31, 2005
	NT\$	NT\$	NT\$	NT\$
Operating revenues	\$13,892,595	\$17,229,348	\$60,335	\$352,533
Operating costs & expenses	(13,083,064)	(16,429,956)	(125,627)	(307,529)
Operating income	809,531	799,392	(65,292)	45,004
Non-operating revenues	37,466	16,035	16,186	43,006
Non-operating expenses	(27,414)	(64,106)	(107)	(2,229)
Operating income before taxes	819,583	751,321	(49,213)	85,781
Net income (loss)	640,617	590,545	(41,566)	56,899
Earning per share before taxes (in dollars)	\$3.54	\$3.24	\$(0.14)	\$0.24
Earning per share (in dollars)	\$2.76	\$2.55	\$(0.12)	\$0.16

Items/Period	Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	NT\$	NT\$	NT\$	NT\$
Operating revenues	\$481,149	\$572,597	\$748	\$792,351
Operating costs & expenses	(333,086)	(398,036)	(39,612)	(920,990)
Operating income	148,063	174,561	(38,864)	(128,639)
Non-operating revenues	3,575	10,938	-	6,983
Non-operating expenses	(1,624)	(3,417)	(29)	(16,619)
Operating income before taxes	150,014	182,082	(38,893)	(138,275)
Net income (loss)	118,483	145,917	(38,893)	(138,275)
Earning per share before taxes (in dollars)	\$-	\$-	\$-	\$-
Earning per share (in dollars)	\$-	\$-	\$-	\$-



Items/Period	Cathay Life		Cathay United Bank	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	US\$	US\$	US\$	US\$
Operating revenues	\$16,660,141	\$16,897,681	\$1,318,558	\$1,490,418
Operating costs & expenses	(16,158,797)	(16,443,839)	(797,814)	(1,324,320)
Operating income	501,344	453,842	520,744	166,098
Non-operating revenues	66,381	70,056	40,563	4,625
Non-operating expenses	(86,866)	(14,592)	(4,652)	(14,847)
Operating income before taxes	480,859	509,306	556,655	155,876
Net income (loss)	492,086	546,422	437,279	117,462
Earning per share before taxes (in dollars)	\$0.10	\$0.10	\$0.12	\$0.03
Earning per share (in dollars)	\$0.10	\$0.11	\$0.09	\$0.03

Items/Period	Lucky Bank		Pao Shin Securities	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	US\$	US\$	US\$	US\$
Operating revenues	\$71,677	\$64,757	\$1,221	\$797
Operating costs & expenses	(58,265)	(59,248)	(2,197)	(1,712)
Operating income	13,412	5,509	(976)	(915)
Non-operating revenues	529	739	1,043	720
Non-operating expenses	(225)	(11,207)	-	(1,111)
Operating income before taxes	13,716	(4,959)	67	(1,306)
Net income (loss)	15,180	(5,085)	67	(1,307)
Earning per share before taxes (in dollars)	\$0.04	\$(0.02)	\$-	\$(0.04)
Earning per share (in dollars)	\$0.05	\$(0.02)	\$-	\$(0.04)

Items/Period	Cathay Century		Cathay Securities	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	2004.5.12-12.31	For the year ended Dec. 31, 2005
	US\$	US\$	US\$	US\$
Operating revenues	\$437,700	\$525,285	\$1,901	\$10,748
Operating costs & expenses	(412,195)	(500,913)	(3,958)	(9,375)
Operating income	25,505	24,372	(2,057)	1,373
Non-operating revenues	1,180	489	510	1,311
Non-operating expenses	(864)	(1,954)	(3)	(68)
Operating income before taxes	25,821	22,907	(1,550)	2,616
Net income (loss)	20,183	18,005	(1,310)	1,735
Earning per share before taxes (in dollars)	\$0.11	\$0.10	\$-	\$0.01
Earning per share (in dollars)	\$0.09	\$0.08	\$-	\$-

Items/Period	Indovina Bank		Cathay Life Insurance Ltd. (Shanghai)	
	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004	For the year ended Dec. 31, 2005
	US\$	US\$	US\$	US\$
Operating revenues	\$14,409	\$17,783	\$24	\$24,157
Operating costs & expenses	(9,975)	(12,362)	(1,248)	(28,079)
Operating income	4,434	5,421	(1,224)	(3,922)
Non-operating revenues	107	340	-	213
Non-operating expenses	(48)	(106)	(1)	(507)
Operating income before taxes	4,493	5,655	(1,225)	(4,216)
Net income (loss)	3,548	4,532	(1,225)	(4,216)
Earning per share before taxes (in dollars)	\$-	\$-	\$-	\$-
Earning per share (in dollars)	\$-	\$-	\$-	\$-

# Cathay Financial Holdings 2005 Annual Report

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## English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**
**Balance sheets**

 As of December 31, 2004 and 2005  
 (Expressed in thousands of dollars)

Assets	2004		2005	
	NT \$	US \$	NT \$	US \$
<b>Current assets</b>				
Cash and cash equivalents	\$219,409,605	\$6,912,716	\$254,335,271	\$7,754,124
Short-term investments	308,494,073	9,719,410	362,010,783	11,036,914
Notes receivable	12,360,660	389,435	14,014,632	427,275
Interest receivable	8,778,274	276,568	8,647,124	263,632
Other accounts receivable	22,304,818	702,735	10,099,381	307,908
Other financial assets-current	-	-	6,000,000	182,927
Prepayments	23,873	752	49,792	1,518
Disposal long-term investments in stocks	-	-	49,167	1,499
Subtotal	571,371,303	18,001,616	655,206,150	19,975,797
<b>Exchange bills negotiated, discounted and loans</b>				
Policy loans	169,330,068	5,334,911	166,494,190	5,076,042
Short-term secured loans	100,430	3,164	392,840	11,977
Medium-term secured loans	9,127,958	287,585	11,809,829	360,056
Long-term secured loans	272,270,296	8,578,144	263,989,934	8,048,474
Subtotal	450,828,752	14,203,804	442,686,793	13,496,549
<b>Funds, long-term investments, and receivable</b>				
Long-term investments in stocks				
Under the equity method	3,602,793	113,510	3,883,938	118,413
Under the cost method	10,639,592	335,211	20,045,384	611,140
Long-term investments in bonds	421,757,853	13,287,897	522,925,762	15,942,858
Investments in real estate	101,449,737	3,196,274	101,776,202	3,102,933
Less: Accumulated impairment-long-term investment	-	-	(196,952)	(6,005)
Subtotal	537,449,975	16,932,892	648,434,334	19,769,339
<b>Property and equipment</b>				
Land	5,018,358	158,108	4,865,420	148,336
Buildings and construction	11,142,721	351,063	10,584,805	322,708
Communication and transportation equipment	85,457	2,693	53,476	1,630
Other equipment	4,467,766	140,761	4,771,903	145,485
Subtotal	20,714,302	652,625	20,275,604	618,159
Less: Accumulated depreciation	(6,052,476)	(190,690)	(6,237,612)	(190,171)
Less: Accumulated impairment-property and equipment	-	-	(85,519)	(2,607)
Construction in progress and prepayment for equipment	194,122	6,116	3,690	112
Subtotal	14,855,948	468,051	13,956,163	425,493
<b>Intangible assets</b>				
Computer software cost	68,921	2,171	178,208	5,433
Subtotal	68,921	2,171	178,208	5,433
<b>Other assets</b>				
Guarantee deposits paid	1,221,763	38,493	1,653,494	50,412
Overdue receivables	1,973,413	62,175	484,204	14,762
Temporary payments and suspense accounts	1,061,317	33,438	1,451,193	44,244
Securities serving as deposits paid-bonds	8,090,599	254,902	8,047,275	245,344
Other assets-other	42,957	1,354	-	-
Deferred income tax assets	356,927	11,245	460,119	14,028
Investment-linked products assets	37,399,668	1,178,313	95,230,188	2,903,359
Subtotal	50,146,644	1,579,920	107,326,473	3,272,149
<b>Total assets</b>	<b>\$1,624,721,543</b>	<b>\$51,188,454</b>	<b>\$1,867,788,121</b>	<b>\$56,944,760</b>

Liabilities & stockholders' equity	2004		2005	
	NT \$	US \$	NT \$	US \$
<b>Current liabilities</b>				
Notes payable	\$1,949	\$61	\$1,651	\$50
Collections for others	146,704	4,622	164,312	5,010
Accrued expenses	3,503,500	110,381	3,571,403	108,884
Taxes payable	354,950	11,183	270,115	8,235
Commissions payable	1,093,224	34,443	1,387,540	42,303
Dividends payable	93,565	2,948	29,975	914
Life insurance proceeds payable	2,042	64	4,010	122
Other payable	2,397,171	75,526	3,639,225	110,952
Deferred income tax liabilities- current	442,800	13,951	396,408	12,086
Accounts collected in advance	155,802	4,909	515,521	15,717
Subtotal	8,191,707	258,088	9,980,160	304,273
<b>Long-term liabilities</b>				
Reserve for land revaluation increment tax	3,726	117	3,726	114
Accrued pension liability	1,427,710	44,982	1,627,318	49,613
Subtotal	1,431,436	45,099	1,631,044	49,727
<b>Other liabilities</b>				
Reserve for operations and liabilities				
Unearned premium reserve	9,486,598	298,885	10,208,331	311,230
Reserve for life insurance	1,456,702,273	45,894,841	1,622,301,856	49,460,422
Special reserve	16,732,119	527,162	17,444,286	531,838
Claims reserve	348,034	10,965	433,636	13,221
<b>Miscellaneous liabilities</b>				
Guarantee deposits received	1,647,431	51,904	1,643,683	50,112
Temporary receipts and suspense accounts	2,210,457	69,643	9,548,953	291,127
Deferred income	-	-	1,773,919	54,083
Investment-linked products liabilities	37,399,668	1,178,313	95,230,188	2,903,359
Subtotal	1,524,526,580	48,031,713	1,758,584,852	53,615,392
<b>Total liabilities</b>	<b>1,534,149,723</b>	<b>48,334,900</b>	<b>1,770,196,056</b>	<b>53,969,392</b>
<b>Stockholders' equity</b>				
<b>Stockholders' Equity</b>				
Capital stock				
Common stock	50,686,158	1,596,917	50,686,158	1,545,310
Capital surplus	12,591	397	13,153	401
Retained earnings				
Legal reserve	16,330,948	514,523	17,891,897	545,485
Special reserve	8,016,080	252,554	11,082,320	337,876
Unappropriated retained earnings	15,609,488	491,792	17,922,656	546,422
Equity adjustment				
Cumulative conversion adjustments	(83,445)	(2,629)	(4,119)	(126)
<b>Total stockholders' equity</b>	<b>90,571,820</b>	<b>2,853,554</b>	<b>97,592,065</b>	<b>2,975,368</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,624,721,543</b>	<b>\$51,188,454</b>	<b>\$1,867,788,121</b>	<b>\$56,944,760</b>

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

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



## English Translation of Financial Statements Originally Issued in Chinese

## Cathay Life Insurance Co., Ltd.

## Statements of income

For the years ended December 31, 2004 and 2005

(Expressed in thousands of dollars, except earnings per share)

Item	2004		2005	
	NT \$	US \$	NT \$	US \$
Operating revenues				
Premiums income	\$281,951,493	\$8,883,160	\$276,009,738	\$8,414,931
Reinsurance commission earned	121,490	3,827	199,294	6,076
Claims recovered from reinsures	214,363	6,754	219,645	6,696
Recovered premiums reserve	141,776,609	4,466,812	115,895,616	3,533,403
Recovered special reserve	346,167	10,906	727,229	22,172
Recovered claims reserve	329,851	10,392	348,034	10,611
Handling fees earned	805,495	25,378	2,085,722	63,589
Interest income	51,887,670	1,634,772	54,498,858	1,661,551
Gain on disposal of investments	19,378,500	610,539	20,465,421	623,946
Gain on long-term equity investments	78,674	2,479	105,093	3,204
Gain on investments-real estate	4,718,312	148,655	12,321,415	375,653
Investment-linked products revenues	27,184,253	856,467	71,367,854	2,175,849
Subtotal	528,792,877	16,660,141	554,243,919	16,897,681
Operating costs				
Insurance expenses	(563,924)	(17,767)	(631,500)	(19,253)
Brokerage expenses	(24,333,563)	(766,653)	(25,930,484)	(790,564)
Commissions expenses	(651,145)	(20,515)	(444,974)	(13,566)
Insurance claims payment	(161,667,595)	(5,093,497)	(136,960,890)	(4,175,637)
Provision for premiums reserve	(278,436,263)	(8,772,409)	(282,216,932)	(8,604,175)
Provision for special reserve	(3,698,295)	(116,518)	(1,439,396)	(43,884)
Contribution to the stabilization funds	(281,656)	(8,874)	(275,791)	(8,408)
Provision for claims reserve	(348,034)	(10,965)	(433,636)	(13,221)
Handling fees paid	(662,641)	(20,877)	(752,178)	(22,932)
Interest expenses	(51,052)	(1,608)	(41,189)	(1,256)
Other operating cost	(4,248,985)	(133,869)	(8,666,714)	(264,229)
Investment-linked products expenses	(27,184,253)	(856,467)	(71,367,854)	(2,175,849)
Subtotal	(502,127,406)	(15,820,019)	(529,161,538)	(16,132,974)
Operating gross profit	26,665,471	840,122	25,082,381	764,707
Operating expenses				
Marketing expenses	(2,759,805)	(86,950)	(2,484,679)	(75,752)
Administrative and general expenses	(7,993,014)	(251,828)	(7,711,701)	(235,113)
Operating income	15,912,652	501,344	14,886,001	453,842
Non-operating revenues & gains				
Gains on disposal of property and equipment	4,041	127	10,131	309
Miscellaneous income	2,102,886	66,254	2,287,723	69,747
Subtotal	2,106,927	66,381	2,297,854	70,056
Non-operating expenses & losses				
Losses on foreign exchange	(2,749,797)	(86,635)	(188,504)	(5,747)
Losses on disposal of property and equipment	(1,298)	(41)	(2,150)	(66)
Impairment loss	-	-	(282,471)	(8,612)
Miscellaneous expenses	(6,010)	(190)	(5,476)	(167)
Subtotal	(2,757,105)	(86,866)	(478,601)	(14,592)
Income from continuing operations before income taxes	15,262,474	480,859	16,705,254	509,306
Income taxes benefit	356,332	11,227	1,217,402	37,116
Net income	\$15,618,806	\$492,086	\$17,922,656	\$546,422
Earnings per share (In dollars)				
Income before income tax	\$3.02	\$0.10	\$3.30	\$0.10
Net income	\$3.09	\$0.10	\$3.54	\$0.11

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

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





English Translation of Financial Statements Originally Issued in Chinese  
Cathay Century Insurance Co., Ltd.  
Balance sheets

As of December 31, 2004 and 2005  
(Expressed in thousands of dollars)

Assets	December 31, 2004		December 31, 2005	
	NT \$	US \$	NT \$	US \$
<b>Current assets</b>				
Cash and cash equivalents	\$3,783,245	\$119,195	\$2,547,642	\$77,672
Short-term investments	2,448,376	77,139	2,865,999	87,378
Notes receivable	140,884	4,439	196,685	5,996
Interests receivable	20,563	648	21,569	658
Premiums receivable	938,056	29,554	1,177,114	35,888
Claims recoverable from reinsurers	252,969	7,970	215,775	6,578
Due from reinsurers and ceding companies	18,266	575	80,499	2,454
Other accounts receivable	80,851	2,547	32,675	996
Deferred income tax assets - current	39,773	1,253	37,988	1,158
Prepayments	2,816	89	2,970	91
Subtotal	7,725,799	243,409	7,178,916	218,869
<b>Exchange bills negotiated, discounted and loans</b>				
Short-term secured loans	-	-	29,210	891
Medium-term secured loans	397,909	12,537	827,973	25,243
Long-term secured loans	390,441	12,301	464,029	14,147
Subtotal	788,350	24,838	1,321,212	40,281
<b>Funds, long-term investments and receivable</b>				
Long-term investments in stocks				
Under the equity method	218,439	6,882	382,522	11,662
Under the cost method	83,796	2,640	36,000	1,098
Long-term investments in bonds	2,277,541	71,756	3,153,955	96,157
Subtotal	2,579,776	81,278	3,572,477	108,917
<b>Property and equipment</b>				
Communication and transportation equipment	20,960	660	15,743	480
Other equipment	170,616	5,375	180,783	5,512
Subtotal	191,576	6,036	196,526	5,992
Less: Accumulated depreciation	(129,094)	(4,067)	(144,696)	(4,411)
Prepayments for equipment	2,520	79	3,853	117
Subtotal	65,002	2,048	55,683	1,698
<b>Intangible assets</b>				
Computer software cost	15,020	473	13,351	407
Subtotal	15,020	473	13,351	407
<b>Other assets</b>				
Guarantee deposits paid	17,891	564	36,662	1,118
Overdue receivables	94,206	2,968	140,659	4,288
Temporary payments and suspense accounts	7,038	222	14,123	431
Securities serving as deposits paid-bonds	359,937	11,340	356,051	10,855
Funds held by ceding companies	8	-	8	-
Deferred pension cost	6,302	199	3,464	106
Subtotal	485,382	15,293	550,967	16,798
<b>Total assets</b>	<b>\$11,659,329</b>	<b>\$367,339</b>	<b>\$12,692,606</b>	<b>\$386,970</b>

Liabilities & stockholders' equity	December 31, 2004		December 31, 2005	
	NT \$	US \$	NT \$	US \$
<b>Current liabilities</b>				
Collections for others	\$6,158	\$194	\$6,885	\$210
Accrued expenses	268,910	8,472	258,239	7,873
Commissions payable	1,836	58	7,273	222
Dividends payable	7,888	249	4,580	140
Claims outstanding	632	20	628	19
Due to reinsurers and ceding companies	237,938	7,497	224,011	6,829
Other payables	678,583	21,379	789,912	24,083
Subtotal	1,201,945	37,869	1,291,528	39,376
<b>Long-term liabilities</b>				
Accrued pension liabilities	9,209	290	6,869	209
Subtotal	9,209	290	6,869	209
<b>Other liabilities</b>				
Unearned premiums reserve	4,031,204	127,007	4,449,253	135,648
Special reserve	2,570,454	80,985	2,747,793	83,774
Claims reserve	634,173	19,980	927,006	28,262
Temporary receipts and suspense accounts	32,035	1,009	75,756	2,310
Funds held for reinsurers	184	6	184	6
Subtotal	7,268,050	228,987	8,199,992	250,000
<b>Total liabilities</b>	<b>8,479,204</b>	<b>267,146</b>	<b>9,498,389</b>	<b>289,585</b>
<b>Stockholders' equity</b>				
Capital stock				
Common stock	2,317,006	73,000	2,317,006	70,640
Capital surplus	1,909	60	2,021	62
Retained earnings				
Legal reserve	220,741	6,955	284,803	8,683
Unappropriated retained earnings	640,617	20,183	590,545	18,005
Equity adjustment				
Cumulative conversion adjustments	(148)	(5)	(158)	(5)
Total stockholders' equity	3,180,125	100,193	3,194,217	97,385
<b>Total liabilities and stockholders' equity</b>	<b>\$11,659,329</b>	<b>\$367,339</b>	<b>\$12,692,606</b>	<b>\$386,970</b>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)  
The accompanying notes are an integral part of these financial statements.



English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.  
Statements of incomeFor the years ended December 31, 2004 and 2005  
(Expressed in thousands of dollars, except earning per share)

Items	2004		2005	
	NT \$	US \$	NT \$	US \$
Operating revenues				
Premiums income	\$8,307,758	\$261,744	\$8,912,225	\$271,714
Reinsurance commission earned	347,864	10,960	401,410	12,238
Claims recovered from reinsurers	1,154,698	36,380	3,182,845	97,038
Recovered unearned premiums reserve	3,601,016	113,453	4,031,204	122,903
Recovered special claim reserve	87,057	2,743	345,774	10,542
Recovered claims reserve	44,553	1,404	51,941	1,583
Handling fee earned	53	2	52	2
Interest income	224,779	7,082	263,419	8,031
Gain on trading bills and securities	124,817	3,932	27,497	838
Gain on long-term equity investment	-	-	12,981	396
Subtotal	13,892,595	437,700	17,229,348	525,285
Operating costs				
Reinsurance premiums ceded	(3,035,237)	(95,628)	(2,988,545)	(91,114)
Commissions expenses	(140,224)	(4,418)	(172,254)	(5,252)
Insurance claims payment	(3,623,241)	(114,154)	(6,281,481)	(191,508)
Provision for unearned premiums reserve	(4,031,204)	(127,007)	(4,449,253)	(135,648)
Provision for special claim reserve	(394,744)	(12,437)	(523,113)	(15,949)
Contribution to the stabilization funds	(15,543)	(489)	(16,654)	(508)
Provision for claims reserve	(51,941)	(1,636)	(60,170)	(1,834)
Handling fee paid	(216,977)	(6,836)	(215,979)	(6,585)
Interest expenses	(93)	(3)	-	-
Loss on long-term equity investment	(16,495)	(520)	-	-
Agent expenses	(4,087)	(129)	(2,704)	(82)
Subtotal	(11,529,786)	(363,257)	(14,710,153)	(448,480)
Operating gross profit	2,362,809	74,443	2,519,195	76,805
Operating expenses				
Marketing expenses	(1,291,930)	(40,704)	(1,464,132)	(44,638)
Administrative and general expenses	(261,348)	(8,234)	(255,671)	(7,795)
Operating income	809,531	25,505	799,392	24,372
Non-operating revenues				
Gain on foreign exchange	1,502	47	3,933	120
Gain on disposal of property and equipment	361	11	905	28
Miscellaneous income	35,603	1,122	11,197	341
Subtotal	37,466	1,180	16,035	489
Non-operating expenses				
Loss on foreign exchange	(27,396)	(863)	(64,083)	(1,954)
Loss on disposal of property and equipment	(18)	(1)	(5)	-
Miscellaneous expenses	-	-	(18)	-
Subtotal	(27,414)	(864)	(64,106)	(1,954)
Income from continuing operations before income taxes	819,583	25,821	751,321	22,907
Income taxes	(178,966)	(5,638)	(160,776)	(4,902)
Net income	\$640,617	\$20,183	\$590,545	\$18,005
Earning per share (In dollars)				
Income before income taxes	\$3.54	\$0.11	\$3.24	\$0.10
Net income	\$2.76	\$0.09	\$2.55	\$0.08

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

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



English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank**  
**Balance sheets**

December 31, 2004 and 2005  
(Expressed in thousands of dollars)

Assets	December 31, 2004		December 31, 2005	
	NT	US(Note II)	NT	US(Note II)
Cash and cash equivalents	\$17,860,193	\$562,703	\$29,450,099	\$897,869
Due from the Central Bank and call loans to banks	55,597,382	1,751,650	49,970,575	1,523,493
Securities purchased, net	240,083,384	7,564,064	217,952,751	6,644,901
Receivables, net	56,933,442	1,793,744	65,418,677	1,994,472
Prepayments	1,382,521	43,558	1,321,976	40,304
Bills and loans, net	585,618,279	18,450,481	616,026,087	18,781,283
Long-term investments				
Equity method	5,123,460	161,420	5,115,939	155,974
Cost method	5,365,686	169,051	4,865,864	148,349
Others	26,910,075	847,829	53,468,413	1,630,135
Premises and equipment				
Cost:				
Land	14,004,736	441,233	14,007,206	427,049
Buildings	9,130,407	287,663	9,167,742	279,504
Furniture and fixtures	3,662,697	115,397	3,453,194	105,280
Transportation equipment	79,700	2,511	66,149	2,017
Miscellaneous equipment	4,071,163	128,266	4,473,552	136,389
Total Cost	30,948,703	975,070	31,167,843	950,239
Less: Accumulated depreciation	(6,751,064)	(212,699)	(7,138,232)	(217,629)
Construction in progress and procurement	596,560	18,795	791,605	24,135
Less: Allowance for asset impairment	-	-	(77,666)	(2,368)
Premises and equipment, net	24,794,199	781,166	24,743,550	754,377
Other assets	4,696,134	147,956	5,727,092	174,606
<b>TOTAL ASSETS</b>	<b>\$1,024,364,755</b>	<b>\$32,273,622</b>	<b>\$1,074,061,023</b>	<b>\$32,745,763</b>
<b>Liabilities &amp; stockholders' equity</b>				
Due to the Central Bank and call loans from banks	\$80,179,515	\$2,526,135	\$70,825,308	\$2,159,308
Payables	17,251,133	543,514	25,014,534	762,638
Advances	1,185,596	37,353	1,202,129	36,650
Deposits and remittances	745,288,566	23,481,051	794,041,906	24,208,595
Financial debentures payable	48,550,000	1,529,616	68,456,296	2,087,082
Banker's acceptances and funds borrowed	1,414,686	44,571	1,132,010	34,513
Other liabilities	50,135,101	1,579,556	35,460,765	1,081,121
<b>TOTAL LIABILITIES</b>	<b>944,004,597</b>	<b>29,741,796</b>	<b>996,132,948</b>	<b>30,369,907</b>
Capital stock	43,182,407	1,360,504	46,420,518	1,415,260
Capital reserves				
Additional paid-in capital	13,449,023	423,725	13,449,023	410,031
Others	14,051	443	15,253	465
Retained earnings				
Legal reserve	9,951,639	313,536	14,115,413	430,348
Unappropriated earnings	13,879,247	437,279	3,852,743	117,462
Unrealized losses on long-term investments	(104,653)	(3,297)	(10,307)	(314)
Foreign currency translation adjustment	(11,556)	(364)	85,432	2,604
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>80,360,158</b>	<b>2,531,826</b>	<b>77,928,075</b>	<b>2,375,856</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,024,364,755</b>	<b>\$32,273,622</b>	<b>\$1,074,061,023</b>	<b>\$32,745,763</b>

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank**  
**Statements of income**

For the years ended December 31, 2004 and 2005  
(Expressed in thousands of dollars, except per share amounts)

Items	2004		2005	
	NT	US(Note II)	NT	US(Note II)
<b>OPERATING REVENUES:</b>				
Interest income	\$31,990,552	\$1,007,894	\$39,491,864	\$1,204,020
Commission and handling fees	6,910,192	217,712	6,834,740	208,376
Gain on sales of securities, net	515,548	16,243	914,499	27,881
Investment income, net	694,072	21,867	101,481	3,094
Foreign currency exchange gain, net	316,177	9,962	363,503	11,082
Other operating income	1,424,486	44,880	1,179,635	35,965
<b>Total operating revenues</b>	<b>41,851,027</b>	<b>1,318,558</b>	<b>48,885,722</b>	<b>1,490,418</b>
<b>OPERATING EXPENSES:</b>				
Interest expense	(8,295,883)	(261,370)	(12,912,355)	(393,669)
Commissions and handling charges	(1,003,986)	(31,632)	(1,378,413)	(42,025)
Provisions for possible losses	(2,555,113)	(80,501)	(14,974,833)	(456,550)
Selling, general and administrative expense	(12,503,201)	(393,926)	(13,364,079)	(407,441)
Other operating expense	(964,424)	(30,385)	(808,023)	(24,635)
<b>Total operating expenses</b>	<b>(25,322,607)</b>	<b>(797,814)</b>	<b>(43,437,703)</b>	<b>(1,324,320)</b>
<b>NET OPERATING INCOME</b>	<b>16,528,420</b>	<b>520,744</b>	<b>5,448,019</b>	<b>166,098</b>
<b>NON-OPERATING INCOME</b>				
Gain on disposal of premises and equipment	1,168,129	36,803	55,325	1,687
Others	119,357	3,760	96,368	2,938
<b>Total non-operating income</b>	<b>1,287,486</b>	<b>40,563</b>	<b>151,693</b>	<b>4,625</b>
<b>NON-OPERATING EXPENSES</b>				
Loss on disposal of premises and equipment	(41,233)	(1,299)	(56,106)	(1,711)
Impairment loss of assets	-	-	(422,926)	(12,894)
Others	(106,426)	(3,353)	(7,937)	(242)
<b>Total non-operating loss</b>	<b>(147,659)</b>	<b>(4,652)</b>	<b>(486,969)</b>	<b>(14,847)</b>
<b>INCOME BEFORE INCOME TAXES FROM CONTINUING OPERATIONS</b>	<b>17,668,247</b>	<b>556,655</b>	<b>5,112,743</b>	<b>155,876</b>
<b>INCOME TAX EXPENSES</b>	<b>(3,789,000)</b>	<b>(119,376)</b>	<b>(1,260,000)</b>	<b>(38,414)</b>
<b>NET INCOME</b>	<b>\$13,879,247</b>	<b>\$437,279</b>	<b>\$3,852,743</b>	<b>\$117,462</b>
<b>EARNINGS PER SHARE (IN DOLLARS)</b>				
<b>INCOME BEFORE INCOME TAXES FROM CONTINUING OPERATIONS</b>	<b>\$3.81</b>	<b>\$0.120</b>	<b>\$1.10</b>	<b>\$0.033</b>
<b>INCOME TAX EXPENSES</b>	<b>(0.82)</b>	<b>(0.026)</b>	<b>(0.27)</b>	<b>(0.008)</b>
<b>NET INCOME</b>	<b>\$2.99</b>	<b>\$0.094</b>	<b>\$0.83</b>	<b>\$0.025</b>

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



## English Translation of Financial Statements Originally Issued in Chinese

Lucky Bank, Inc.  
Balance sheetsDecember 31, 2004 and 2005  
(Expressed in thousands of dollars)

Assets	December 31, 2004		December 31, 2005	
	NT\$	US\$(Note II)	NT\$	US\$(Note II)
Cash and cash equivalents	\$2,864,314	\$90,243	\$4,668,723	\$142,339
Due from Central Bank and call loans to banks	2,403,663	75,730	2,447,504	74,619
Securities purchased-net	17,566,401	553,447	24,727,306	753,881
Receivables-net	254,090	8,005	231,503	7,058
Prepayments	26,518	835	35,517	1,083
Bills and loans-net	62,805,013	1,978,734	58,895,205	1,795,585
Long-term investments				
Equity method	122,523	3,860	106,446	3,245
Cost method	204,768	6,452	150,631	4,593
Others	149,730	4,717	149,730	4,565
Premises and equipment				
Cost				
Land	794,867	25,043	794,867	24,234
Building	850,823	26,806	850,823	25,940
Furniture and fixtures	154,889	4,880	159,041	4,849
Transportation equipment	15,617	492	11,561	352
Miscellaneous equipment	467,728	14,736	467,232	4,245
Total Cost	2,283,924	71,957	2,283,524	69,620
Less:Accumulated depreciation	(530,046)	(16,699)	(559,796)	(17,067)
Less:Allowance for asset impairment	-	-	(32,604)	(994)
Premises and Equipment-net	1,753,878	55,258	1,691,124	51,559
Intangible assests	323,498	10,192	-	-
Other assets	995,913	31,377	859,345	26,200
<b>TOTAL ASSETS</b>	<b>\$89,470,309</b>	<b>\$2,818,850</b>	<b>\$93,963,034</b>	<b>\$2,864,727</b>
<b>Liabilities and shareholders'equity</b>				
Due to commercial banks	\$235,764	\$7,428	\$567,183	\$17,292
Payables	688,514	21,692	1,636,814	49,903
Advances	6,273	198	3,886	118
Deposits and remittances	84,040,907	2,647,792	87,829,465	2,677,728
Accrued pension liability	292,006	9,200	276,907	8,442
Guarantee deposits and margins received	3,471	109	3,675	112
<b>TOTAL LIABILITIES</b>	<b>85,266,935</b>	<b>2,686,419</b>	<b>90,317,930</b>	<b>2,753,595</b>
Capital stock	3,146,000	99,118	3,146,000	95,915
Capital reserves				
Additional paid-in capital	463,482	14,602	463,482	14,131
Retained earnings				
Legal reserve	123,628	3,895	268,171	8,176
Unappropriated earnings (Accumulated deficits)	487,371	15,355	(161,305)	(4,918)
Unrealized losses on long-term investments	(17,107)	(539)	(71,244)	(2,172)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>4,203,374</b>	<b>132,431</b>	<b>3,645,104</b>	<b>111,132</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$89,470,309</b>	<b>\$2,818,850</b>	<b>\$93,963,034</b>	<b>\$2,864,727</b>

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

## English Translation of Financial Statements Originally Issued in Chinese

Lucky Bank, Inc.  
Statements of incomeFor the years ended December 31, 2004 and 2005  
(Expressed in thousands of dollars, except per share amounts)

Items	2004		2005	
	NT\$	US\$(Note II)	NT\$	US\$(Note II)
<b>OPERATING INCOME:</b>				
Interest revenue	\$1,999,002	\$62,981	\$2,047,724	\$62,431
Commission and handling fees	45,000	1,418	44,309	1,351
Gains on sales of securities-net	-	-	11,167	340
Investment income-net	6,334	200	4,768	145
Profit on exchange-net	421	13	813	25
Other operating income	224,254	7,065	15,256	465
<b>Total operating income</b>	<b>2,275,011</b>	<b>71,677</b>	<b>2,124,037</b>	<b>64,757</b>
<b>OPERATING COST:</b>				
Interest expense	(801,643)	(25,257)	(889,343)	(27,114)
Commissions and handling charges	(5,931)	(187)	(6,133)	(187)
Losses on sales of securities-net	(108,590)	(3,421)	-	-
Provisions for possible losses	-	-	(122,228)	(3,726)
Operating expenses	(898,405)	(28,305)	(922,706)	(28,131)
Other operating expenses	(34,754)	(1,095)	(2,941)	(90)
<b>Total operating cost</b>	<b>(1,849,323)</b>	<b>(58,265)</b>	<b>(1,943,351)</b>	<b>(59,248)</b>
<b>NET OPERATING INCOME</b>	<b>425,688</b>	<b>13,412</b>	<b>180,686</b>	<b>5,509</b>
<b>NON-OPERATING INCOME:</b>				
Gains on disposal of premises and equipment	12,772	402	16	-
Others	4,027	127	24,224	739
<b>Total non-operating income</b>	<b>16,799</b>	<b>529</b>	<b>24,240</b>	<b>739</b>
<b>NON-OPERATING LOSS:</b>				
Losses on disposal of premises and equipment	(4,158)	(131)	(1,313)	(40)
Losses on asset impairment	-	-	(364,501)	(11,113)
Others	(2,973)	(94)	(1,765)	(54)
<b>Total non-operating loss</b>	<b>(7,131)</b>	<b>(225)</b>	<b>(367,579)</b>	<b>(11,207)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>435,356</b>	<b>13,716</b>	<b>(162,653)</b>	<b>(4,959)</b>
<b>INCOME TAX BENEFIT (EXPENSES)</b>	<b>46,453</b>	<b>1,464</b>	<b>(4,135)</b>	<b>(126)</b>
<b>NET INCOME (LOSS)</b>	<b>\$481,809</b>	<b>\$15,180</b>	<b>\$(166,788)</b>	<b>\$(5,085)</b>
<b>EARNINGS PER SHARE (IN DOLLARS)</b>				
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>\$1.38</b>	<b>\$0.043</b>	<b>\$(0.52)</b>	<b>\$(0.016)</b>
<b>INCOME TAX BENEFIT (EXPENSES)</b>	<b>0.15</b>	<b>0.005</b>	<b>(0.01)</b>	<b>-</b>
<b>NET INCOME (LOSS)</b>	<b>\$1.53</b>	<b>\$0.048</b>	<b>\$(0.53)</b>	<b>\$(0.016)</b>

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



## English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation  
Balance sheetsAs of December 31, 2004 and 2005  
(Expressed in thousands of dollars)

(The development stage was from May 12, 2004 to August 12, 2004)

Assets	December 31, 2004		December 31, 2005	
	NT \$	US \$	NT \$	US \$
Current assets				
Cash and cash equivalents	\$1,857,623	\$58,526	\$1,463,108	\$44,607
Short-term investments	650,000	20,479	760,000	23,171
Investments in bonds with resale agreements	672,686	21,194	-	-
Operating securities - dealing	126,742	3,993	84,978	2,591
Allowance for valuation loss on operating securities - dealing	(880)	(28)	(1,211)	(37)
Operating securities - stock warrants	12	-	-	-
Allowance for valuation loss on operating securities - stock warrants	(1)	-	-	-
Operating securities - hedging	169,293	5,334	40,384	1,231
Allowance for valuation loss on operating securities - hedging	-	-	(326)	(10)
Receivable amount for margin loans	189,445	5,969	-	-
Securities refinancing margin deposits	687	22	-	-
Margin for futures trading - own funds	-	-	61,813	1,885
Derivative financial instrument assets - GreTai (over-the-counter)	-	-	5,245	160
Notes receivable - net	-	-	49	1
Accounts receivable - net	8,838	278	1,179	36
Accounts receivable-related parties - net	144	5	215	7
Prepayments	840	26	1,087	33
Other receivables - net	10,227	322	4,481	137
Other receivables - related parties - net	2,569	81	-	-
Restricted assets - curren	500,000	15,753	1,300,000	39,634
Deferred income tax assets - current	9,035	285	-	-
Deferred losses on financial instruments	1,203	38	-	-
Other current assets	802	25	175	5
Total current assets	4,199,265	132,302	3,721,177	113,451
Funds and long-term investments				
Long-term investments in stocks				
Long-term investments under cost method	18	1	18	1
Total funds and long-term investments	18	1	18	1
Property and equipment				
Equipment	27,563	868	82,313	2,509
Prepayment for equipment	-	-	17,339	529
Leasehold improvement	10,046	317	25,593	780
Less: Accumulated depreciation	(1,738)	(55)	(19,465)	(593)
Net property and equipment	35,871	1,130	105,780	3,225
Intangible assets				
Deferred pension cost	1,680	53	1,400	42
Total intangible assets	1,680	53	1,400	42
Other assets				
Operating deposits	150,098	4,729	215,098	6,558
Settlement and clearance funds	65,109	2,051	43,035	1,312
Guarantee deposits paid	19,929	628	19,225	586
Deferred debits	4,445	140	17,938	547
Deferred income tax assets - noncurrent	396	12	2,070	63
Total other assets	239,977	7,560	297,366	9,066
Securities brokerage debit accounts - net	3,495	110	8,675	264
Total assets	\$4,480,306	\$141,156	\$4,134,416	\$126,049

Liabilities and shareholders'equity	December 31, 2004		December 31, 2005	
	NT \$	US \$	NT \$	US \$
Current liabilities				
Bonds sold under repurchase agreements	\$776,327	\$24,459	\$-	\$-
Put options	-	-	133	4
Securities financing guarantee deposits-in	744	23	-	-
Deposit payable for securities financing	822	26	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	226,285	7,129	61,163	1,865
Accounts payable	3,830	121	6,911	211
Accounts payable - related parties	-	-	42	1
Accounts collected in advance	175	6	5,254	160
Receipts under custody	1,933	61	3,767	115
Other payables	8,035	253	14,685	448
Other payables - related parties	-	-	15,031	458
Deferred income tax liabilities - current	-	-	237	7
Other current liabilities	40	1	121	3
Total current liabilities	1,018,191	32,079	107,344	3,272
Other liabilities				
Reserve for default losses	1,585	50	7,095	216
Reserve for trading losses	123	4	420	13
Guarantee deposits-in	163	5	1,638	50
Accrued pension liability	1,810	57	2,586	79
Total other liabilities	3,681	116	11,739	358
Total liabilities	1,021,872	32,195	119,083	3,630
Stockholders' equity				
Capital stock				
Common stock	3,500,000	110,271	3,700,000	112,805
Capital surplus	-	-	258,434	7,879
Retained earnings				
Unappropriated retained earnings (Accumulated deficit)	(41,566)	(1,310)	56,899	1,735
Total stockholders' equity	3,458,434	108,961	4,015,333	122,419
Total liabilities and stockholders' equity	\$4,480,306	\$141,156	\$4,134,416	\$126,049

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

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



English Translation of Financial Statements Originally Issued in Chinese  
Cathay Securities Corporation  
Statements of income

From May 12 to December 31, 2004 and January 1 to December 31, 2005  
(Expressed in thousands of dollars, except for earnings per share)  
(The development stage was from May 12, 2004 to August 12, 2004)

Items	May 12-December 31, 2004		January 1-December 31, 2005	
	NT \$	US \$	NT \$	US \$
<b>Revenue</b>				
Brokerage commissions	\$48,658	\$1,533	\$167,687	\$5,112
Revenue from underwriting commissions	-	-	158,761	4,840
Profit from trading securities - dealing	424	13	-	-
Profit from trading securities - stock warrants	-	-	2	-
Profit from trading securities - hedging	2,581	81	1,953	60
Interest revenue	7,537	238	13,091	399
Dividend revenue	-	-	423	13
Brokerage commissions for introducing futures contracts	862	27	1,966	60
Gain on futures contracts	-	-	1,110	34
Gain from options transactions	-	-	236	7
Gain from derivative financial instruments - GreTai (over-the-counter)	132	4	5,215	159
Other operating revenue	141	5	2,089	64
Non-operating revenue and profits	16,186	510	43,006	1,311
<b>Total revenue</b>	<b>76,521</b>	<b>2,411</b>	<b>395,539</b>	<b>12,059</b>
<b>Expenses</b>				
Brokerage securities transaction charges	(3,677)	(116)	(12,787)	(390)
Dealing securities transaction charges	(105)	(3)	(945)	(29)
Refinancing transaction fees	(4)	-	-	-
Underwriting transaction fees	-	-	(11)	-
Loss from trading securities - dealing	-	-	(3,166)	(96)
Loss from trading securities - stock warrants	(294)	(9)	-	-
Interest expense	(1,211)	(38)	(8,926)	(272)
Loss from trading - RS short covering	-	-	(76)	(2)
Loss from decline in price of operating securities	(881)	(28)	(656)	(20)
Clearing and settlement fees	-	-	(104)	(3)
Loss from derivative financial instruments - GreTai (over the counter)	-	-	(860)	(26)
Operating expenses	(119,455)	(3,764)	(279,998)	(8,537)
Non-operating expenses and losses	(107)	(3)	(2,229)	(68)
<b>Total expenses</b>	<b>(125,734)</b>	<b>(3,961)</b>	<b>(309,758)</b>	<b>(9,443)</b>
Income (loss) from continuing operations before income taxes	(49,213)	(1,550)	85,781	2,616
Income tax (expense) benefit	7,647	240	(28,882)	(881)
<b>Net income (loss) from continuing operations</b>	<b>\$(41,566)</b>	<b>\$(1,310)</b>	<b>\$56,899</b>	<b>\$1,735</b>
<b>Net income (loss)</b>	<b>\$(41,566)</b>	<b>\$(1,310)</b>	<b>\$56,899</b>	<b>\$1,735</b>
<b>Earnings per share (in dollars)</b>				
Income (loss) before income taxes	\$(0.14)	\$(0.004)	\$0.24	\$0.007
Net income (loss)	\$(0.12)	\$(0.004)	\$0.16	\$0.005

(The exchange rate of December 31, 2004 and 2005 provided by the Federal Reserve Bank of New York was NT\$31.74 and NT\$32.80 to US\$1.00, respectively)  
The accompanying notes are an integral part of these financial statements.





Best value for customers

