

The year 2003 saw the continued relaxing of monetary policies by industrialized countries, and despite the detrimental effects of the US-Iraq war and the SARS epidemic in the first half of the year, low interest rates encouraged investment and the global economy maintained steady growth. As the global economy continued to emerge from recession, Taiwan and international financial markets saw steady growth on average for the year. As global financial markets continue to become increasingly integrated, we remain optimistic about a continued economic recovery.

Looking back on the past year's achievements, Cathay Life and Cathay Century Insurance saw significant growth in the insurance business, while the successful merger of Cathay United Bank and United World Chinese Commercial Bank, the first instance of a successful integration of banks by a financial holding company, reaffirmed Cathay Financial Holdings's position as the number one financial holding company in Taiwan. As of the end of 2003, Cathay Financial Holdings's total accumulated capital amounted to NT\$83.07 billion, total revenue reached NT\$525.7 billion, and total assets exceeded NT\$2.3 trillion. Our total customer base reached 10 million customers, served by 570 service centers in Taiwan and abroad. In July 2003, we completed a successful Global Depository Receipt (GDR) issue valued at US\$522 million. This issue served not only to raise international recognition of Cathay, but also earned us the 2003 award for "Best Equity Deal (non-rivatization)" from Asiamoney magazine.

Looking forward to 2004, most market research institutions predict continued growth following the momentum built up in the second half of 2003. The insurance business will benefit from an improving economy, a potential rise in interest rates and the easing of insurance regulations, including the raising of caps on overseas investments. In the banking business, overall delinquent loan ratios have fallen significantly, and we have seen a marked improvement in asset quality. At the same time, the improving economy should also help increase earnings from banking. Because the future of the financial industry is full of challenges and opportunities, Cathay Financial Holdings will continue to strengthen the overall efficiency of the entire organization to generate earnings for our shareholders, and maintain a focus on meeting the needs of our customers and providing them with comprehensive financial services. We will also seek out appropriate opportunities for mergers and acquisitions to expand the scale of our business and maintain our industry leadership position. Lastly, we will seek to enter the mainland China market and evaluate opportunities for regional expansion in insurance and banking.

It is my sincere wish that in the coming year, and with the guidance of our shareholders, we will all continue to strive for professionalism and success in every aspect of our business, and to direct all of our efforts towards achieving outstanding results in return for the continued strong support of our shareholders.

Sincerely,

**Hong-tu Tsai**  
Chairman

## A. Company Overview

In light of the continuing diversification and globalization of the financial industry, and in order to provide more comprehensive services to our customers, Cathay Financial Holdings was formally established on December 31, 2001 with an authorized capital of NT\$120 billion. Major members of the Group currently include Cathay Life, Cathay United Bank, Cathay Century Insurance and Cathay Venture Capital. We continue to seek out appropriate targets for mergers and acquisitions to expand our operational scale and provide even more comprehensive financial services to our customers. Leveraging our extensive branch office network, large sales agent force and the combined resources of the Group, we seek to capture the benefits of integrated marketing, provide our customers with more professional and more personalized service and provide our shareholders with the greatest investment return.

- Total assets: NT\$2.3 trillion
- Revenue: NT\$525.7 billion
- Service Centers: 570
- Customer Base: Approximately 10 million
- Employees: Approximately 33,100

Common Wealth Magazine—  
Ranking Cathay Financial Holdings as No. 1 of the top 10 corporations in Taiwan.

Asiaweek Magazine—  
Listing Cathay Financial Holdings No.1 corporation in Taiwan as well as No. 5 corporation in Asia among the largest 500 Chinese corporations.

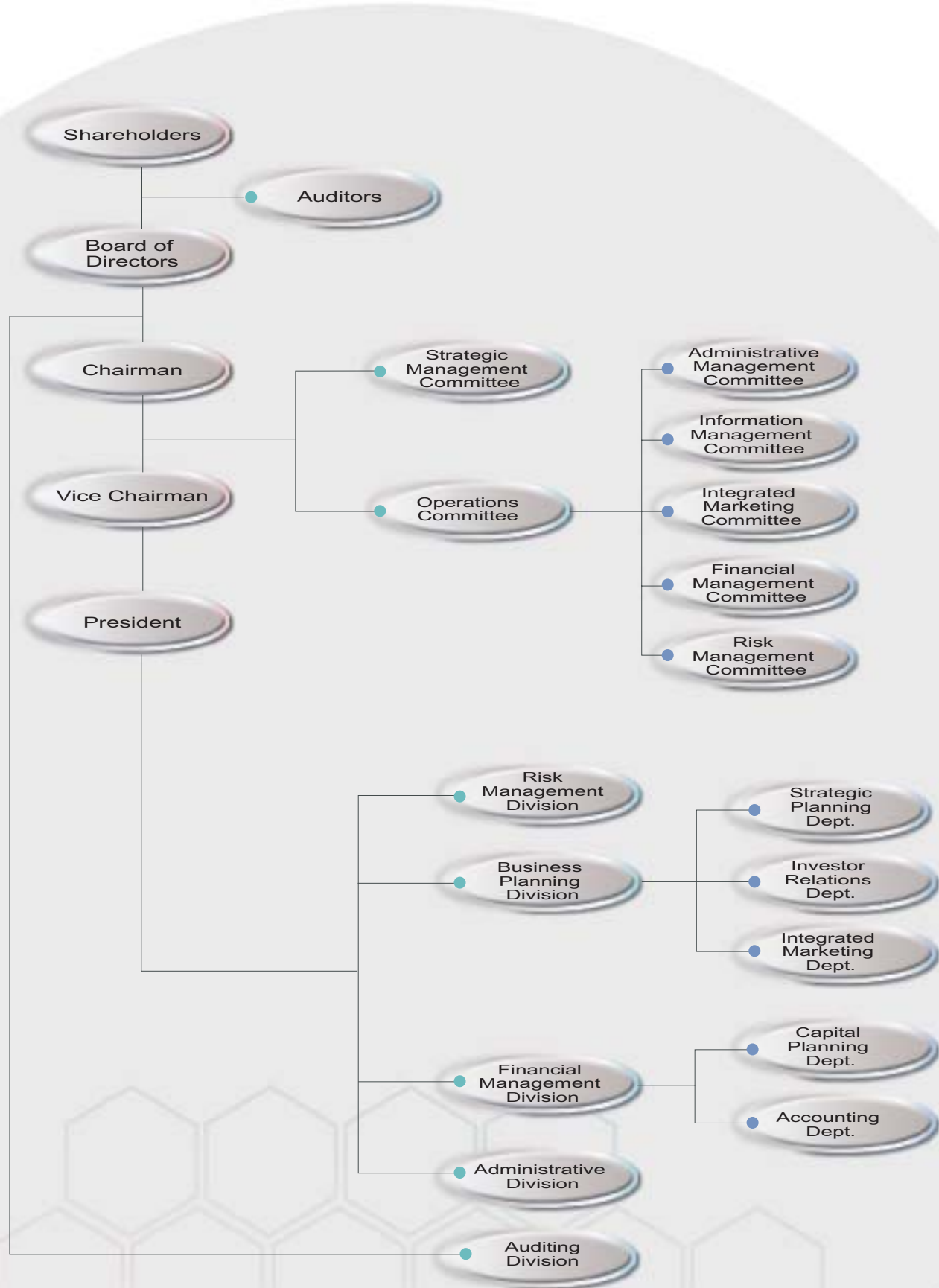
Hewitt Associates—  
Awarding "Best Employers in Asia" to Cathay Life for 2003.

Breakthrough Magazine—  
Listing Cathay Life as No.1 "Taiwan Ideal Brand" for consecutive 5 years.

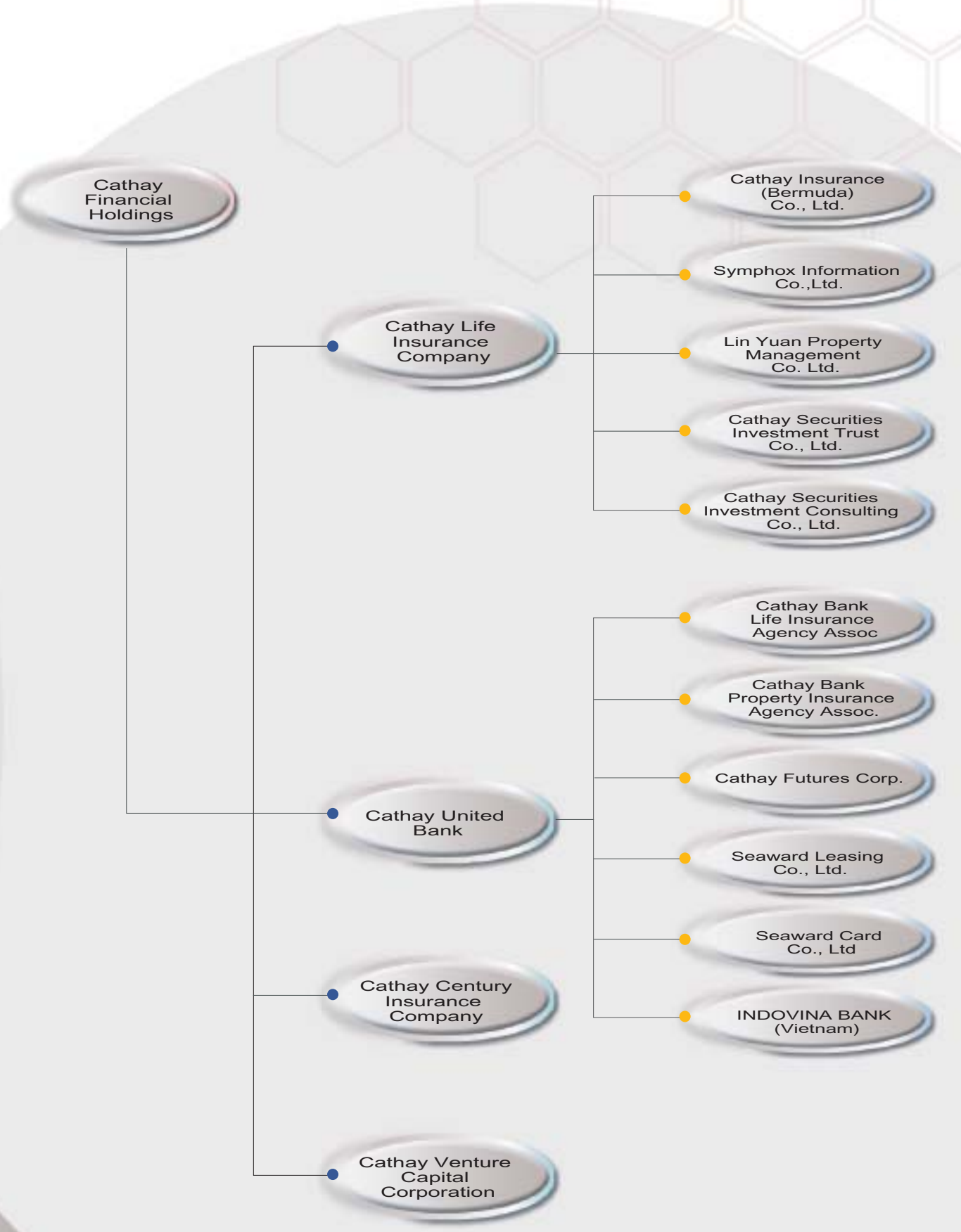
The Executive Yuan Council for Cultural Affairs—  
Awarding the Sixth "Wenhsin Prize" to both Cathay Life and Cathay United Bank for cultural contributions.



## B. Organization Chart



## C. Parent and Subsidiary Organization Chart



## D. Directors, Auditors and Key Managers

### Directors

Name	Education	Experience
Hong-tu Tsai	Southern Methodist University, J.D.	Current Cathay Life Chairman
Tseng-yun Tsai	National Taiwan University, Graduate School of International Management	Current Cathay Financial Holdings Co.,Ltd. Honorary Vice Chairman
Gregory K.H. Wang	Tamkang University	Current Cathay United Bank Chairman
Liang Chang	New York University, Ph.D.	Current Jardine Matheson Group Taiwan Regional Chairman
Shiou-ling Lin	National Taiwan University	Current Legal Consultant, Lee and Li, Attorneys at Law
Cheng-cheng Tung	National Chengchi University	Current Cathay Financial Holdings Co.,Ltd.President
Roger M. H. Lee	National Chengchi University	Current Cathay United Bank Vice President
Tiao-kuei Huang	National Tsing Hua University, M.A.	Current Cathay Life President
Wan-chie Mar	Tamkang University, M.A.	Current Cathay Century Insurance Company President

### Auditors

Name	Education	Experience
Wan-teh Tsai	Tokyo Liberal Arts University	Current Cathay Life Permanent Auditor
Ruey-yun Lee	Lincoln University (US), Master's Degree	Current Cathay Life Executive Vice President

### Executive Officers

Position	Name	Education
Chairman	Hong-tu Tsai	Southern Methodist University, J.D.
Honorary Vice Chairman	Tseng-yun Tsai	National Taiwan University, Graduate School of International Management
Vice Chairman	Gregory K.H. Wang	Tamkang University

### Key Managers

Position	Name	Education
President	Cheng-cheng Tung	National Chengchi University
Executive Vice President	Chin-han Chen	Fu-jeu University
Chief Auditor	Jinn-shing Leou	Iowa University, M.A.
Chief Strategy Officer	Chang-ken Lee	University of Pennsylvania, MBA
Chief Financial Officer	Grace Chen	National Chengchi University, MBA

## E. Capitalization and Shares

Share Type	Shares	Value
Common Shares	8,307,489,100	83,074,891,000

## F. Year 2004 Operational Objectives

In 2004, Cathay Financial Holdings and all subsidiary companies will work to implement the following objectives to increase operational efficiency.

### 1. Strengthen overall group efficiency to increase profits

We will strengthen the Group's core competitive advantages through effective utilization of the specialization of each subsidiary and through integrated marketing and cross-selling. We will also increase profits by lowering operating costs, sharing resources and improving the overall efficiency of the Group.

### 2. Continue to expand our scale of operations through acquisitions of financial institutions

Following on the successful integration of Cathay United Bank and United World Chinese Commercial Bank, Cathay Financial Holdings will continue to seek opportunities to acquire financial institutions. We will actively work to expand the scale of our banking and securities businesses, promote the integration of sales channels and attract talented personnel to the team to raise the level of professionalism and breadth of expertise to meet the challenges of increasing competition in the financial markets of the future.

### 3. Provide comprehensive financial services to meet the needs of our customers

We will strive to develop unique financial products and provide comprehensive financial services. We will more effectively monitor product trends, emphasizing both quantity and quality, and develop integrated products that meet customer requirements. Additionally, based on a personalized customer service model, we will seek to establish Cathay Financial Holdings as the most trusted and reliable brand in the financial services industry.

### 4. Be the leading financial services provider in the Asia-Pacific region

We will maintain our leading position in the Taiwan financial service industry, and will also seek to expand into both the insurance and banking markets in mainland China this year and continue our activities in other areas of the Asia-Pacific region. Our goal is to become the premier financial institution in the Asia-Pacific region and provide all our customers with the highest quality financial services.

## G. Capital Utilization Plan

### 1. Complete financial services platform

To establish a comprehensive financial services platform, we will not only continue to expand our dual-core banking and life insurance businesses, but will also evaluate acquisitions of, or strategic alliances with, securities companies or the development of our own securities business in order to provide our customers with even more financial services. Facing an era of increasing financial competition in Taiwan, we will seek to allocate capital in the most efficient manner and complete our comprehensive financial services platform.

### 2. Support the integration and reorganization projects of each subsidiary

To maximize the overall efficiency of the Group, we will actively assist each subsidiary with integration and reorganization projects, providing all necessary financial and technical support to ensure smooth and effective completion of these projects and the continuity of our strong corporate culture.

### 3. Actively manage our asset allocation and improve capital utilization efficiency

We will actively manage the allocation of our assets at each of our subsidiaries in response to rapidly changing market conditions. We will also continuously evaluate the financial resources of the Group overall in order to improve our capital efficiency.

### 4. Place equal importance on profits and risk management and strengthen asset quality

While seeking to expand our business and increase profits, we will also place an equal emphasis on asset quality and risk management. Each subsidiary has established its own independent risk management department responsible for risk management policymaking and planning, implementation, oversight and control. At the Group level, we have also established a Risk Management Committee to oversee all aspects of risk management from an overall group perspective, and to monitor market risk, credit risk and operational risk to protect the quality of our assets and ensure we can meet our goal of generating stable earnings.

## III Subsidiary Company Overviews

### Cathay Life Insurance Co., Ltd.

#### President's Message

Looking back on 2003, despite a gradual recovery in the economy overall, the life insurance industry continued to face challenges from low interest rates and heavy pressure from financial sales channels. To ensure stable and fair operation of the life insurance industry, the securities oversight institutions implemented an RBC system, enacted liberalization of the policy dividend system, and began easing of caps on foreign investment. These steps helped to solidify the foundations for a sound and impartial life insurance industry.

To respond to a rapidly changing industry environment, Cathay Life has employed a number of proactive and effective operating strategies, worked to strengthen its competitiveness and reinforce its market leadership position. These strategies include developing strategic products to satisfy customer requirements, actively opening up new sales channels, implementing a CRM system to promote diversified marketing campaigns, and continuing to recruit high-calibre marketing personnel to the organization to lead the organizational restructuring. Additionally, we have established a mainland China operation team and a Vietnam research team to assist in our overseas expansion. With the dedication and hard work of our entire staff, the first year premium income from this year reached NT\$61.16 billion; total premium income was NT\$274.58 billion; the number of policies in-force reached 810.4 million.

Cathay Life is committed to a business philosophy based on placing customers first and emphasizing corporate social responsibility. We will continue to develop dynamic, innovative services to satisfy our customers. Examples include being the first to implement electronic signatures in our online insurance policy system, supporting the Cloud Gate Dance Theatre's outdoor performance for eight years in a row and sponsoring the 28th annual national children's drawing competition. For the last six years in a row, Cathay Life has been awarded the "Wenhsin Prize" by the Executive Yuan for its cultural contributions. Because of our outstanding operational achievements, we have received awards from professional organizations and magazines as an industry-leading brand.

Looking forward to 2004, as interest rates in the financial sector remain low and with the liberalization of policy dividends, all aspects of our business—property, accident and health insurance—are actively expanding sales channels to face the challenge of an increasingly competitive market. Cathay Life is focused on an operational strategy based on professional leadership, innovative service and superior marketing to develop new prospects, and is actively implementing more forward-looking and concrete strategies. Cathay Life is strengthening product and sales channel development, and promoting integrated marketing to boost overall efficiency—in the finance area, we are strengthening asset management and risk control to improve the efficiency of capital utilization; in management, we will continue to implement organizational restructuring and digitization to improve operational efficiency. Additionally, we will continue to actively build up our mainland China and Vietnam market strategies to capture new market opportunities.

I am much indebted to the work of all our managers for their continued contributions, support and encouragement over the years. Cathay Life will continue to expand on the solid foundations we have built, and integrate the resources of each of the Group subsidiaries to further improve overall efficiency. I would like to express my sincere appreciation and wish to live up to the expectations of everyone toward our company's future.

Sincerely,

**Huang Tiao-kuei**  
President



### Introduction

Cathay Life Insurance Co., Ltd. was established in August 1962, and received approval for public listing in November 1964 as the first private insurance corporation in Taiwan. Over forty-two years, with the hard work of the entire staff and with the full support of our shareholders, we have continued to cultivate professional personnel and develop new innovative products and services, and we have become firmly established as a leader in the industry. In recent years, in response to industry changes, we have actively applied information technology to increase efficiency in our services. Additionally, we have strengthened our training programs and implemented a performance-based assessment system to raise customer satisfaction with our employees. In 2002, Cathay Life was honored to receive the National Quality Award. In 2003, we were honored with the Best Employer in Asia award.

**Personnel** : 28,620. Average age: 39. Average seniority: 7.5 years.

### Executive Officers

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

### Key Managers

Position	Name	Education
President	Huang Tiao-kuei	National Tsing Hua University, MA.
Executive Vice President	Chang Fa-te	National Chung Hsing University
Executive Vice President	Li Ruey-yun	Lincoln University, MA
Executive Vice President	Li Young-jann	National Taiwan University, MA
Chief Information Officer	Chang Chia-sheng	Case Western Reserve University, Ph.D.
Executive Vice President	Hsiung Ming-ho	University of Iowa, MA
Executive Vice President	Ho Li-san	Northwestern University, MA

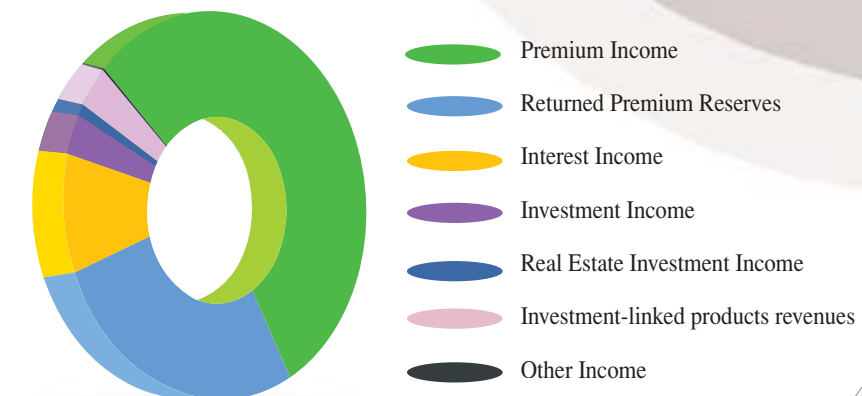
### Business Scope

Personal insurance sales and related business.

### Business Proportion

Units: NT\$ million

Item	Value	Proportion (%)
Premium Income	260,375	54.82
Returned Premium Reserves	128,756	27.11
Interest Income	47,278	9.95
Investment Income	16,102	3.39
Real Estate Investment Income	4,513	0.95
Investment-linked products revenues	17,095	3.60
Other Income	837	0.18
<b>Total</b>	<b>474,956</b>	<b>100.00</b>



### Year 2004 Operational Objectives

#### 1. Products

- a. Respond to low interest rates and customer finance requirements; promote a diverse line of whole life and investment-linked products to maintain our competitiveness.
- b. Strengthen cross marketing promotion, raise effectiveness of cross-selling.

#### 2. Channels

- a. Continue to recruit high-calibre talent, encourage personnel to pursue professional certifications, strengthen employees' cross-selling capabilities and raise agents retention rates.
- b. Increase opening of new sales channels through financial institutions, secure our existing customer bases and develop new potential customers.

#### 3. Customers

- a. Promote CRM application, develop diversified marketing campaigns for different customer segmentation and improve marketing efficiency.
- b. Form cross-industry alliance, utilize outside capital, create marketing topics, raise customer satisfaction.

#### 4. Operations

- a. Develop digital assistance tools according to marketing requirements to increase sales and marketing effectiveness.
- b. Strengthen promotion of digitization training and improve operational efficiency.

### Year 2004 Operational Targets

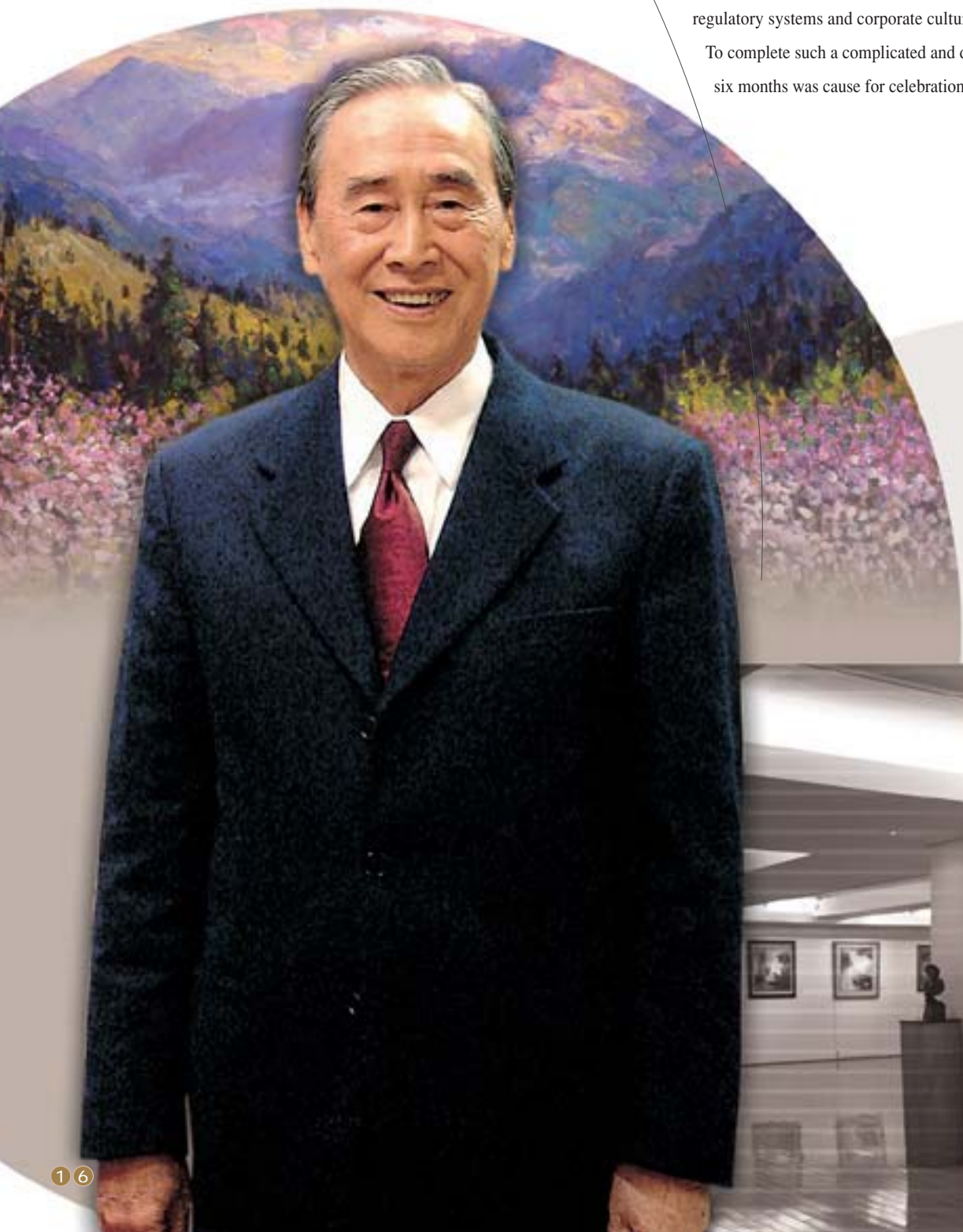
Units: NT\$ million

Items	Target
New Policy Coverage	148,199
Effective Policy Coverage	6,439,400
Total Premium Income	282,596



### Chairman's Message

Looking back on the past year, under the leadership of Chairman Tsai and Honorary Vice Chairman Tsai and the concerted effort of the entire staff, we have completed a difficult mission—the merger of Cathay United Bank and United World Chinese Commercial Bank. The new Cathay United Bank was successfully launched on October 27, marking the first successful bank merger among all the financial holding companies in Taiwan. The merger involved the adjustment and integration of organizational structures, information systems, business categories, operating procedures, regulatory systems and corporate cultures of both companies. To complete such a complicated and difficult task in a short six months was cause for celebration.



To begin with, the two banks had quite different historical backgrounds and business characteristics. Cathay United was established as Taiwan First Investment and Trust Co., Ltd. and reorganized as United National Bank afterwards. For over 30 years, Cathay United Bank had been focusing on the credit card and consumer financial businesses. United World Chinese Commercial Bank had been established for 28 years and been focusing on securities deposits, construction financing and housing loans. The two banks joined Cathay Financial Holdings in 2002 and were merged into one bank last year. After the merger, the scale of the new Cathay United Bank reached NT\$43.18 billion in capital. Total deposits last year amounted to NT\$700.7 billion, total loans amounted to NT\$555.3 billion and the foreign exchange business reached US\$19.1 billion. Total credit cards passed 3 million cards issued, making Cathay United one of the top three credit card issuers in Taiwan. After charging off substantial bad debts, total pre-tax profit was NT\$2.62 billion. Year-end narrow-definition NPL ratio fell to 0.82%, while broad-definition NPL ratio dropped to 2.68%. Overall, the bank's operational achievements were admirable and the capital adequacy ratio was 11.15% for the year.

Throughout the process of implementing the merger, organizational restructuring, and developing new businesses, Cathay United Bank has not forgotten its social responsibilities. Over many years, we have successively established Cathay United Bank Culture and Charity Foundation, Cathay United Financial Library and Cathay United Art Center. We have promoted all types of cultural and charitable programs, and have won the golden award of "Wenhsin Culture Award" from the Council for Cultural Affairs (Executive Yuan) two years in a row. We have also received wide praise and support from our customers and the community in general for our outstanding corporate image.

Looking forward, we will focus our efforts on four main business fields: commercial finance, consumer finance, credit cards and wealth management. And we will also continue to develop new products, improve service quality, expand the scale of operations and strengthen international competitiveness. In cooperation with the other subsidiaries under the group of Cathay Financial Holdings—life insurance, property insurance, investment credit, venture capital, futures, leasing, etc.—we will take full advantage of cross-selling capabilities, raise the overall operational efficiency of the Group, and provide one-stop shopping convenience for diversified, professional financial and wealth management products to the nearly 10 million customers of Cathay Financial Holdings. Our goal is nothing less than to become the best bank in the Greater China region, from the perspective of our customers, the financial oversight institutions and the community in general.

Sincerely,

**Gregory K.H. Wang**

Chairman





### Company Overview

Cathay United Bank, originally Taiwan First Investment and Trust Co., Ltd. (TFIT), was established in June 1971, and was formally listed on the Taiwan Stock Exchange in March 1998. In November of that year, TFIT was renamed United National Bank. In April 2002, it formally joined Cathay Financial Holdings, and in July was renamed Cathay United Bank. United World Chinese Commercial Bank was established in May 1975. In 1995, United World merged with Overseas Chinese Trust Corporation and went public in November 1996. In December 2002, United World joined Cathay Financial Holdings. In October 2003, the two banks joined to form Cathay United Bank with United World serving as a surviving bank.

Cathay United Bank currently includes a total of 112 branches throughout the Taiwan region. With three overseas branches and four representative offices, Cathay United has a total of 119 business units worldwide. Cathay United has 816 full-scaled ATM's serving 5.5 million customers. It is Taiwan's third largest private bank, with a 4% market share. Moody's Investors Service assigned Cathay United an A3 rating for long-term bonds and P-1 for short-term bonds in 2003, and gave it a C- rating for financial strength. Standard & Poors gave Cathay United a BBB rating for long-term and an A3 rating for short-term bonds.

**Personnel:** 3,662. Average age: 33.93. Average seniority: 8.33 years.

### Executive Officers

Position	Name	Education
Chairman	Gregory K.H. Wang	Tamkang University
Vice Chairman	Roger M.H. Lee	National Cheng-chi University

### Key Managers

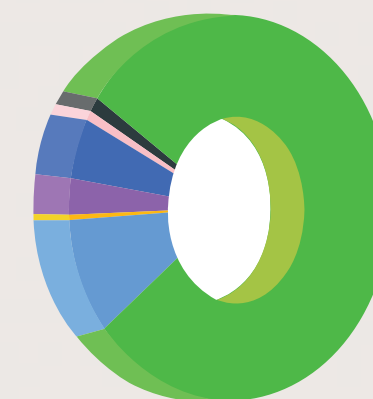
Position	Name	Education
President	Roger H. L. Wu	National Cheng-chi University
Chief Operating Officer	J. H. Chen	Fu-jen Catholic University
Chief Financial Officer	Grace Chen	National Cheng-chi University, Master's Degree
Chief S.E.V.P.—Corporate Banking	Tzu-pei Chen	National Cheng-chi University
Chief S.E.V.P.—Individual Banking	S. Joseph Jao	University of Missouri, MBA
S.E.V.P.	Daniel Tung	University of Indiana, Master's Degree
Chief Auditor	Peggy Wang	National Taiwan University

### Business Scope

1. Checking accounts.
2. Savings accounts.
3. CD accounts.
4. Short, mid and long term loans.
5. Check cashing.
6. Negotiable securities investment.
7. Domestic currency exchange.
8. Business checking.
9. Issue of domestic L/Cs.
10. Domestic guarantor business.
11. Bill payment service.
12. Underwriting government bonds, treasury bills, and corporate bonds and shares.
13. Trading gold bullion, gold coins and silver coins.
14. Credit card services.
15. Short-term certificate visa, consignment, agent and independent sales services.
16. Secure storage services.
17. Safe deposit box rental.
18. Agency services as listed on business license and permitted by the central administrative authority.
19. Overseas Chinese investment services.
20. Foreign exchange, in-bound and out-bound general remittances, foreign deposits, foreign currency payments and collateral guarantor services.
21. Trust fund business for specified investment in foreign negotiable securities.
22. Guarantee service for company share issues.
23. Sales, resales and agency purchase and sale of negotiable securities.
24. Purchase and sale of government bonds.
25. Financing for negotiable securities investment, purchase and sales.
26. Futures trading consultancy service.
27. Services as permitted by the Trust Industry Law.
28. Derivatives financial services as permitted by the central administrative authority.

### Business Proportion Units: NT\$ million

Item	Value	Proportion (%)
Interest Revenue	24,049	79.63
Service Fees	2,944	9.75
Stock Brokerage Commission	132	0.44
Security Sales	915	3.03
Investment Profits	1,537	5.09
Exchange Profits	248	0.82
Other Income	375	1.24
<b>Total</b>	<b>30,200</b>	<b>100.00</b>



**Year 2004 Operational Objectives**

**1. Savings accounts**

- a. Develop various savings and finance commodities, strengthen integrated marketing and sales channels.
- b. Adjust deposit structure and increase the proportion of demand deposits to lower capital costs.
- c. Develop automated sales channels and promote financial information technology services (kiosk, internet banking, etc.)

**2. Loans**

- a. Fully comply with government policies to promote integration of cash flow, information flow and logistics, promote MYB2B global financial logistics network and develop online finance businesses.
- b. Develop corporate financial management services for the Greater China region.
- c. Continue providing funds to real estate developers, increase credit to large corporations, seek out syndicated loan targets to expand corporate banking portfolio.
- d. Continue developing personal loan products in order to provide the most appropriate products to various customers.
- e. Strengthen credit and risk analysis, organize dedicated working groups to focus on industry analysis research and establish industry risk control strategies to both expand business and lower risk, thereby ensuring the quality of our credit assets.

**3. Foreign Exchange**

- a. Keep track of international trade trends, and offer prospective customers with comprehensive funding solutions.
- b. Utilize functional banking network to increase the variety of foreign exchange service.
- c. Actively look for opportunities to establish relationship with overseas Taiwanese companies, especially those located in the Great China area, to expand our business domain.
- d. Positively participate in international syndicated loan lending business, along with gaining global recognition and revenues.

**4. Credit Cards**

- a. Raise quality of customer service to increase card usage as well as revolving balance to create more profits.
- b. Strengthen and refine cross-industry alliance promotional activities to increase credit card's added-value features.
- c. Integrate affiliated companies' and bank's personal products to strengthen cross-marketing effectiveness.
- d. Establish payment systems and provide joint units with comprehensive services.
- e. Utilize "Customer Credit Scoring System." Based on its objective statistics analytical result to set up effective and feasible credit policies to improve credit card processing, approval and loan quality.
  - i. Define standard operating procedures for all aspects of credit card business, improve procedures and service quality, and acquire ISO accreditation.
  - ii. Comply with the rules and regulations of international credit card organizations, finance companies and administrative authorities, promote IC card for Cathay United Bank's Combo Cards, ATM cards and credit cards.

**5. Wealth Management**

- a. Strengthen asset allocation planning for customers through Cathay United Bank's "PEC Wealth Management System." Actively expand numbers of wealth management specialists to provide more comprehensive and professional services to our customers.
- b. Strengthen cross-marketing within the group, increase returns on cross-marketing and achieve results consistent with the ideal of "retaining finances in financial control."

- c. Expand all categories of trust services, continue to offer foreign negotiable securities with various terms, currencies and investment targets. Combine credit and wealth management sales projects to satisfy customer requirements for diversified product choices.

- d. Promote the concept of maintaining trusts and design standard trust services, raise the sales and marketing capabilities of all branch offices and sales channels, realize the potential of cross-marketing within the Group.

- e. Strengthen and develop other credit services, including real estate trust and securities, personal credit and NT\$ currency-based products, etc.
- f. Actively seek out superior trust fund business, expand trust powers, overseas customers and custody business for CDR issuing institutions to expand the scale of Cathay Bank's custody business.

- g. Strengthen relations with existing audit clients, strengthen relations with accounting firms and develop potential customers from existing corporate banking customers to expand audit client customer base.

**6. Other Business**

- a. A forward-looking, integrated dedicated treasury departments based on the model of international banks, develop comprehensive management of equity and derivatives products in conjunction with other financial tools and traditional businesses to achieve balanced risk and diversification of profit contributions.
- b. Strengthen marketing functionality of treasury department and actively comply with the bank's wealth management and enterprise financing business development to upgrade and innovate products for large companies and build trust among customers.
- c. Promote "the convenience of one-stop shopping" for corporate accounts by developing a wide selection of corporate finance products.
- d. Comply with the Group's strategies for integrated marketing, strengthen sales and marketing systems and improve business effectiveness.

**Year 2004 Operational Targets** Units: NT\$ million

Items	Target
Deposits	781,800
Loans	628,000
Credit Cards	4,000,000 cards



**Chairman's Message**

It's been 10 years since the company's inception. Through the concerted efforts of our entire staff, our market share has reached to the first five position in Taiwan. In 2003, following a financial structure expansion, Cathay Century Insurance was awarded an "A-" credit rating from Standard & Poor's and an "A3" rating from Moody's—the second highest in the Taiwan non-life insurance industry. Cathay Century Insurance has also received ISO9001 quality certification for its motor insurance claim system and loss prevention system, affirming our high standards of quality and strong commitment to customer service.

The global economy suffered in the first half of 2003, but began to slowly recover after the conclusion of the US-Iraq war and the control of the SARS epidemic. To stimulate the economy, the government made moves to expand large public works projects and public service programs. Taiwan's IT industry investment also quickened in pace with the recovery, and with the construction of Taiwan high speed railway, and the Kaohsiung Mass Rapid Transit system, and other major construction projects underway, we predict that demand for property and casualty insurance will continue to increase in 2004. The key to prompt our competitiveness is to keep abreast of current market trends and to seize opportunities when the market arises.

With the merger of Cathay United Bank and United World Chinese Commerical Bank, the combined sales channels of the new Cathay United Bank will be a major source of expansion. Meanwhile, we will also expand our networks of sales channels with other banks, exploit corporate and personal banking business and strengthen our competitiveness in the market.

As for our products, accident insurance was one of the fastest growing categories in 2003. As new diverse products are being released in property and casualty insurance, we expect this category to be one of our business keystone in this year. Additionally, Cathay Century has released new innovative insurance products including such as, "Comprehensive Marriage Insurance to satisfy market demand for a more diverse selection of insurance products. We will focus even further on improving product development capabilities and create new competitive products that differentiate us from the competition.

To provide customers the best service, we applied CTI technology at the end of 2002 on the telephone customer service and established claims management team to strengthen planning of customer claims handling procedures. These measures help us to analyze customers' demand better, respond with the appropriate improvements for the company, while improving customer service efficiency and expanding service content by leveraging information management tools. These measures are gradually beginning to show their effect. As for internal procedure adjustments, we also established the Efficiency improvement team to inspect and determine which departmental procedures could be refined or simplified to raise the efficiency of departments and individual personnel. These moves all illustrate our determination to provide professional services as a central means of achieving growth.

As for mainland China, the Shanghai Representative Office is officially in operation since January 2003, and we are aggressively expanding into the mainland China market, training business development personnel and working to exploit other international markets.

Looking into the future, the significantly expanded sales channels of the Cathay Financial Holdings group will provide a new turning point for us. In this era with rapidly changing, we will continue to emphasize on training personal, strengthening our profession management skill and consolidating the strengths of the Group as we build on our core competitiveness and strive for long-term development. Finally, I would like to thank all of our employees, shareholders and customers for their support and assistance for the last decade. Cathay Century Insurance will continue to uphold its operational strategy of maintaining stable operations with an equal emphasis on quantity and quality, so that we may keep serving the community and creating a great vision with the Group and all her subsidiary companies.

Sincerely,  
**C.Y. Lee**  
Chairman



### Introduction

Since its inception in 1993, Cathay Century Insurance Company has held a business philosophy of maintaining stable operations with an equal emphasis on quantity and quality, to provide comprehensive property and casualty insurance products. Cathay Century Insurance today is one of Taiwan's top five non-life insurance companies. Besides receiving ISO9001 accreditation in motor insurance claim and loss prevention system, we have also received a "twAA" rating from the Taiwan Ratings Corporation, an "A-" from Standard & Poor's and an "A3" rating from Moody's. After joining Cathay Financial Holdings in 2002, we began to integrate the resources of the Group to provide more comprehensive and more professional services to our customers.

### Personnel

789 employees; Average age: 33.2; Average seniority: 6.6 years.

### Executive Officers

Position	Name	Education
Chairman	C.Y. Lee	National Chung Hsing University
Vice Chairman	Cheng-chiu Tsai	Keio University, Japan, Master's Degree

### Key Managers

Position	Name	Education
President	Wan-chie Mar	Tamkang University, Master's Degree
Executive Vice President	Y.F. Wu	Tamkang University
Executive Vice President	L.C. Huang	Feng Chia University

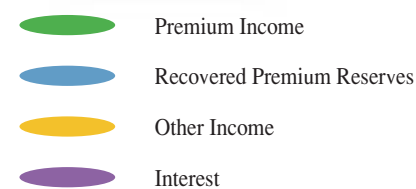
### Business Scope

All types of non-life insurance (including motor, fire, marine, engineering and other property & casualty insurance), and related business.

### Business Proportion

Units: NT\$ million

Item	Value	Proportion (%)
Premium Income	7,045	57.49
Recovered Premium Reserves	3,546	28.94
Other Income	1,447	11.80
Interest	216	1.77
Total	12,254	100.00



### Year 2004 Operational Objectives

1. Expand business sources, utilize banking sales channels
  - a. Implement cross-selling through the other subsidiaries of the Group to achieve maximum effectiveness in sales and marketing.
  - b. Form strategic alliances with domestic and international financial institutions (life insurance, agencies, banks) to expand combined sales strategies, increase customer bases and expand the range of our business.
  - c. Cooperate with non-financial industries to form strategic alliances and develop potential customer bases.
  - d. Continue building favorable relations with corporations in the science parks, strengthen training of corporate banking sales channels personnel to expand the scale of operations through cooperation with large corporations.
  - e. Seize the opportunities created by the increased scale of the Cathay Financial Holdings group, work through the extensive network of service centers to raise the sales proportion from banking channels, and strengthen the capabilities of sales personnel in those channels.
2. Focus on product development and improving service quality
  - a. Keep abreast of market movements, develop integrated financial products based on customer requirements and market competitiveness.
  - b. In order to deal with up coming products and release of new insurance categories, we set up dedicated product research departments to focus on the company's product development capabilities.
  - c. Integrate the information platforms of all subsidiaries, establish advanced customer relations management systems and comprehensively improve the quality of the company's financial services.
  - d. Simplify operating procedures for all underwriting and claim process, establish an outstanding brand image to become the most trusted and dependable non-life insurance company.
  - e. Utilize data warehousing, data mining and other advanced technologies to fully understand consumer behavior, strengthen telephone customer service center functionality, and move toward direct telephone sales.
3. Promote organizational education, hasten enterprise reform
  - a. Continue strengthening personnel training for all staff levels and encourage personnel to acquire financial accreditation and foreign language skills.

- b. Strengthen training of overseas personnel (including mainland China) to respond to the requirements of multinational insurance markets.
  - c. Establish a business culture that encourages innovative thinking, develop a learning organization, and encourage group learning to enhance the overall competitiveness of the organization.
  - d. Implement timely organizational reform and restructuring according to market conditions, thereby enabling the company's continued development for the future.
  - e. Review the effectiveness of all current policies, strive to eliminate waste and improve efficiency to raise overall business results and dedication of personnel.
4. Increase profits by building a more solid financial structure.
    - a. As business from large corporations increases, establish strict risk control systems to ensure continued stability of financial structures.
    - b. Comply with risk-based capital (RBC) system implementation, strengthen structure of internal capital and risk-based capital, maintain proper debt clearance capability and ensure the rights and interests of customers.
    - c. Improve loss prevention technology, lower underwriting risks, increase the retained ratio in order to earn more profit.
    - d. Strengthen capital utilization efficiency, establish complete evaluation systems and create profitability by exploiting newly developing investment channels with international market trends.
    - e. Proactively train investment personnel and establish financial intelligence reporting systems, integrate financial management information and raise financial operations efficiency.

### Year 2004 Operational Targets Units: NT\$ million

Items	Target
Motor Insurance	4,100
Fire Insurance	1,800
Marine Insurance	300
Engineering Insurance	400
Other Property & Casualty Insurance	1,400
Total	8,000

### Introduction

Cathay Venture Capital Corporation, Ltd. was established on April 16, 2003 as a subsidiary of Cathay Financial Holdings. This venture capital fund is operated by a fund management company – Yee Tai Financial Consulting Corp., Ltd. Cathay Venture Capital focuses mainly on high-growth technology industries and aims to create maximum returns on its investments.

### Executive Officers

Position	Name	Education
Chairman	Huang Mei-hsiung	National Taiwan University, Dept. of Law
President	Liu Chuang-cheng	Chiao-Tung University, Dept. of Electron Physics

### Business Scope

Venture capital investment business.

### Business Proportion

Units: NT\$ thousand

Item	Value	Proportion (%)
Investments	4,742	93.99
Interest	303	6.01
Total	5,045	100.00

### Year 2004 Operational Objectives

1. Investment Industries:  
High growth technology industries including semiconductors, IC design, digital cameras, optoelectronics, network equipment, telecommunications and others.
2. Investment regions:
  - a. Asia: Technology R&D, business development, regional expansion, technology transfer.
  - b. US: Seek out companies interested in expanding into Asian markets and companies led by people of Asian descent.
3. Investment Types:
  - a. Initial stage, growth stage, mature stage.
  - b. Strategic alliance investment.



Investments  
Interest

**January**

Breakthrough Magazine names Cathay Life number one brand in service industries for second successive year  
Cathay Century Insurance formally opens Shanghai Representative Office

**March**

Cathay United Bank issues its 'Master' exclusive card – the World Card – with the highest insured value in the industry, NT\$100 million.

**April**

- Cathay Life named best employer in Asia for 2003.
- Cathay Life releases first life insurance package with investments linked to principal-guaranteed funds.
- Cathay Venture Capital Corporation established.

**May**

- Cathay Life issues first non-participating policy.

**July**

- Cathay Life cooperates with Symphox Technology and Far Eastone Telecommunications to implement mobile access system.
- Forbes Magazine lists Cathay Financial Holdings among its 2,000 largest companies worldwide.
- Cathay Financial Holdings credit ratings

Company Rating	Cathay Financial Holdings	Cathay Life	Cathay Century Insurance	Cathay United Bank
S&P Ratings	BBB+	A+	A-	BBB
Taiwan Ratings Corporation (TRC)	twAA-	twAAA	twAA	twAA-

- Cathay Financial Holdings issues Global Depository Receipt (GDR), earns "2003 Best Equity Deal" by Asiamoney magazine.

**August**

- Cathay Life sponsors 28th Children's Art Competition.
- Cathay Life sponsors 10th Asian Cities Children's Art Exchange Exhibition.

**September**

- Cathay Century Insurance celebrates its tenth anniversary.
- Cathay Financial Holdings credit ratings

Rating	Company	Cathay Financial Holdings	Cathay Life	Cathay Century Insurance	Cathay United Bank
Moody's Ratings		Baa1	A2	A3	A3

**October**

- Cathay Financial Holdings becomes one of the top 500 international Chinese companies – and the largest in Taiwan.
- United World Chinese Bank and Cathay Bank merge to form Cathay United Bank.

**November**

- Cathay Life takes the lead in releasing PKI online travel insurance system.
- The Executive Yuan Council for Cultural Affairs awards Cathay Life its sixth "Wenhsin Prize" for cultural contributions.
- The Council for Cultural Affairs awards Cathay United Bank the Wenhsin Prize for its second year running.
- First publication of Cathay Financial Monthly.



**Cathay Life Insurance**

**Hong Kong Office**

Rm. 4704, 47F, Central Plaza, #18 Harbor Road,

Hong Kong

Tel : 852-2824-1399

Fax : 852-2824-9277

E-mail : cathaylif@netvigator.com

**Tokyo Representative Office**

2F, #3-2-8 Kyobashi, Chuo-ku, 104, Tokyo, Japan

Tel : 81-3-3271-7399

Fax : 81-3-3271-7599

E-mail : cathaylife-tokyo@hi-ho.ne.jp

**Beijing Representative Office**

Rm. 1008, 10F, #88, Shoudu Times Plaza, Chang'an St.

West District, Beijing

Tel : 8610-8391-3425~6

Fax : 8610-8391-3427

E-mail : beijing.rep@cathlife.com.tw

**Chengdu Representative Office**

Rm. 2301, #88, Minxing Financial Building, Tidu St.,

Chengdu, Sichuan Province

Tel : 86-28-86766498~9

Fax : 86-28-86766500

E-mail : chengdu.rep@cathlife.com.tw

**Cathay United Bank**

Los Angeles Branch CUBT

555 W 5th St. Suite 3850, The Gas Company Tower,

Los Angeles, CA 90013 U. S. A.

TEL:+1-213-243-1234 FAX:+1-213-627-6817

**Hong Kong Branch**

Suite 4704 - 4706, 47th Floor, Central Plaza,

18 Harbour Road, Wanchai, Hong Kong

TEL:+852-2877-5488 FAX:+852-2527-0966

**Singapore Representative Office**

6 Battery Rd. #16-06/07

Singapore 049909

TEL:+65-6324-1958 FAX:+65-6324-1959

**Manila Representative Office**

Unit 5A, 5/F. Citibank Center, 8741 Paseo De Roxas,

Makati City 1200, Metro Manila, Philippines

TEL:+63-2-751-1161 FAX:+63-2-751-1163

**Labuan Branch**

Level 3C, Main Office Tower, Financial Park

Labuan Complex Jalan Merdeka, 87000, Labuan F.T.,

Malaysia

TEL:+60-87-452-168 FAX:+ 60-87-453-678

**Kuala Lumpur Marketing Office**

Lot 13A, 13th FL., UBN Tower 10, Jalan P. Ramlee

50250, Kuala Lumpur, Malaysia

TEL:+60-3-2070-6729 FAX:+60-3-2078-9057

**Bangkok Representative Office**

13th Fl., Sathorn City Tower, No.175 South Sathorn

Road, Tungmahamek Sathorn, Bangkok 10120,

Thailand

TEL:+66-2-679-5316~7 FAX:+66-2-679-5318

**Shanghai Representative Office**

18G, New Shanghai Int'l Tower, 360 PuDong South

Road, Pudong New Area, Shanghai 200120, China

TEL:+86-21-6886-3785 FAX:+86-21-6886-3787

**Cathay Century Insurance**

**Shanghai Representative Office**

Rm. 2106, 21F, Marine Tower, #1 Pudong . Avenue,

Pudong District, Shanghai, 200120, China

Tel : 86-21-68860929

Fax : 86-21-68861829

E-mail : shanghai.rep@cathay-ins.com.tw



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**Cathay Financial Holding Co.,Ltd.**  
**FINANCIAL STATEMENTS**  
**TOGETHER WITH**  
**INDEPENDENT AUDITOR'S REPORT**



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cathay United Bank Co., Ltd., (United World Chinese Commercial Bank Co., Ltd. and Cathay United Bank Co., Ltd. are merged on October 27, 2003. United World Chinese Commercial Bank Co., Ltd. is the surviving company but the merged bank is re-named under Cathay United Bank Co., Ltd.) and Cathay Pacific Venture Capital Co., Ltd., wholly-owned subsidiaries of the Company. Total investment for the subsidiaries is NT\$ 68,747 million (US\$ 2,023 million) constituting 41.17% of total assets of the Company as of December 31, 2003, and investment gain is NT\$ 3,438 million (US\$ 101 million) constituting 16.73% of income before taxes of the Company for the year ended December 31, 2003. We did not audit the financial statements of United World Chinese Commercial Bank Co., Ltd. and Cathay United Bank Co., Ltd., which are the wholly-owned subsidiaries of the Company. Total investment for the subsidiaries is NT\$65,382 million (US\$1,884 million) constituting 47.96% of the total assets of the Company as of December 31, 2002, and investment gain is NT\$524 million (US\$15 million) constituting 4.07% of income before taxes of the Company for the year ended December 31, 2002. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts, is based solely on the report of the other auditors.

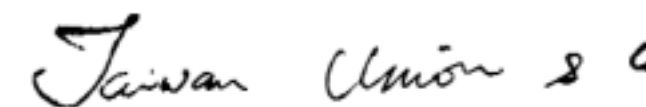
We conducted our audits in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on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

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

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

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

BDO Taiwan Union & Co.  
Taipei, Taiwan  
Republic of China  
January 27, 2004



### Notice to Readers

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

**CATHAY FINANCIAL HOLDING CO.,LTD.**  
**BALANCE SHEETS**

(Expressed in thousands of dollars)  
As of December 31, 2003 and 2002

Assets	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Current assets</b>						
Cash and cash equivalents (Notes 2,4)	\$6,322,798	\$186,019	3.79	\$11,336,312	\$326,695	8.32
Short-term investments (Notes 2,5)	2,147,421	63,178	1.29	450,255	12,976	0.33
Interest receivable	42,742	1,258	0.02	44,206	1,274	0.03
Other receivable	0	0	0.00	108,424	3,124	0.08
Deferred income tax assets-current (Notes 2,13)	21,837	642	0.01	4,069	117	0.00
Prepayments	0	0	0.00	6	0	0.00
Subtotal	8,534,798	251,097	5.11	11,943,272	344,186	8.76
<b>Long-term investments</b>						
Long-term investments in stocks (Notes 2,6)						
Long-term investments under equity method	158,086,904	4,650,983	94.67	124,872,901	3,598,643	91.60
Long-term investments under cost method	100,000	2,942	0.06	0	0	0.00
Allowance for valuation loss on long-term investments in stocks	(136,202)	(4,007)	(0.08)	(1,032,426)	(29,753)	(0.76)
Subtotal	158,050,702	4,649,918	94.65	123,840,475	3,568,890	90.84
<b>Property and equipment (Note 2)</b>						
Communication and transportation equipment	3,199	94	0.00	0	0	0.00
Other equipment	2,673	79	0.00	2,648	76	0.00
Subtotal	5,872	173	0.00	2,648	76	0.00
Less: Accumulated depreciation	(1,202)	(35)	0.00	(347)	(10)	0.00
Subtotal	4,670	138	0.00	2,301	66	0.00
<b>Other assets</b>						
Temporary payments and suspense accounts	167	5	0.00	628	18	0.00
Deferred income tax assets-noncurrent (Notes 2,13)	171,822	5,055	0.10	141,327	4,073	0.11
Deferred charges (Note 2)	231,582	6,813	0.14	395,051	11,385	0.29
Subtotal	403,571	11,873	0.24	537,006	15,476	0.40
<b>Total assets</b>	<b>\$166,993,741</b>	<b>\$4,913,026</b>	<b>100.00</b>	<b>\$136,323,054</b>	<b>\$3,928,618</b>	<b>100.00</b>
<b>Liabilities &amp; stockholders' equity</b>						
<b>Current liabilities</b>						
Collections for others	\$896	\$26	0.00	\$505	\$15	0.00
Accrued expenses	36,628	1,078	0.02	404,614	11,660	0.30
Income taxes payable	5,599	165	0.00	0	0	0.00
Dividends payable	1,477	44	0.00	962	28	0.00
Subtotal	44,600	1,313	0.02	406,081	11,703	0.30
<b>Long-term liabilities</b>						
Bonds payable (Notes 2,7,20)	25,135,091	739,485	15.05	25,016,479	720,936	18.35
Accrued Pension Liabilities	3,576	105	0.00	436	13	0.00
Subtotal	25,138,667	739,590	15.05	25,016,915	720,949	18.35
<b>Other liabilities</b>						
Temporary receipts and suspense accounts	694	20	0.00	708	20	0.00
Subtotal	694	20	0.00	708	20	0.00
<b>Total liabilities</b>	<b>25,183,961</b>	<b>740,923</b>	<b>15.07</b>	<b>25,423,704</b>	<b>732,672</b>	<b>18.65</b>

Stockholders' equity	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Capital stock</b>						
Common stock (Note 8)	83,074,891	2,444,098	49.75	84,531,631	2,436,070	62.01
Capital surplus (Note 9)	53,651,046	1,578,436	32.13	56,807,974	1,637,117	41.67
<b>Retained earnings (Note 10)</b>						
Legal reserve	1,335,046	39,278	0.80	13,713	395	0.01
Special reserve	1,833,255	53,935	1.10	0	0	0.00
Unappropriated retained earnings	16,916,694	497,696	10.13	13,085,153	377,094	9.60
<b>Equity adjustments</b>						
Unrealized valuation losses on long-term equity investments	(136,202)	(4,007)	(0.08)	(1,032,426)	(29,753)	(0.76)
Cumulative conversion adjustments	176,537	5,194	0.11	199,570	5,751	0.15
Net loss not yet recognized as net pension cost	(1,971)	(58)	0.00	0	0	0.00
Treasury stock (Notes 2,10,11)	(15,039,516)	(442,469)	(9.01)	(42,706,265)	(1,230,728)	(31.33)
<b>Total stockholders' equity</b>	<b>141,809,780</b>	<b>4,172,103</b>	<b>84.93</b>	<b>110,899,350</b>	<b>3,195,946</b>	<b>81.35</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$166,993,741</b>	<b>\$4,913,026</b>	<b>100.00</b>	<b>\$136,323,054</b>	<b>\$3,928,618</b>	<b>100.00</b>

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

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

**CATHAY FINANCIAL HOLDING CO.,LTD**  
**STATEMENTS OF INCOME**

(Expressed in thousands of dollars, except earning per share)  
For the Years Ended December 31, 2003 and 2002

	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Operating revenues (Note 2)</b>						
Interest income	\$426,013	\$12,534	2.02	\$442,773	\$12,760	3.14
Gain on disposal of investments	3,455	102	0.02	101,498	2,925	0.72
Gain on long-term equity investments (Notes 2,6)	20,645,091	607,387	97.96	13,575,839	391,235	96.14
Subtotal	21,074,559	620,023	100.00	14,120,110	406,920	100.00
<b>Operating costs (Note 2)</b>						
Interest expenses	(825,612)	(24,290)	(3.92)	(516,479)	(14,884)	(3.66)
Provision for securities trading losses reserve	(71,070)	(2,091)	(0.34)	0	0	0.00
Subtotal	(896,682)	(26,381)	(4.26)	(516,479)	(14,884)	(3.66)
<b>Operating gross profit</b>	20,177,877	593,642	95.74	13,603,631	392,036	96.34
<b>Operating expenses</b>						
Administrative and general expenses	(366,604)	(10,786)	(1.74)	(726,891)	(20,948)	(5.15)
<b>Operating income</b>	19,811,273	582,856	94.00	12,876,740	371,088	91.19
<b>Non-operating revenues</b>						
Gain on foreign exchange	667,733	19,645	3.17	0	0	0.00
Miscellaneous income	69,790	2,053	0.33	8,100	233	0.06
Subtotal	737,523	21,698	3.50	8,100	233	0.06
<b>Non-operating expenses</b>						
Loss on foreign exchange	0	0	0.00	(10,420)	(300)	(0.07)
Subtotal	0	0	0.00	(10,420)	(300)	(0.07)
<b>Income from continuing operations before income taxes</b>	20,548,796	604,554	97.50	12,874,420	371,021	91.18
Income taxes (Notes 2, 13)	39,967	1,176	0.19	210,733	6,073	1.49
<b>Net income</b>	\$20,588,763	\$605,730	97.69	\$13,085,153	\$377,094	92.67
<b>Earnings per share(expressed in dollars) (Note 14)</b>						
Primary earnings per share:						
Before income tax earnings per share	\$2.69	\$0.08		\$2.19	\$0.06	
After income tax earnings per share	\$2.69	\$0.08		\$2.23	\$0.06	
Fully-diluted earnings per share:						
Before income tax earnings per share	\$2.65	\$0.08		\$2.19	\$0.06	
After income tax earnings per share	\$2.63	\$0.08		\$2.20	\$0.06	
<b>Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock</b>						
Income from continuing operations before income taxes	\$21,873,053	\$643,514		\$12,590,158	\$362,829	
Net income	\$21,913,019	\$644,690		\$12,800,891	\$368,902	
<b>Earnings per share(expressed in dollars) (Note14)</b>						
Primary earnings per share:						
Income from continuing operations before income taxes	\$2.78	\$0.08		\$2.13	\$0.06	
Net income	\$2.79	\$0.08		\$2.17	\$0.06	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	\$2.74	\$0.08		\$2.13	\$0.06	
Net income	\$2.72	\$0.08		\$2.14	\$0.06	

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

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

**CATHAY FINANCIAL HOLDING CO.,LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Expressed in thousands of dollars)  
For the Years Ended December 31, 2003 and 2002

Summary	Capital Stock				Retained Earnings				Equity Adjustment								Total			
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Cumulative conversion adjustments		Unrealized valuation losses on long-term equity investments		Net loss not yet recognized as net pension cost		Treasury Stock		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
<b>Balance on January 1, 2002</b>	\$58,386,158	\$1,682,598	\$23,650,414	\$681,568	\$0	\$0	\$0	\$0	\$137,135	\$3,952	\$6,657	\$192	\$0	\$0	\$0	\$0	\$ (7,333,863)	\$ (211,350)	\$ 74,846,501	\$ 2,156,960
Appropriations and distributions for 2001																				
Legal reserve					13,713	395			(13,713)	(395)									0	0
Cash dividends			(8,789,809)	(253,309)					(118,609)	(3,418)									(8,908,418)	(256,727)
Remuneration paid to directors and supervisors									(4,800)	(138)									(4,800)	(138)
Bonus paid to employees									(13)	(1)									(13)	(1)
Shares converted for issuing new shares	26,145,473	753,472																	26,145,473	753,472
Net assets from merger			41,947,369	1,208,858															41,947,369	1,208,858
Cumulative conversion adjustments										192,913	5,559								192,913	5,559
Unrealized valuation losses on long-term equity investments													(1,032,426)	(29,753)					(1,032,426)	(29,753)
Treasury stock																	(35,372,402)	(1,019,378)	(35,372,402)	(1,019,378)
Net income for year ended December 31, 2002									13,085,153	377,094									13,085,153	377,094
<b>Balance on December 31, 2002</b>	<b>\$84,531,631</b>	<b>\$2,436,070</b>	<b>\$56,807,974</b>	<b>\$1,637,117</b>	<b>\$13,713</b>	<b>\$395</b>	<b>\$0</b>	<b>\$0</b>	<b>\$13,085,153</b>	<b>\$377,094</b>	<b>\$199,570</b>	<b>\$5,751</b>	<b>(\$1,032,426)</b>	<b>(\$29,753)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$42,706,265)</b>	<b>(\$1,230,728)</b>	<b>\$110,899,350</b>	<b>\$3,195,946</b>
<b>Balance on January 1, 2003</b>	\$84,531,631	\$2,486,956	\$56,807,974	\$1,671,314	\$13,713	\$404	\$0	\$0	\$13,085,153	\$384,971	\$199,570	\$5,871	(\$1,032,426)	(\$30,374)	\$0	\$0	(\$42,706,265)	(\$1,256,436)	\$110,899,350	\$3,262,706
Disposal of property and equipment retransfer unappropriated retained earnings			(185,853)	(5,468)					185,853	5,468									0	0
Appropriations and distributions for 2002																				
Legal reserve					1,321,332	38,874			(1,321,332)	(38,874)									0	0
Special reserve							1,833,255	53,935	(1,833,255)	(53,935)									0	0
Cash dividends			(1,649,407)	(48,526)					(10,053,091)	(295,766)									(11,702,498)	(344,292)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(137)									(5,400)	(159)
Bonus paid to employees			(165)	(5)					(1,006)	(30)									(1,171)	(35)
Retired treasury stock	(1,456,740)	(42,858)	(978,976)	(28,802)					(3,687,982)	(108,502)							6,123,698	180,162	0	0
Cash Dividends to Subsidiaries			549,329	16,162															549,329	16,162
Capital surplus			(772,940)	(22,740)															(772,940)	(22,740)
Cumulative conversion adjustments										(23,033)	(677)								(23,033)	(677)
Unrealized valuation losses on long-term equity investments													896,244	26,367					896,224	26,367
Disposal of treasury stock			(558,274)	(16,425)													4,221,829	124,208	3,663,555	107,783
Treasury stock			440,119	12,948					(41,770)	(1,229)							17,321,223	509,597	17,719,572	521,316
Net income for year ended December 31, 2003									20,588,763	605,730									20,588,763	605,730
Net loss not yet recognized as net pension cost															(1,971)	(58)			(1,971)	(58)
Rounding					1	0											(1)	0	0	0
<b>Balance on December 31, 2003</b>	<b>\$83,074,891</b>	<b>\$2,444,098</b>	<b>\$53,651,046</b>	<b>\$1,578,436</b>	<b>\$1,335,046</b>	<b>\$39,278</b>	<b>\$1,833,255</b>	<b>\$53,935</b>	<b>\$16,916,694</b>	<b>\$497,696</b>	<b>\$176,537</b>	<b>\$5,194</b>	<b>(\$136,202)</b>	<b>(\$4,007)</b>	<b>(\$1,971)</b>	<b>(\$58)</b>	<b>(\$15,039,516)</b>	<b>(\$442,469)</b>	<b>\$141,809,780</b>	<b>\$4,172,103</b>

(The exchange rates provided by the Federal Reserve Bank of New York on  
The accompanying notes are an integral

December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)  
part of these financial statements.

**CATHAY FINANCIAL HOLDING CO.,LTD**  
**STATEMENTS OF CASH FLOWS**

(Expressed in thousands of dollars)  
For the Years Ended December 31, 2003 and 2002

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

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

**CATHAY FINANCIAL HOLDING CO.,LTD**  
**NOTES TO FINANCIAL STATEMENTS**

(Expressed in thousands of dollars unless otherwise stated)  
As of December 31, 2002 and 2001

**1. Organization of business scope**

On December 31, 2001 Cathay Life Insurance Co., Ltd. ("Cathay Life") was reincorporated as Cathay Financial Holding Co., Ltd. (the "Company") through stock conversion pursuant to provisions of the Republic of China ("ROC") Financial Holding Company Act ("Financial Holding Company Act"). On April 22, 2002, Cathay Century Insurance Co., Ltd. ("Cathay Century") and Cathay United Bank Co., Ltd. ("Cathay United Bank") joined the Company, as two subsidiaries of the Company by stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. ("UWCCB") became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank were merged on October 27, 2003. UWCCB was the Surviving Company but the merged bank is re-named under Cathay United Bank Co., Ltd. ("Cathay United Bank (merged)") On July 29, 2003, the Company listed its partial shares of stock on the Luxembourg Stock Exchange in the form of Global Depositary Shares. The Company mainly engages in financial holding business activities.

**2. Summary of significant accounting policies**

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

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

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

**(2) Cash and cash equivalents**

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

**(3) Short-term investments**

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

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

**(4) Long-term investments in stocks**

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

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or

more of the voting shares and the Company has significant operational influence.

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

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

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

**(5) Property and equipment**

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

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

**(6) Deferred charges**

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

**(7) Convertible bonds payable**

The stated redemption price in excess of the face value of a convertible bond is amortized by the effective interest method and is credited to the reserve for bonds redemption accounts. In addition, this amortization is treated as interest expense. The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible bonds payable and reserve amount for bonds redemption are transferred to the accounts of capital stock and capital surplus and, accordingly, no gain or loss is recognized upon conversion.

**(8) Foreign currency transactions**

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

**(9) Derivative financial instruments**

*A. Interest rate swaps "IRS"*

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

*B. Options*

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged against current income. As of the balance sheet dates, options are marked to market and the resulting gains or losses are credited or charged to current income.

**(10) Income taxes**

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

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

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

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

**(11) Capital expenditure expenses**

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

**(12) Treasury stock**

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

In accordance with article 38 of the financial holding company act, that based on the principle of strict prohibition in cross holding, the initial listing and over the counter financial institution must act in accordance with article 28 of the security exchange to buy back company shares prior to the conversion to a subsidiary of a financial holding company. In addition, article 31 of the financial holding company act indicated that the adjustable period for such conversion is 3 years maximum,

the past due is deemed as unissued shares and should undergo registration amendment and be charged off accordingly.

Under the previous circumstance, subsidiary of a financial holding company holds shares that is treated as treasury stock of the subsidiary should act in accordance with article 28-2, that is, ineligibility of equity right before the conversion of those shares. According to the Ministry of Finance Security and Future Committee (91) article 111467 ruled that a financial institution acted in accordance with security exchange article 28-2, item 1, that the buy back of treasury shares where the conversion to a subsidiary of a financial hold is taking place, the mentioned treasury shares, according to Financial Holding Company Act, article 31, although converted to financial holding common shares, should still be listed as treasury shares and deducted from shareholder equity, the same applied to the holding of subsidiary common shares, that the holder of financial holding shares as a result of this conversion, the company should act in accordance with SFAS NO.30 "Treasury Stock Accounting Principle" and treated shares held by the subsidiary as treasury stock in its financial report and income statement.

**(13) Convenience conversion U.S. dollars**

The financial statements are stated in NT dollars. Conversion of the December 31, 2003 and 2002 NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.99 and NT\$34.70 to US\$1.00 effective on December 31, 2003 and 2002, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

**3. Changes in accounting and its effects: None**

**4. Cash and cash equivalents**

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

**5. Short-term investments**

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

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

**6. Long-term investments**

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

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

	For the years ended December 31			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance on January 1	\$123,840,475	\$3,643,439	\$74,846,501	\$2,156,960
Add: Investment gains under equity method recognized	20,645,091	607,387	13,575,839	391,235
Add: Increment of investment by stock conversion method	0	0	68,197,980	1,965,359
Add: Dividends to subsidiaries	549,329	16,162	0	0
Add: Increment of investment	675,000	19,859	15,690,915	452,188
Add (Less): Capital surplus under equity method recognized	(830,622)	(24,437)	0	0
Add (Less): Unappropriated retained earnings under equity method recognized	57,683	1,697	0	0
Add: Cumulative conversion adjustments under equity method recognized	(23,033)	(678)	9,454	272
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	17,724,647	521,466	(1,161)	(33)

Add (Less): Unrealized valuation loss on long-term equity investments under equity method recognized	896,224	26,367	(952,944)	(27,462)
Less: The Company stocks that the subsidiaries held as investments were treated as treasury stocks	(5,075)	(149)	(13,576,114)	(391,243)
Less: The Company's subsidiaries stocks by stock conversion were treated as treasury stocks	0	0	(15,672,590)	(451,660)
Less: Cash dividends received	(5,579,017)	(164,137)	(10,577,405)	(304,824)
Less: Disinvestments of the subsidiaries	0	0	(7,700,000)	(221,902)
Balance on December 31	\$157,950,702	\$4,646,976	\$123,840,475	\$3,568,890

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

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

A. The investment gains (losses), which were recognized, based on the audited financial statements of the Cathay Life and Cathay Century in the same current periods for the years ended December 31, 2003 and 2002.

B. UWCCB and Cathay United Bank were merged on October 27, 2003. UWCCB was the surviving Company but the merged bank is re-named under Cathay United Bank.

C. We did not audit the financial statements of Cathay United Bank (merged) for the years ended December 31, 2003 and 2002. Cathay United Bank (merged) was audited by other CPAs with modificatory unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements audited by other auditors.

D. We did not audit the financial statements of Cathay Venture Pacific Co., Ltd. for the year ended December 31, 2003. Cathay Venture Pacific Co., Ltd. was audited by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements audited by other auditors.

E. The investment gains (losses), which were recognized based on the audited financial statements of Cathay Venture Capital Corp. in the same current periods for the year ended December 31, 2003.

F. We did not audit the financial statements for the year ended December 31, 2002 of Cathay Bank a subsidiary of Cathay Financial Holding Co., Ltd. (holding company) were audited by other auditors with qualified opinions which complied with the R.O.C. Financial Institution Merger Law amortizing the losses of disposing of delinquent assets. On April 11, 2002, Cathay Bank had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$ 1,894,609 (US\$54,600). According to Article 15 of the R.O.C. Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. As of December 31, 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$ 1,610,418 (US\$ 46,410) and should be recognized as current expenses. The investment gains (losses) of parent company accounted for under equity method of the losses were recognized as current expenses, provision for credit losses of its subsidiary (Cathay Bank) increased by NT\$ 1,610,418 (US\$46,410), the income before tax of its subsidiary decreased by NT\$ 1,610,418 (US\$46,410), the income tax benefit from its subsidiary increased by NT\$ 402,605 (US\$ 11,603) and the net income after tax of the subsidiary decreased by NT\$ 1,207,813 (US\$34,807) for the year ended December 31, 2002. The investment losses of parent company accounted for under equity method recognized increased by NT\$ 379,968(US\$ 10,950), the net asset from merger of additional paid-in capital decreased by NT\$ 827,845 (US\$ 23,857) for the year ended December 31, 2002.

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

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

## 7. Bonds payable

	December 31			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Zero coupon convertible notes				
Add(Less): Loss (Gain) on foreign exchange	\$24,500,000	\$720,800	\$24,500,000	\$706,052
	(707,000)	(20,800)	—	—
Add: Redemption premium payable	1,342,091	39,485	516,479	14,884
Total	\$25,135,091	\$739,485	\$25,016,479	\$720,936

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



## 8. Common stock

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

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

## 9. Capital surplus

(1) Capital surplus was the NT\$53,651,046 (US\$1,578,436) and NT\$56,807,974 (US\$1,637,117) in December 31, 2003 and 2002. Before conversion into financial holding company, NT\$267,215 (US\$7,862) and NT\$1,917,548 (US\$55,261) constituted retained earnings of certain subsidiaries of the Company.

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

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

## 10. Retained earnings

### (1) Legal reserve

Pursuant to the Company Law, 10% and the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can only be used to offset deficit but not for cash dividend distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

### (2) Unappropriated retained earnings

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

(3) At the stockholder's meeting of the Company on June 6, 2003, according to the Company's annual earnings by NT\$13,085,153(US\$384,971), capital surplus belongs to unappropriated retained earnings before the subsidiaries stock conversion by NT\$1,917,548(US\$56,415) cash dividends of NT1.5(US0.04) dollars for each stock and disposal of fixed assets retransfer unappropriated retained earnings of NT\$128,170(US\$3,771) were declared. The date of issuing cash dividends was July 11, 2003.

(4) As the stockholder's meeting of the company resolved on June 27, 2002, declared cash dividends NT\$1.5 dollars each stock and bonus from retained earnings of NT\$137,135 (US\$3,918) in 2001 and capital surplus of NT\$10,278,928 (US\$293,684), which belongs to the subsidiary before conversion. The date of issuing cash dividends was on July 26, 2002.

(5) Cathay life had acquired 156,927,000 shares of treasury stock. After conversion into a financial holding company, Cathay life treasury stock is treated as the Company's treasury stock without any stockholder rights. Cathay life had been transferred 105,376,000 shares to its employees at transferred price of NT40.54 dollars / share (US1.2 dollars / share). After the transfer transaction, the treasury stock holdings of Cathay life have been reduced to 51,551,000 shares.

(6) According to the revised Income Tax Law of 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

(7) Under the regulations of the Securities and Futures commission, a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets, other than the deficit, is made from unappropriated retained earnings. However, the special reserve of equal amounts for prior years' accumulated shareholders' equity contra accounts should only be provided from prior years' unappropriated earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

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

### (9) Dividends policy

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

(10) In 2003, pursuant to ROC SFC, the information regarding the appropriation of employees, directors and supervisors, and estimate earnings per share will be available on the website of "Market Observation Post System" immediately after the meeting of directors.

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

	For the year ended December 31,	
	2002(NT\$)	2002(US\$)
A. Distributions		
Bonus paid to employees-cash	\$1006	\$29
Bonus paid to employees-stock	0	0
Remuneration paid to directors and supervisors	4,639	134
B. After income taxes earnings per share:		
(expressed in dollars)	\$2.23	\$0.06
Pro forma earnings per share	\$2.23	\$0.06
Pro forma earnings per share=	$\frac{\text{Net income—Bonus paid to employees—Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$	

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

## 11. Treasury Stock

A. The following is a summary of the movement of treasury stock.

(Unit: in thousands of shares)

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

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

(Unit: in thousands of shares)

Name	Holding share	Amount (in NT thousands of dollars)	Amount (in US thousands of dollars)	Cause	About retained earnings limit	Legal time limit	Pro forma way by the board of directors determine
Cathay Life	51,551	\$3,032,966	\$89,231	Subsidiaries purchased shares were translated	Treasury stock doesn't carry any stockholder rights	Within three years	None
Cathay Century	3,397	175,976	5,177	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay United Bank (merged)	8,308	430,358	12,662	"	None	Within three years	None
<b>Total</b>	<b>63,256</b>	<b>\$3,639,300</b>	<b>\$107,070</b>				

## 12. Personnel, depreciation, Depletion and amortizations

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

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

The total number of employees was 40 and 7, respectively, on December 31, 2003 and 2002.

### 13. Estimated Income Taxes

(1) Income tax expenses for the years ended December 31, 2002 and 2001 is estimated as follows:

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

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

	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
A. Total deferred income tax liabilities	\$171,838	\$5,056	\$0	\$0
B. Total deferred tax assets	\$365,497	\$10,753	\$145,396	\$4,190
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized bonds payable redemption premium	\$1,342,091	\$39,485	\$516,479	\$14,884
b. Deductible temporary difference from unrealized loss on market price loss of short-term investments	71,070	2,091	0	0
c. Deductible temporary difference from organization costs amortization into 5 years	48,827	1,436	65,102	1,876
d. Taxable temporary difference from unrealized exchange gain	(687,352)	(20,222)	0	0
Subtotal	\$774,636	\$22,790	\$581,581	\$16,760
D. Deferred income tax assets-current	\$21,837	\$642	\$4,069	\$117
Deferred income tax liabilities-Current	0	0	0	0
Net offset balance of deferred income tax assets (liabilities)-current	\$21,837	\$642	\$4,069	\$117
E. Deferred income tax assets-noncurrent	\$343,660	\$10,111	\$141,327	\$4,073
Deferred income tax Liabilities- noncurrent	(171,838)	(5,056)	0	0
Net offset balance of deferred income tax assets (liabilities) - noncurrent	\$171,822	\$5,055	\$141,327	\$4,073

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

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

(5) Information related tax imputation:

	December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance of imputation credit account	\$2,087,542	\$61,416	\$1,347,288	\$38,827
Imputation credit account ratio	December 31, 2003(Estimate)		December 31, 2002(Actual)	
	12.34%		35.19%	

(6) Information relating of undistributed earnings:

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

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

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

#### 14. Earnings Per Share

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

	For the year ended December 31, 2003									
	Before income taxes		After income taxes		Shares (denominator)	Before income tax		After income tax		
	(in thousands of dollars)		(in thousands of dollars)			EPS (in dollars)		EPS (in dollars)		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Net Income	\$12,874,420	\$371,021	\$13,085,153	\$377,094						
<b>Primary earnings per share</b>										
Net income for common stock holder	\$12,874,420	\$371,021	\$13,085,153	\$377,094	5,865,793,845	\$2.19	\$0.06	\$2.23	\$0.06	
<b>Effect of potentially dilutive common stock</b>										
Convertible bonds payable	\$516,479	\$14,884	\$387,359	\$11,163	249,797,077					
<b>Fully-diluted earnings per share</b>										
Net income for common stock holder & effect of potentially common stock	\$13,390,899	\$385,905	\$13,472,512	\$388,257	6,115,590,922	\$2.19	\$0.06	\$2.20	\$0.06	

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

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

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

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

## 15. Related Party Transactions

### (1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
UWCCB	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Venture Capital Corp.	The investee is accounted for using the equity method
Cathay Securities Investment Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Life Charity Foundation	Affiliate
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	The investee is accounted for using the equity method
Lin Yuan Property Management Co., Ltd.	The investee is accounted for using the equity method
Symphox Information Co., Ltd.	The investee is accounted for using the equity method
Cathay Life Insurance Agent Co., Ltd.	The investee is accounted for using the equity method
Cathay Property Insurance Agent Co., Ltd.	The investee is accounted for using the equity method
Cathay Futures Corp.(formerly Seward Futures Corp.)	The investee is accounted for using the equity method
Seaward Leasing Ltd.	The investee is accounted for using the equity method
Seaward Insurance Agent Corp.	The investee is accounted for using the equity method
Seaward Property Insurance Agent Corp. (The company had been liquidated in October, 2003)	The investee is accounted for using the equity method
Huong Yee Co., Ltd. (The company had been liquidated in July, 2003)	The investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee is accounted for using the equity method
Seaward Card Co., Ltd.	The investee is accounted for using the equity method
Indovina Bank	The investee is accounted for using the equity method
Vista Technology Venture Capital Crop.	The investee is accounted for using the equity method
Gemfor Tech Co.	Their Chairman of the Board is the director of the Cathay United Bank(merged)(resigned since year 2003)
KG Telecommunication Ltd.	Cathay Life is to occupy the supervisor for KG
China England Company Ltd. and etc.	Investee company of Cathay United Bank(merged)
Taipei Smart Card Corp.	Investee company of Cathay United Bank(merged)
Culture and Charity Foundation of the CUB	Cathay United Bank(merged) is the major sponsor of the Foundation

### (2) Significant transactions with related parties:

#### A. Real estate rental expense

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

#### B. Cash in Bank

Name	Item	For the year ended December 31, 2002			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank (merged)	Time deposits	\$3,613,802	\$919,309	0.9% ~ 1.05%	\$22,411
	Cash in bank	5,553,130	746,672	0.25% ~ 0.5%	246
		\$1,665,981			

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

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

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

#### C. Interest Receivable

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

D. Temporary Payments and Suspense accounts

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

E. Insurance Expense

Name	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Securities Investment Co.,Ltd.	\$169	\$5	\$0	\$0

16. Pledged Assets: None.

17. Other Important Matters and Contingent Liabilities: None.

18. Serious Damages: None.

19. Subsequent Events: None.

20. Other Important Events

(1) Pension Related Information

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

1. Pension funded status

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

2. Actuarial Assumptions

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

(2) Financial Instruments Related Information

(a) Derivative Financial Instruments:

1. Credit and Market Risk

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

2. Liquidity and cash requirement

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

3. Interest Rate Swaps (IRS)

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

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

As of December 31, 2003:

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

As of December 31, 2002:

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

#### 4. Foreign currency options

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

As of December 31, 2003:

As of December 31, 2003:

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

As of December 31, 2002:

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

#### (b) Non-derivative financial instruments related information:

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

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

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

Offering: The Purchaser is offering outside United States the International Notes in reliance on Regulation S under the U.S. Securities Act ("Regulation S") and is offering Rule 144A Notes concurrently in the United States through its selling agent, only to institutions that are qualified institutional buyers (or QIBs) (as defined in Rule 144A).

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

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

#### Conversion rights:

Subject to certain conditions, each holder of the Notes (the "Holder") will have the right during the conversion period to convert its Notes (or any portion thereof, being US\$1,000 dollars in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period. Cathay Financial Holdings shall as soon as practicable but in no event more than five trading days from the conversion date deliver common shares to the converting holders or the depository, as the case may be.

#### Repurchase at the option of the holder:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

#### Repurchase in the event of desisting:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Common Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

#### Repurchase in the event of change of control:

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

#### Redemption at the option of Cathay Financial Holdings:

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

#### Tax redemption:

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

#### Redemption amount at maturity:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, Cathay Financial Holdings will redeem the Notes on the maturity date (as defined herein) at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

**Negative pledge:**

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

**Further issues:**

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

**Governing law:**

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

**Listing:**

The international Notes have been listed on the Luxembourg Stock Exchange and the Rule 144A Notes have been designated for trading on the PORTALSM Market in the United States. Application has been made to have the International GDSs issuable upon conversion of the Notes listed on the Luxembourg Stock Exchange.

**Trading market for the common shares:**

The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since December 31, 2003.

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

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

*(6) Material contract: None.*

*(7) Presentation of financial statements:*

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

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

**22. Segment information: None**



**CATHAY FINANCIAL**  
**Notes to financial**

(Expressed in thousands of  
As of December 31,

**HOLDING CO.,LTD**  
**statements (continued)**

dollars unless otherwise stated)  
2003 and 2002

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

(a) Concise balance sheets:

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

**CATHAY FINANCIAL  
Notes to financial**

(Expressed in thousands of  
As of December 31,

**HOLDING CO.,LTD  
statements (continued)**

dollars unless otherwise stated)  
2003 and 2002

(b) Concise statements of income:

Items/Period	CATHAY LIFE INSURANCE CO., LTD				CATHAY CENTURY		INSURANCE CO., LTD		CATHAY UNITED BANK CO., LTD(merged)				CATHAY UNITED BANK CO., LTD			
	The year ended Dec.31, 2003		The year ended Dec.31, 2002		The year ended Dec.31, 2003		The year ended Dec.31, 2002		The year ended Dec.31, 2003		The year ended Dec.31, 2002		1.1.2003~26.10.2003		The year ended Dec.31, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$474,956,405	\$13,973,416	\$451,697,947	\$13,017,232	\$12,254,223	\$360,524	\$11,150,975	\$321,353	\$30,200,713	\$888,518	\$32,942,262	\$949,345	\$10,076,237	\$296,447	\$10,503,809	\$302,703
Operating costs & expenses	(456,521,517)	(13,431,054)	(436,317,818)	(\$12,574,001)	(11,566,764)	(\$340,299)	(10,803,696)	(\$311,345)	(26,733,980)	(786,525)	(43,710,680)	(1,259,674)	(9,786,111)	(287,911)	(10,759,231)	(310,064)
Operating income	18,434,888	542,362	15,380,129	443,231	687,459	20,225	347,279	10,008	3,466,733	101,993	(10,768,418)	(310,329)	290,126	8,536	(255,422)	(7,361)
Non-operating revenues	1,572,167	46,253	718,251	20,699	14,214	418	4,773	137	223,655	6,580	316,279	9,114	60,615	1,783	31,979	922
Non-operating expenses	(236,756)	(6,965)	(39,291)	(1,132)	(8,103)	(238)	(1,369)	(39)	(1,069,987)	(31,480)	(1,475,171)	(42,512)	(29,714)	(874)	(26,395)	(761)
Operating income before taxes	19,770,299	581,650,524,5	16,059,089	462,798	693,570	20,405	350,683	10,106	2,620,401	77,093	(11,927,310)	(343,727)	321,027	9,445	(249,838)	(7,200)
Net income	17,830,597	83	12,846,157	370,206	592,660	17,436	234,503	6,758	2,706,059	79,613	(8,807,310)	(253,813)	(62,795)	(1,847)	(90,180)	(2,599)
Earning per share before taxes (in dollars)	\$4.01	\$0.12	\$2.98	\$0.09	\$2.99	\$0.09	\$1.51	\$0.04	\$0.65	\$0.02	(\$3.00)	(\$0.09)	\$0.03	\$0.00	(\$0.20)	(\$0.01)
Earning per share (in dollars)	\$3.61	\$0.11	\$2.39	\$0.07	\$2.56	\$0.08	\$1.01	\$0.03	\$0.67	\$0.02	(\$2.22)	(\$0.06)	(\$0.01)	(\$0.00)	(\$0.07)	(\$0.00)

**Annotation 1:**

On April 11, 2002, Cathay United Bank Co., Ltd. had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609(US\$54,600). According to Article 15 of the ROC Financial Institution Merger Law, the losses on the transaction are amortized monthly over five years starting from April 2002. As of December 31,2002, the unamortized loses on disposal of delinquent assets amounted to NT\$1,610,418(US\$46,410), classified as other assets. According to general accepted accounting principles, the losses should be recognized as current expenses on the transaction date. Therefore, the above accounting treatment results in decreased the provision for credit losses and increased the net income before tax of its subsidiary by NT\$316,092(US\$9,300), respectively, and the net income after tax of its subsidiary increased by NT\$237,069 (US\$6,975) from January 1 to October 16, 2003. In 2002, its subsidiaries have provision for credit losses increased and net

income before tax decreased by NT\$1,610,418(US\$46,410), respectively, and the net income after tax of its subsidiary decreased by NT\$1,207,813(US\$34,807). From Jan. 1 to Oct. 16, 2003, provision for credit losses of its subsidiary decreased by NT\$316,092 (US\$9,300), the net income before tax of its subsidiary increased by NT\$316,092(US\$9,300), and the net income after tax of its subsidiary increased by NT\$237,069 (US\$6,975). In the year December 31, 2002, provision for credit losses of its subsidiary increased by NT\$1,610,418 (US\$46,410), the net income before tax of its subsidiary decreased by NT\$1,610,418 (US\$46,410) and the net income after tax of its subsidiary decreased by NT\$1,207,813(US\$34,807).

**Annotation 2:**

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

**Cathay Financial Holding Co., Ltd.  
And Subsidiaries Consolidated  
FINANCIAL STATEMENTS**

**CATHAY FINANCIAL HOLDING CO.,LTD AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of dollars )  
As of December 31, 2003 and 2002

Assets	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Current assets:</b>						
Cash and cash equivalents	\$129,072,412	\$3,797,364	5.51	\$164,459,144	\$4,739,457	7.88
Due from banks	31,588,233	929,339	1.35	31,096,014	896,139	1.49
Due from central bank	29,978,608	881,983	1.28	40,810,508	1,176,095	1.96
Short-term investments	564,966,695	16,621,556	24.13	379,017,376	10,922,691	18.16
Receivables	91,105,863	2,680,373	3.89	77,792,539	2,241,860	3.73
Deferred income tax assets-current	73,495	2,162	0.00	48,980	1,411	0.00
Prepayments	1,528,031	44,956	0.07	1,791,346	51,624	0.09
Subtotal	848,313,337	24,957,733	36.23	695,015,907	20,029,277	33.31
<b>Exchange bills negotiated discounted and loans</b>	986,713,769	29,029,531	42.14	992,438,586	28,600,536	47.57
<b>Long-term investments in stocks &amp; Bonds and real estate</b>						
Long-term investments in stocks	59,539,115	1,751,666	2.54	61,738,187	1,779,199	2.96
Long-term investments in bonds	269,635,361	7,932,785	11.51	149,949,806	4,321,320	7.19
Investments in real estate	94,484,088	2,779,761	4.03	94,151,308	2,713,294	4.51
Subtotal	423,658,564	12,464,212	18.08	305,839,301	8,813,813	14.66
<b>Property and equipment</b>						
Land	20,353,251	598,801	0.87	20,043,032	577,609	0.96
Buildings and structures	20,492,579	602,900	0.88	20,118,240	579,776	0.96
Furniture and fixtures	3,611,753	106,259	0.15	2,595,945	74,811	0.13
Transportation and communication equipment	243,261	7,157	0.01	224,258	6,463	0.01
Other equipment	7,946,350	233,785	0.34	7,375,708	212,556	0.35
Subtotal	52,647,194	1,548,902	2.25	50,357,183	1,451,215	2.41
Less: Accumulated depreciation	(12,229,512)	(359,797)	(0.52)	(11,169,332)	(321,883)	(0.54)
Construction in progress	1,157,555	34,056	0.05	1,560,283	44,965	0.08
Subtotal	41,575,237	1,223,161	1.78	40,748,134	1,174,297	1.95
Subtotal	7,261	214	0.00	6,143	177	0.00
<b>Intangible assets</b>						
<b>Other assets</b>						
Net non-operating assets	3,704,121	108,977	0.16	4,142,021	119,366	0.20
Miscellaneous assets	18,365,164	540,311	0.79	41,751,219	1,203,205	2.00
Deferred income tax assets-noncurrent	4,291,581	126,260	0.18	4,265,186	122,916	0.20
Deferred charges	781,638	22,996	0.03	1,990,662	57,368	0.10
Investment-linked products assets	14,285,128	420,274	0.61	280,271	8,077	0.01
Subtotal	41,427,632	1,218,818	1.77	52,429,359	1,510,932	2.51
<b>Total assets</b>	<b>\$2,341,695,800</b>	<b>\$68,893,669</b>	<b>100.00</b>	<b>\$2,086,477,430</b>	<b>\$60,129,032</b>	<b>100.00</b>

Liabilities & Stockholders' Equity	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Current liabilities</b>						
Due to Central Bank	\$161,170	\$4,742	0.01	\$167,129	\$4,817	0.01
Due to banks	80,831,523	2,378,097	3.45	45,757,684	1,318,665	2.19
Payables	50,887,675	1,497,137	2.17	40,757,792	1,174,576	1.95
Deferred income tax Liabilities-current	1,125,244	33,105	0.05	1,216,007	35,044	0.06
Accounts collected in advance	843,904	24,828	0.04	1,225,369	35,313	0.06
Subtotal	133,849,516	3,937,909	5.72	89,123,981	2,568,415	4.27
Deposits and remittances payable	670,210,790	19,717,882	28.62	646,052,762	18,618,235	30.96
Bankers acceptances and funds borrowed	1,753,524	51,589	0.07	2,206,585	63,590	0.11
<b>Long-term liabilities</b>						
Bonds payable	25,135,091	739,485	1.07	25,016,479	720,936	1.20
Reserve for land revaluation increment tax	37,845	1,113	0.00	37,845	1,091	0.00
Accrued pension liabilities	744,651	21,908	0.03	7,669	221	0.00
Subtotal	25,917,587	762,506	1.10	25,061,993	722,248	1.20
<b>Other liabilities</b>						
Reserve for operations and liabilities	1,349,881,159	39,714,068	57.65	1,210,266,640	34,878,001	58.01
Guarantee deposits received	3,988,316	117,338	0.17	2,585,848	74,520	0.12
Investment-linked products liabilities	14,285,128	420,274	0.61	280,271	8,077	0.01
Subtotal	1,368,154,603	40,251,680	58.43	1,213,132,759	34,960,598	58.14
<b>Total liabilities</b>	<b>2,199,886,020</b>	<b>64,721,566</b>	<b>93.94</b>	<b>1,975,578,080</b>	<b>56,933,086</b>	<b>94.68</b>
<b>Stockholders' Equity</b>						
Capital stock						
Common stock	83,074,891	2,444,098	3.55	84,531,631	2,436,070	4.05
Capital surplus	53,651,046	1,578,436	2.29	56,807,974	1,637,117	2.72
Retained earnings						
Legal reserve	1,335,046	39,278	0.06	13,713	395	0.00
Special reserve	1,833,255	53,935	0.08	0	0	0.00
Unappropriated retained earnings	16,916,694	497,696	0.72	13,085,153	377,094	0.63
Equity adjustments						
Unrealized valuation losses on long term equity investments	(136,202)	(4,007)	(0.01)	(1,032,426)	(29,753)	(0.05)
Cumulative conversion adjustments	176,537	5,194	0.01	199,570	5,751	0.01
Net loss not yet recognized as net pension cost	(1,971)	(58)	0.00	0	0	0.00
Treasury stock	(15,039,516)	(442,469)	(0.64)	(42,706,265)	(1,230,728)	(2.04)
<b>Total stockholders' equity</b>	<b>141,809,780</b>	<b>4,172,103</b>	<b>6.06</b>	<b>110,899,350</b>	<b>3,195,946</b>	<b>5.32</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$2,341,695,800</b>	<b>\$68,893,669</b>	<b>100.00</b>	<b>\$2,086,477,430</b>	<b>\$60,129,032</b>	<b>100.00</b>

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

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Expressed in thousands of dollars ,except earning per share)  
For the Year Ended December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Operating revenues</b>						
Interest income	\$79,585,908	\$2,341,451	15.14	\$82,270,766	\$2,370,916	16.26
Premiums income	267,200,820	7,861,160	50.82	286,393,602	8,253,418	56.60
Reinsurance commission earned	407,646	11,993	0.08	391,454	11,281	0.08
Claims recovered from reinsures	1,166,449	34,317	0.22	1,774,184	51,129	0.35
Recovered premiums reserve	131,830,534	3,878,509	25.07	113,093,480	3,259,178	22.35
Recovered special reserve	157,197	4,625	0.03	5,074,942	146,252	1.00
Recovered claims reserve	314,691	9,258	0.06	304,628	8,779	0.06
Commission and handing fee earned	5,022,542	147,765	0.96	3,253,757	93,768	0.64
Investment-linked products revenues	17,094,832	502,937	3.25	291,248	8,393	0.06
Commission income of stock brokerage	131,835	3,879	0.03	106,427	3,067	0.02
Gain on disposal of investments	13,120,447	386,009	2.50	6,652,248	191,708	1.31
Gain on long-term investments	494,366	14,545	0.09	0	0	0.00
Gain on investments-real estate	4,267,767	125,560	0.81	4,484,010	129,222	0.89
Other operating income	4,952,086	145,692	0.94	1,909,012	55,015	0.38
Subtotal	525,747,120	15,467,700	100.00	505,999,758	14,582,126	100.00
<b>Operating costs</b>						
Interest expenses	(9,848,890)	(289,759)	(1.88)	(15,108,498)	(435,404)	(2.99)
Insurance expenses	(2,798,398)	(82,330)	(0.53)	(24,216,118)	(697,871)	(4.79)
Brokerage expenses	(23,818,122)	(700,739)	(4.53)	(3,326,806)	(95,873)	(0.66)
Commission expenses	(448,127)	(13,184)	(0.09)	(470,682)	(13,564)	(0.09)
Insurance claims payment	(137,334,589)	(4,040,441)	(26.12)	(125,916,015)	(3,628,704)	(24.88)
Provision for premiums reserve	(268,859,214)	(7,909,950)	(51.14)	(274,699,003)	(7,916,398)	(54.29)
Provision for special reserve	(2,606,949)	(76,698)	(0.50)	(339,038)	(9,771)	(0.07)
Contribution to the stabilization funds	(273,243)	(8,039)	(0.05)	(292,217)	(8,421)	(0.06)
Provision for claims reserve	(374,404)	(11,015)	(0.07)	(314,691)	(9,069)	(0.06)
Handling fee paid	(2,343,935)	(68,960)	(0.45)	(2,603,858)	(75,039)	(0.51)
Provision for securities trading losses reserve	(71,070)	(2,091)	(0.01)	0	0	0.00
Investment-linked products expenses	(17,094,832)	(502,937)	(3.25)	(291,248)	(8,393)	(0.06)
Commission charges of stock brokerage	(8,437)	(248)	0.00	(6,254)	(180)	0.00
Losses on long-term equity investments	0	0	0.00	(330,171)	(9,515)	(0.07)
Provision for possible losses	(14,665,524)	(431,466)	(2.79)	(29,386,174)	(846,864)	(5.81)
Agency expenses	(2,488)	(73)	0.00	0	0	0.00
Other operating cost	(650,675)	(19,143)	(0.12)	(550,981)	(15,878)	(0.11)
Subtotal	(481,198,897)	(14,157,073)	(91.53)	(477,851,754)	(13,770,944)	(94.45)

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Operating gross profit</b>	44,548,223	1,310,627	8.47	28,148,004	811,182	5.55
<b>Operating expenses</b>	(22,536,362)	(663,029)	(4.29)	(24,250,368)	(698,858)	(5.45)
<b>Operating income</b>	22,011,861	647,598	4.18	3,897,636	112,324	0.10
<b>Non-operating revenues</b>	2,343,403	68,944	0.46	1,301,591	37,510	0.26
<b>Non-operating expenses</b>	(1,144,111)	(33,660)	(0.22)	(1,552,645)	(44,745)	(0.30)
<b>Income from continuing operations before income taxes</b>	23,211,153	682,882	4.42	3,646,582	105,089	0.06
<b>Income taxes</b>	(2,622,390)	(77,152)	(0.50)	161,277	4,648	0.03
<b>Net income</b>	20,588,763	605,730	3.92	3,807,859	109,737	0.09
<b>Net loss (income) before acquisitions of the subsidiaries</b>	0	0	0.00	9,277,294	267,357	1.83
<b>Consolidated net income</b>	\$20,588,763	\$605,730	3.92	\$13,085,153	\$377,094	1.92

**Earnings per share(expressed in dollars)**

<b>Primary earnings per share:</b>				
Income from continuing operations before income taxes	\$3.04	\$0.09	\$0.62	\$0.02
Net income	\$2.69	\$0.08	\$0.65	\$0.02
Consolidated net income	\$2.69	\$0.08	\$2.23	\$0.06
<b>Fully-diluted earnings per share:</b>				
Income from continuing operations before income taxes	\$2.98	\$0.09	\$0.68	\$0.02
Net income	\$2.63	\$0.08	\$0.69	\$0.02
Consolidated net income	\$2.63	\$0.08	\$2.20	\$0.06

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

**Cathay Life Insurance Co., Ltd.**  
**FINANCIAL STATEMENTS**

**CATHAY LIFE INSURANCE CO., LTD.**
**BALANCE SHEETS**

(Expressed in thousands of dollars)

As of December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$110,832,510	\$3,260,739	7.62	\$135,061,552	\$3,892,264	10.51
Short-term investments	394,517,196	11,606,861	27.12	282,050,205	8,128,248	21.94
Notes receivable	15,256,262	448,846	1.05	19,663,894	566,683	1.53
Notes receivable-related parties	47,701	1,403	0.00	36,111	1,041	0.00
Tax refund receivable	15,029	442	0.00	15,029	433	0.00
Interest receivable	10,672,933	314,002	0.74	11,059,642	318,722	0.86
Other accounts receivable	7,006,490	206,134	0.48	3,073,662	88,578	0.24
Prepayments	30,422	895	0.00	304,712	8,781	0.02
Sub-total	538,378,543	15,839,322	37.01	451,264,807	13,004,750	35.10
Exchange Bills Negotiated, Discounted and Loans						
Policy loans	183,721,399	5,405,160	12.63	184,421,933	5,314,753	14.35
Short-term secured loans	61,106	1,798	0.00	105,833	3,050	0.01
Medium-term secured loans	9,928,879	292,112	0.68	9,356,206	269,631	0.73
Long-term secured loans	284,651,611	8,374,569	19.57	307,811,516	8,870,649	23.94
Subtotal	478,362,995	14,073,639	32.88	501,695,488	14,458,083	39.03
<b>Funds, Long-Term Investments, and Receivable</b>						
Long-term investments in stocks						
Under the equity method	2,133,813	62,778	0.15	2,074,654	59,788	0.16
Under the cost method	44,369,985	1,305,383	3.05	55,157,328	1,589,548	4.29
Allowance for valuation loss on long-term investments in stocks	(19,419)	(571)	0.00	(935,733)	(26,966)	(0.07)
Long-term investments in bonds	253,211,527	7,449,589	17.41	149,669,472	4,313,241	11.64
Investments in real estate	94,484,088	2,779,761	6.49	94,151,308	2,713,294	7.33
Subtotal	394,179,994	11,596,940	27.10	300,117,029	8,648,905	23.35
<b>Property and Equipment</b>						
Land	5,161,509	151,854	0.35	5,504,057	158,618	0.43
Buildings and Construction	11,193,060	329,304	0.77	10,704,265	308,480	0.83
Communication and transportation equipment	137,010	4,031	0.01	139,050	4,007	0.01
Other equipment	4,359,036	128,245	0.30	3,955,648	113,996	0.31
Subtotal	20,850,615	613,434	1.43	20,303,020	585,101	1.58
Less: Accumulated depreciation	(5,494,597)	(161,653)	(0.38)	(5,003,380)	(144,190)	(0.39)
Construction in progress and prepayment for equipment	109,927	3,234	0.01	667,479	19,236	0.05
Subtotal	15,465,945	455,015	1.06	15,967,119	460,147	1.24
<b>Other Assets</b>						
Non-operating assets	3,002,047	88,322	0.21	3,437,401	99,061	0.27
Guarantee deposits paid	1,176,827	34,623	0.08	262,822	7,574	0.02
Overdue receivables	1,431,930	42,128	0.10	4,265,036	122,912	0.33
Temporary payments and suspense accounts	244,124	7,182	0.02	104,957	3,025	0.01
Securities serving as deposits paid-bonds	7,937,998	233,539	0.54	7,730,262	222,774	0.60
Deferred income tax assets	259,724	7,641	0.02	433,378	12,489	0.03
Investment-linked products assets	14,285,128	420,274	0.98	280,271	8,077	0.02
Subtotal	28,337,778	833,709	1.95	16,514,127	475,912	1.28
<b>Total Assets</b>	<b>\$1,454,725,255</b>	<b>\$42,798,625</b>	<b>100.00</b>	<b>\$1,285,558,570</b>	<b>\$37,047,797</b>	<b>100.00</b>

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Notes payable	\$1,603	\$47	0.00	\$2,677	\$77	0.00
Accounts payable-related parties	209,741	6,171	0.01	33,272	959	0.00
Collections for others	142,696	4,198	0.01	180,451	5,200	0.01
Accrued expenses	3,196,696	94,048	0.22	3,453,387	99,521	0.27
Taxes payable	347,517	10,224	0.02	2,450,410	70,617	0.19
Commissions payable	1,148,918	33,802	0.08	1,389,907	40,055	0.11
Dividends payable	175,596	5,166	0.01	337,975	9,740	0.03
Life insurance proceeds payable	481	14	0.00	790	23	0.00
Other payable	1,418,101	41,721	0.10	1,422,941	41,007	0.11
Deferred income tax liabilities- current	1,125,244	33,105	0.08	1,216,007	35,044	0.09
Accounts collected in advance	535,077	15,743	0.04	202,337	5,831	0.02
Subtotal	8,301,670	244,239	0.57	10,690,154	308,074	0.83
<b>Long-term Liabilities</b>						
Reserve for land revaluation increment tax	3,726	110	0.00	3,726	107	0.00
Accrued pension liability	732,491	21,550	0.05	0	0	0.00
Subtotal	736,217	21,660	0.05	3,726	107	0.00
<b>Other Liabilities</b>						
Reserve for operations and liabilities						
Unearned premium reserve	9,471,557	278,657	0.65	14,080,464	405,777	1.10
Reserve for life insurance	1,320,057,659	38,836,648	90.75	1,178,668,422	33,967,390	91.69
Special reserve	13,379,990	393,645	0.92	11,155,322	321,479	0.87
Claims reserve	329,851	9,704	0.02	278,080	8,014	0.02
<b>Miscellaneous liabilities</b>						
Guarantee deposits received	1,327,385	39,052	0.09	1,294,401	37,302	0.10
Temporary receipts and suspense accounts	602,457	17,725	0.04	448,983	12,939	0.03
Investment-linked products liabilities	14,285,128	420,274	0.98	280,271	8,077	0.02
Subtotal	1,359,454,027	39,995,705	93.45	1,206,205,943	34,760,978	93.83
<b>Total Liabilities</b>	<b>1,368,491,914</b>	<b>40,261,604</b>	<b>94.07</b>	<b>1,216,899,823</b>	<b>35,069,159</b>	<b>94.66</b>
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock	50,686,158	1,491,208	3.49	50,686,158	1,460,696	3.94
Capital surplus	5,200	153	0.00	3,048	88	0.00
<b>Retained earnings</b>						
Legal reserve	14,552,065	428,128	1.00	13,254,705	381,980	1.03
Special reserve	6,249,135	183,852	0.43	0	0	0.00
Unappropriated retained earnings	17,788,827	523,355	1.22	12,973,603	373,879	1.01
<b>Equity adjustment</b>						
Unrealized valuation losses on long-term equity investment	(19,419)	(572)	0.00	(935,733)	(26,966)	(0.07)
Cumulative conversion adjustments	4,341	128	0.00	10,829	312	0.00
Treasury stock	(3,032,966)	(89,231)	(0.21)	(7,333,863)	(211,351)	(0.57)
<b>Total Stockholders' Equity</b>	<b>86,233,341</b>	<b>2,537,021</b>	<b>5.93</b>	<b>68,658,747</b>	<b>1,978,638</b>	<b>5.34</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,454,725,255</b>	<b>\$42,798,625</b>	<b>100.00</b>	<b>\$1,285,558,570</b>	<b>\$37,047,797</b>	<b>100.00</b>

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF INCOME**

(Expressed in thousands of dollars, except earning per share)  
For the Years Ended December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Operating Revenues</b>						
Premiums income	\$260,375,620	\$7,660,360	54.82	\$280,361,926	\$8,079,595	62.07
Reinsurance commission earned	100,663	2,962	0.02	130,526	3,762	0.03
Claims recovered from reinsures	191,186	5,625	0.04	632,365	18,224	0.14
Recovered premiums reserve	128,477,867	3,779,873	27.05	109,906,943	3,167,347	24.33
Recovered special claim reserve	0	0	0.00	4,962,327	143,007	1.10
Recovered claims reserve	278,080	8,181	0.06	266,322	7,675	0.06
Handling fee earned	545,547	16,050	0.12	10,209	294	0.00
Interest Income	47,277,701	1,390,930	9.95	43,939,482	1,266,267	9.73
Gain on disposal of investments	11,006,551	323,817	2.32	4,778,373	137,705	1.06
Gain on long-term investments	22,960	675	0.00	0	0	0.00
Gain on investments-real estate	4,513,133	132,778	0.95	4,484,010	129,222	0.99
Other operating Income	5,072,265	149,228	1.07	1,934,216	55,741	0.43
Investment-linked products revenues	17,094,832	502,937	3.60	291,248	8,393	0.06
Subtotal	474,956,405	13,973,416	100.00	451,697,947	13,017,232	100.00
<b>Operating Costs</b>						
Insurance expenses	(445,229)	(13,099)	(0.10)	(723,807)	(20,859)	(0.16)
Brokerage expenses	(23,818,122)	(700,739)	(5.01)	(24,545,513)	(707,363)	(5.44)
Commissions expenses	(314,055)	(9,240)	(0.07)	(275,438)	(7,938)	(0.06)
Insurance claims payment	(134,132,353)	(3,946,230)	(28.24)	(122,855,410)	(3,540,502)	(27.20)
Provision for premiums reserve	(265,258,198)	(7,804,007)	(55.85)	(271,346,336)	(7,819,779)	(60.07)
Provision for special claim reserve	(2,224,669)	(65,451)	(0.47)	0	0	0.00
Contribution to the stabilization funds	(259,913)	(7,647)	(0.05)	(280,404)	(8,081)	(0.06)
Provision for claims reserve	(329,851)	(9,704)	(0.07)	(278,080)	(8,014)	(0.06)
Handling fee paid	(1,775,924)	(52,248)	(0.37)	(2,163,984)	(62,363)	(0.48)
Interest expenses	(32,377)	(952)	(0.01)	(24,136)	(696)	0.00
Loss on disposal of investments	0	0	0.00	(20,896)	(602)	0.00
Provisions expenses	(592,873)	(17,443)	(0.12)	(2,608,958)	(75,186)	(0.58)
Investment-linked products revenues	(17,094,832)	(502,937)	(3.60)	(291,248)	(8,393)	(0.07)
Subtotal	(446,278,396)	(13,129,697)	(93.96)	(425,414,210)	(12,259,776)	(94.18)
Operating Gross Profit	28,678,009	843,719	6.04	26,283,737	757,456	5.82
<b>Operating Expenses</b>						
Marketing expenses	(2,739,501)	(80,597)	(0.58)	(3,463,232)	(99,805)	(0.77)
Administrative and general expenses	(7,503,620)	(220,760)	(1.58)	(7,440,376)	(214,420)	(1.65)
Operating Income	18,434,888	542,362	3.88	15,380,129	443,231	3.40
<b>Non-Operating Revenues</b>						
Gain on foreign exchange	0	0	0.00	190,658	5,495	0.04
Gain on disposal of property and equipment	2,903	85	0.00	3,404	98	0.00
Miscellaneous income	1,569,264	46,168	0.33	524,189	15,106	0.12
Subtotal	1,572,167	46,253	0.33	718,251	20,699	0.16
<b>Non-Operating Expenses</b>						
Loss on foreign exchange	(192,345)	(5,659)	(0.04)	0	0	0.00
Loss on disposal of property and equipment	(15,004)	(441)	0.00	(6,075)	(175)	0.00
Miscellaneous expenses	(29,407)	(865)	(0.01)	(33,216)	(957)	(0.01)
Subtotal	(236,756)	(6,965)	(0.05)	(39,291)	(1,132)	(0.01)
<b>Income from Continuing</b>						
Operations before income taxes	19,770,299	581,650	4.16	16,059,089	462,798	3.55
Income Taxes	(1,939,702)	(57,067)	(0.41)	(3,212,932)	(92,592)	(0.71)
Net Income	\$17,830,597	\$524,583	3.75	\$12,846,157	\$370,206	2.84
Before income taxes Earnings Per Share (expressed in dollars)	\$4.01	\$0.12		\$2.98	\$0.09	
After income taxes Earnings Per Share (expressed in dollars)	\$3.61	\$0.11		\$2.39	\$0.07	

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

**Cathay United Bank Co., Ltd.**  
**FINANCIAL STATEMENTS**



**CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)  
BALANCE SHEETS**

(Expressed in thousands of dollars)  
As of December 31, 2003 and 2002

	2003		2002			2003		2002	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
<b>Assets</b>					<b>Liabilities and shareholders' equity</b>				
Cash and cash equivalents	\$23,123,481	\$680,302	\$25,453,760	\$733,538	Due to Central Bank	\$161,170	\$4,742	\$167,129	\$4,816
Due from Central Bank	29,978,608	881,983	29,164,768	840,483	Due to commercial banks	80,831,523	2,378,097	44,042,513	1,269,237
Due from commercial banks	31,588,233	929,339	31,096,014	896,139	Payables	43,486,650	1,279,396	25,637,194	738,824
Securities purchased-net	166,843,309	4,908,600	105,171,935	3,030,891	Advances	1,676,799	49,332	1,025,725	29,560
Receivables-net	56,495,510	1,662,122	21,599,990	622,478	Deposits and remittances	659,956,920	19,416,208	514,675,358	14,832,143
Prepayments	1,792,032	52,722	1,413,336	40,730	Banker's debenture	25,050,000	736,982	10,000,000	288,184
Bills and loans-net	511,762,416	15,056,264	394,578,267	11,371,132	Banker's acceptances and funds borrowed	1,753,524	51,589	2,206,585	63,590
Long-term investments					Long-term liabilities	34,119	1,004	34,119	984
Equity method	5,787,084	170,259	5,929,770	170,887	Reserve for possible losses	193,010	5,678	82,360	2,373
Cost method	6,066,749	178,486	6,223,374	179,348	Other liabilities	699,183	20,570	635,215	18,306
Debt Securities	14,587,555	429,172	-	-	<b>Total liabilities</b>	<b>813,842,898</b>	<b>23,943,598</b>	<b>598,506,198</b>	<b>17,248,017</b>
Premises and equipment					Capital stock	43,182,407	1,270,445	39,715,627	1,144,543
Cost					Capital reserve				
Land	15,191,742	446,947	14,274,047	411,356	Subscribed capital	13,449,023	395,676	4,249,096	122,452
Building	9,299,518	273,596	8,662,279	249,633	Others	12,797	376	846,502	24,395
Furniture and fixtures	3,611,754	106,259	2,595,945	74,811	Retained earnings				
Transportation equipment	85,878	2,527	70,900	2,043	Legal reserve	9,122,517	268,388	17,447,928	502,822
Miscellaneous equipment	3,435,204	101,065	2,439,744	70,310	Special reserve	-	-	257,487	7,420
Total Cost	31,624,096	930,394	28,042,915	808,153	Unappropriated earnings	2,763,742	81,311	(8,582,898)	(247,345)
Less: Accumulated depreciation	(6,622,608)	(194,840)	(5,361,393)	(154,507)	Unrealized losses on long-term investments	(116,783)	(3,436)	(79,482)	(2,291)
Construction in progress and procurement	1,047,629	30,822	559,050	16,111	Conversion adjustments	170,503	5,016	186,568	5,377
Premises and Equipment-net	26,049,117	766,376	23,240,572	669,757	<b>Total shareholders' equity</b>	<b>68,584,206</b>	<b>2,017,776</b>	<b>54,040,828</b>	<b>1,557,373</b>
Non-operating assets	702,074	20,655	704,619	20,306	<b>Total liabilities and shareholders' equity</b>	<b>\$882,427,104</b>	<b>\$25,961,374</b>	<b>\$652,547,026</b>	<b>\$18,805,390</b>
Other assets	7,106,939	209,089	7,791,564	224,541					
Deferred charges	543,997	16,005	179,057	5,160					
<b>Total Assets</b>	<b>\$882,427,104</b>	<b>\$25,961,374</b>	<b>\$652,547,026</b>	<b>\$18,805,390</b>					

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

**CATHAY UNITED BANK (FORMERLY UNITED WORLD CHINESE COMMERCIAL BANK)  
STATEMENTS OF INCOME**

(Expressed in thousands of dollars, except per share amounts)  
For the Years Ended December 31, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
<b>Operating income:</b>				
Interest revenue	\$24,049,202	\$707,538	\$29,255,994	\$843,112
Commission and handling fees	2,943,979	86,613	1,924,842	55,471
Commission income of stock brokerage	131,835	3,879	106,427	3,067
Gains on sales of securities-net	915,225	26,926	1,202,487	34,654
Investment income-equity method	475,355	13,985	-	-
Investment income-others	1,061,745	31,237	95,132	2,742
Profit on exchange-net	248,015	7,297	231,956	6,685
Other operating income	375,357	11,043	125,424	3,614
Total operating income	30,200,713	888,518	32,942,262	949,345
<b>Operating cost:</b>				
Interest expense	6,667,623	196,164	11,123,501	320,562
Commissions and handling charges	388,142	11,420	299,064	8,619
Commission charges of stock brokerage	8,437	248	6,254	180
Investment loss-equity method	-	-	297,282	8,567
Provisions for possible losses	10,913,351	321,076	24,736,026	712,854
Other operating cost	244,866	7,204	-	-
Total operating cost	18,222,419	536,112	36,462,127	1,050,782
<b>Operating margin(loss)</b>	11,978,294	352,406	(3,519,865)	(101,437)
<b>Operating expenses:</b>				
Business expenses	8,506,206	250,256	7,243,388	208,743
Administration expenses	5,355	157	5,165	149
Total operating expenses	8,511,561	250,413	7,248,553	208,892
<b>Net operating income (income)</b>	3,466,733	101,993	(10,768,418)	(310,329)
<b>Non-operating income:</b>				
Gains on disposal of premises and equipment	1,974	58	-	-
Others	221,681	6,522	316,279	9,114
Total non-operating income	223,655	6,580	316,279	9,114
<b>Non-operating expenses:</b>				
Losses on disposal of premises and equipment	38,930	1,146	7,218	208
Others	1,031,057	30,334	1,467,953	42,304
Total non-operating expenses	1,069,987	31,480	1,475,171	42,512
<b>Income (loss) before income tax</b>	2,620,401	77,093	(11,927,310)	(343,727)
<b>Income tax benefit (expenses)</b>	85,658	2,520	3,120,000	89,914
<b>Net income (loss)</b>	\$2,706,059	\$79,613	\$(8,807,310)	\$(253,813)
<b>Earning (deficit) per share (in dollars)</b>				
Income (loss) before income tax	\$0.65	\$0.019	\$(3.00)	\$(0.086)
Income tax benefit (expenses)	0.02	0.001	0.78	0.022
<b>Net income (loss)</b>	\$0.67	\$0.020	\$(2.22)	\$(0.064)

**Pro forma information**

(If subsidiaries' investment in the Bank is not treated as treasury stock)

<b>Net loss</b>	\$(8,749,594)	\$(252,150)
<b>Deficit per share ( In dollars)</b>	\$(2.20)	\$(0.06)

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

**Cathay Century Insurance Co., Ltd.**

**FINANCIAL STATEMENTS**

**CATHAY CENTURY INSURANCE CO., LTD.**  
**BALANCE SHEETS**

(Expressed in thousands of dollars)  
As of December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$3,589,751	\$105,612	34.86	\$4,156,774	\$119,792	43.97
Short-term investments	2,065,103	60,756	20.06	2,063,054	59,454	21.82
Notes receivable	187,896	5,528	1.82	170,988	4,928	1.81
Interest receivable	26,298	774	0.26	31,352	904	0.33
Premiums receivable	525,251	15,453	5.10	425,789	12,271	4.50
Claims recoverable from reinsurers	209,135	6,153	2.03	235,541	6,788	2.49
Due from reinsurers and ceding companies	91,880	2,703	0.89	168,817	4,865	1.79
Other accounts receivable	23,430	689	0.23	16,951	488	0.18
Deferred income tax assets-current	51,659	1,520	0.50	44,912	1,294	0.47
Prepayments	2,563	75	0.02	2,864	83	0.03
Subtotal	6,772,966	199,263	65.77	7,317,042	210,867	77.39
<b>Exchange Bills Negotiated, Discounted and Loans</b>						
Short-term secured loans	0	0	0.00	18,908	545	0.20
Medium-term secured loans	401,799	11,821	3.90	484,906	13,974	5.13
Long-term secured loans	359,968	10,590	3.50	438,582	12,639	4.64
Subtotal	761,767	22,411	7.40	942,396	27,158	9.97
<b>Funds, Long-term Investments, and Receivable</b>						
<b>Long-term investments in stocks</b>						
Under the equity method	234,892	6,911	2.28	158,893	4,579	1.68
Under the cost method	199,380	5,866	1.94	225,000	6,484	2.38
Long-term investments in bonds	1,836,278	54,024	17.83	280,335	8,079	2.97
Subtotal	2,270,550	66,801	22.05	664,228	19,142	7.03
<b>Property and Equipment</b>						
Communication and transportation equipment	17,174	505	0.17	14,308	412	0.15
Other equipment	149,437	4,397	1.45	140,432	4,047	1.49
Subtotal	166,611	4,902	1.62	154,740	4,459	1.64
Less: Accumulated depreciation	(111,105)	(3,269)	(1.08)	(87,214)	(2,513)	(0.93)
Subtotal	55,506	1,633	0.54	67,526	1,946	0.71
<b>Intangible Assets</b>						
Computer software cost	7,261	214	0.07	6,143	177	0.07
Subtotal	7,261	214	0.07	6,143	177	0.07
<b>Other Assets</b>						
Guarantee deposits paid	16,821	495	0.16	14,468	417	0.15
Overdue receivables	30,884	909	0.30	57,168	1,647	0.61
Temporary payments and suspense accounts	14,919	439	0.15	14,354	414	0.15
Securities serving as deposits paid-bonds	360,284	10,600	3.50	365,199	10,524	3.86
Funds held by ceding companies	107	3	0.00	145	4	0.00
Deferred charges	6,059	178	0.06	5,542	160	0.06
Deferred income tax assets-non current	14	0	0.00	48	1	0.00
Subtotal	429,088	12,624	4.17	456,924	13,167	4.83
<b>Total Assets</b>	<b>\$10,297,138</b>	<b>\$302,946</b>	<b>100.00</b>	<b>\$9,454,259</b>	<b>\$272,457</b>	<b>100.00</b>

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Collections for others	\$4,891	\$144	0.05	\$12,601	\$363	0.13
Accrued expenses	235,046	6,915	2.28	172,020	4,957	1.82
Income taxes payable	33,169	976	0.32	65,579	1,890	0.69
Commissions payable	3,935	116	0.04	8,377	241	0.09
Dividends payable	1,441	42	0.01	3,755	108	0.04
Claims outstanding	4,736	139	0.05	68,002	1,960	0.72
Due to reinsurers and ceding companies	73,494	2,162	0.71	99,008	2,853	1.05
Other payable	392,776	11,556	3.82	339,988	9,798	3.60
Subtotal	749,488	22,050	7.28	769,330	22,170	8.14
<b>Long-term Liabilities</b>						
Accrued pension liabilities	8,584	253	0.08	7,668	221	0.08
Subtotal	8,584	253	0.08	7,668	221	0.08
<b>Other Liabilities</b>						
Unearned premiums reserve	3,601,016	105,943	34.97	3,352,667	96,619	35.46
Special claim reserve	2,262,767	66,572	21.98	2,037,684	58,723	21.55
Claims reserve	585,308	17,220	5.69	530,815	15,297	5.62
Temporary receipts and suspense accounts	16,834	495	0.16	63,696	1,836	0.67
Funds held for reinsurers	283	8	0.00	693	20	0.01
Subtotal	6,466,208	190,238	62.80	5,985,555	172,495	63.31
<b>Total Liabilities</b>	<b>7,224,280</b>	<b>212,541</b>	<b>70.16</b>	<b>6,762,553</b>	<b>194,886</b>	<b>71.53</b>
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock	2,317,006	68,167	22.50	2,317,006	66,773	24.51
Capital surplus	430	13	0.00	0	0	0.00
<b>Retained earnings</b>						
Legal reserve	161,475	4,751	1.57	138,025	3,978	1.46
Unappropriated retained earnings	592,660	17,436	5.76	234,503	6,758	2.48
<b>Equity adjustment</b>						
Cumulative translation adjustments	1,287	38	0.01	2,172	62	0.02
<b>Total Stockholders' Equity</b>	<b>3,072,858</b>	<b>90,405</b>	<b>29.84</b>	<b>2,691,706</b>	<b>77,571</b>	<b>28.47</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$10,297,138</b>	<b>\$302,946</b>	<b>100.00</b>	<b>\$9,454,259</b>	<b>\$272,457</b>	<b>100.00</b>

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

**CATHAY CENTURY INSURANCE CO., LTD.**

**STATEMENTS OF INCOME**

(Expressed in thousands of dollars,)

For the Years Ended December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Operating Revenues</b>						
Premiums income	\$7,044,600	\$207,255	57.49	\$6,183,557	\$178,200	55.45
Reinsurance commission earned	306,983	9,031	2.50	260,928	7,520	2.34
Claims recovered from reinsurers	975,264	28,693	7.96	1,141,819	32,905	10.24
Recovered unearned premium reserve	3,352,667	98,637	27.36	3,186,537	91,831	28.58
Recovered special claim reserve	157,197	4,625	1.28	112,615	3,245	1.01
Recovered claims reserve	36,610	1,077	0.30	38,306	1,104	0.34
Handling fee earned	343	10	0.00	49	1	0.00
Interest income	216,325	6,364	1.77	227,164	6,547	2.04
Gain on trading bills and securities	162,781	4,789	1.33	0	0	0.00
Gain on long-term equity investment	1,453	43	0.01	0	0	0.00
Sub-total	12,254,223	360,524	100.00	11,150,975	321,353	100.00
<b>Operating Costs</b>						
Reinsurance premiums ceded	(2,572,569)	(75,686)	(20.99)	(2,425,485)	(69,899)	(21.75)
Commissions expenses	(134,072)	(3,944)	(1.09)	(195,244)	(5,626)	(1.75)
Insurance claims payment	(3,229,577)	(95,016)	(26.36)	(3,056,376)	(88,080)	(27.41)
Provision for unearned premiums reserve	(3,601,016)	(105,943)	(29.39)	(3,352,667)	(96,618)	(30.07)
Provision for special claim reserve	(382,280)	(11,247)	(3.12)	(339,038)	(9,770)	(3.04)
Contribution to the stabilization funds	(13,329)	(392)	(0.11)	(11,814)	(340)	(0.11)
Provision for claims reserve	(44,553)	(1,311)	(0.36)	(36,610)	(1,055)	(0.33)
Handling fee paid	(185,472)	(5,457)	(1.51)	(140,811)	(4,058)	(1.26)
Interest expenses	(27)	(1)	0.00	(70)	(2)	0.00
Loss on trading bills and securities	0	0	0.00	(89,828)	(2,589)	(0.80)
Loss on Long-term investments in stocks	0	0	0.00	(11,993)	(346)	(0.11)
Agent expenses	(2,488)	(73)	(0.02)	(1,621)	(47)	(0.01)
Sub-total	(10,165,383)	(299,070)	(82.95)	(9,661,557)	(278,430)	(86.64)
<b>Operating Gross Profit</b>	<b>2,088,840</b>	<b>61,454</b>	<b>17.05</b>	<b>1,489,418</b>	<b>42,923</b>	<b>13.36</b>
<b>Operating Expenses</b>						
Marketing expenses	(1,153,637)	(33,940)	(9.42)	(890,951)	(25,676)	(7.99)
Administrative and general expenses	(247,744)	(7,289)	(2.02)	(251,188)	(7,239)	(2.26)
<b>Operating Income</b>	<b>687,459</b>	<b>20,225</b>	<b>5.61</b>	<b>347,279</b>	<b>10,008</b>	<b>3.11</b>
<b>Non-operating Revenues</b>						
Gain on foreign exchange	433	13	0.00	1,886	54	0.02
Gain on disposal of property and equipment	166	5	0.00	593	17	0.00
Miscellaneous income	13,615	400	0.11	2,294	66	0.02
Sub-total	14,214	418	0.11	4,773	137	0.04
<b>Non-operating Expenses</b>						
Loss on foreign exchange	(8,103)	(238)	(0.06)	(1,353)	(39)	(0.01)
Loss on disposal of property and equipment	0	0	0.00	(16)	0	0.00
Sub-total	(8,103)	(238)	(0.06)	(1,369)	(39)	(0.01)
<b>Income from Continuing Operations</b>						
before income taxes	693,570	20,405	5.66	350,683	10,106	3.14
Income Taxes	(100,910)	(2,969)	(0.82)	(116,180)	(3,348)	(1.04)
<b>Net Income</b>	<b>\$592,660</b>	<b>17,436</b>	<b>4.84</b>	<b>\$234,503</b>	<b>\$6,758</b>	<b>2.10</b>
Earnings Per Share before tax (expressed in dollars)	\$2.99	\$0.09		\$1.51	\$0.04	
Earnings Per Share after tax (expressed in dollars)	\$2.56	\$0.08		\$1.01	\$0.03	

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

**Cathay Pacific Venture Capital Co., Ltd.**

**FINANCIAL STATEMENTS**

**CATHAY PACIFIC VENTURE CAPITAL CO., LTD.  
BALANCE SHEETS**

(Expressed in thousands of dollars)  
For the period September 23, 2002 to December 31, 2003

ASSETS	Amount	%
<b>CURRENT ASSETS</b>		
Cash in bank	\$507,111	86
Other current financial assets	30	—
Total current assets	507,141	86
Long-term equity investments	85,900	14
Total assets	\$593,041	100
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accrued expenses	\$162	—
<b>Stockholders' equity</b>		
Capital stock—\$10 par value; 100,000 thousand shares authorized; 60,000 thousand shares issued and outstanding	600,000	101
Deficit	(7,121)	(1)
Total stockholders' equity	592,879	100
Total liabilities and stockholders' equity	\$593,041	100

**CATHAY PACIFIC VENTURE CAPITAL CO., LTD.  
STATEMENT OF INCOME**

(Expressed in thousands of dollars)  
For the period September 23, 2002 to December 31, 2003

Revenue	Amount	%
Gain on sale of short-term investments	\$4,742	94
Interest	303	6
Total revenue	5,045	100
<b>Costs and expenses</b>		
Management fee	11,250	223
Professional fee	304	6
Others	612	12
Total costs and expenses	12,166	241
Net loss	(\$7,121)	(141)