



Cathay Financial

Holdings

We Create Value for Customers.



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Dear Shareholders,

The year 2004 saw a dramatic shift in the world economy as most countries experienced peak economic growth in the first half of the year, but faltered in the second half on the back of rising interest rates and soaring oil prices. Despite this change, the global economy overall posted another year of solid growth in 2004. Taiwan, for one, benefited from the establishment of the Financial Supervisory Commission, which continually promoted and implemented various financial and regulatory reforms. This has helped facilitate the development of a healthier financial market, and should further strengthen the competitiveness of financial companies in the global financial markets.

Looking back at the past year's achievements, Cathay Financial Holdings turned in an excellent performance in 2004. Cathay Life Insurance not only maintained its leading position in the domestic market, but it also aggressively developed its overseas presence. Years of efforts to develop the Mainland Chinese market have borne fruit with the China Insurance Regulatory Commission's approval of Cathay Life Insurance's application to set up a subsidiary in joint venture with China Eastern Airlines Group. Cathay Life Insurance Co., Ltd. (China) officially opened in February 2005 and will start selling life insurance policies in the Shanghai area.

Meanwhile, Cathay United Bank saw steady profit growth and enjoyed stronger asset quality in part as a result of realizing synergies from the merger with United World Chinese Commercial Bank in October 2003. Cathay Financial Holdings also set up a new subsidiary corporation, Cathay Securities, in August 2004, to focus on the design and development of financial products and services and thus further expand the overall group's financial services platform.

As of the end of 2004, Cathay Financial Holdings had a total capital of NT\$83.17 billion with total revenues reaching NT\$585.88 billion and total assets exceeding NT\$2.65 trillion. In addition, the group had approximately 10 million customers, serviced by 570 branches and sales offices island-wide.

In November 2004, Cathay Financial Holdings issued a second global depositary receipt (GDR) offering for US\$495 million, following the success of its first issue in July 2003. The success of the second GDR issuance not only raised the international profile of Cathay Financial Holdings, but was also cited as "Best Taiwan Deal in 2004" by Finance Asia.

Looking into 2005, we believe that the new year will bring even greater challenges in view of the economic uncertainties ahead. The threat of rising interest rates, sharp oil and commodity price movements, currency exchange rate fluctuations and the management of China's economic growth will all have a profound influence on Taiwan's economy. Faced with these challenges, we at Cathay Financial Holdings are committed to continuing strength our competitiveness and maximize returns for our shareholders. We will continue to focus on meeting our customers' needs and providing comprehensive financial services that will help them generate the highest benefits. In line with the government's efforts to promote larger and more competitive regional financial institutions, we are also well prepared and continually on the lookout for attractive merger and acquisition targets. Furthermore, aside from our commitment to maintaining our leading position in the domestic financial market, we will continue to expand our presence in the Mainland Chinese market and seek opportunities to expand into other markets in the Asia-Pacific region.

In the coming year, with the guidance of our shareholders and the concerted efforts of our entire staff, we will continue to strive for another year of strong performance.

Sincerely,
Hong-tu Tsai
Chairman



A. Company Profile

In response to the continued diversification and globalization of financial markets, and in order to provide more comprehensive services to our customers, Cathay Financial Holding Company Ltd. (CFH) was established on the December 31st, 2001 with registered capital of NT\$120 billion.

CFH's subsidiaries include Cathay Life Insurance, Cathay United Bank, Cathay Century Insurance, Cathay Securities, Cathay Capital Management, Cathay Pacific Venture Capital, and Cathay II Venture Capital. Leveraging off our extensive sales network islandwide and large sales force, we continue to seek opportunities to utilize the combined resources of the group to generate synergies and provide our customers with not only "one-stop shopping", but also more professional and personalized service. We will also continue to seek attractive targets for mergers and acquisitions to expand our business.

- Total Assets: NT\$2.65 trillion
- Total Revenues: NT\$585.88 billion
- No. of Branches and sales offices: 570
- No. of Customers: Approximately 10 million
- No. of Employees: 31,300

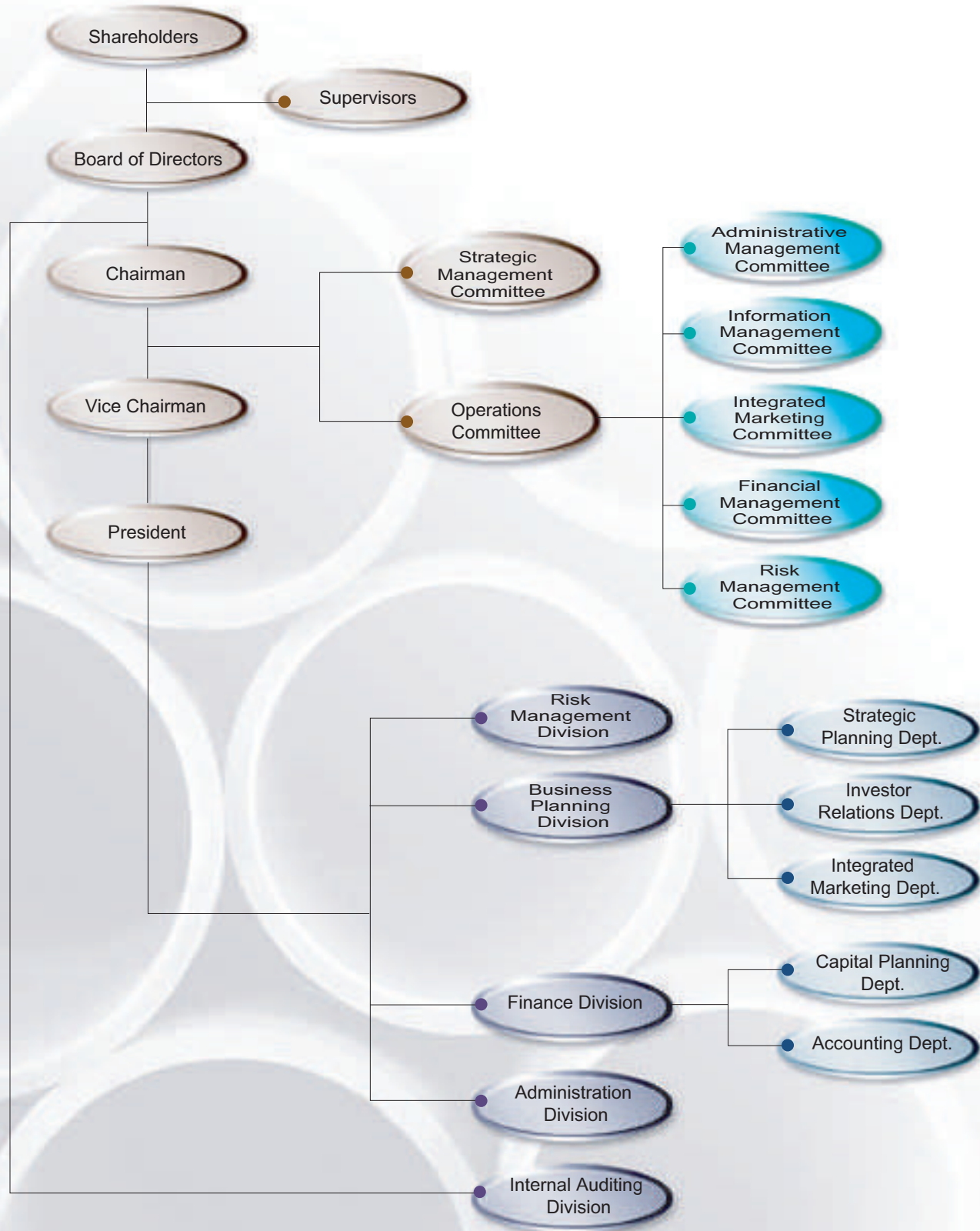


Contact Center
電話服務中心

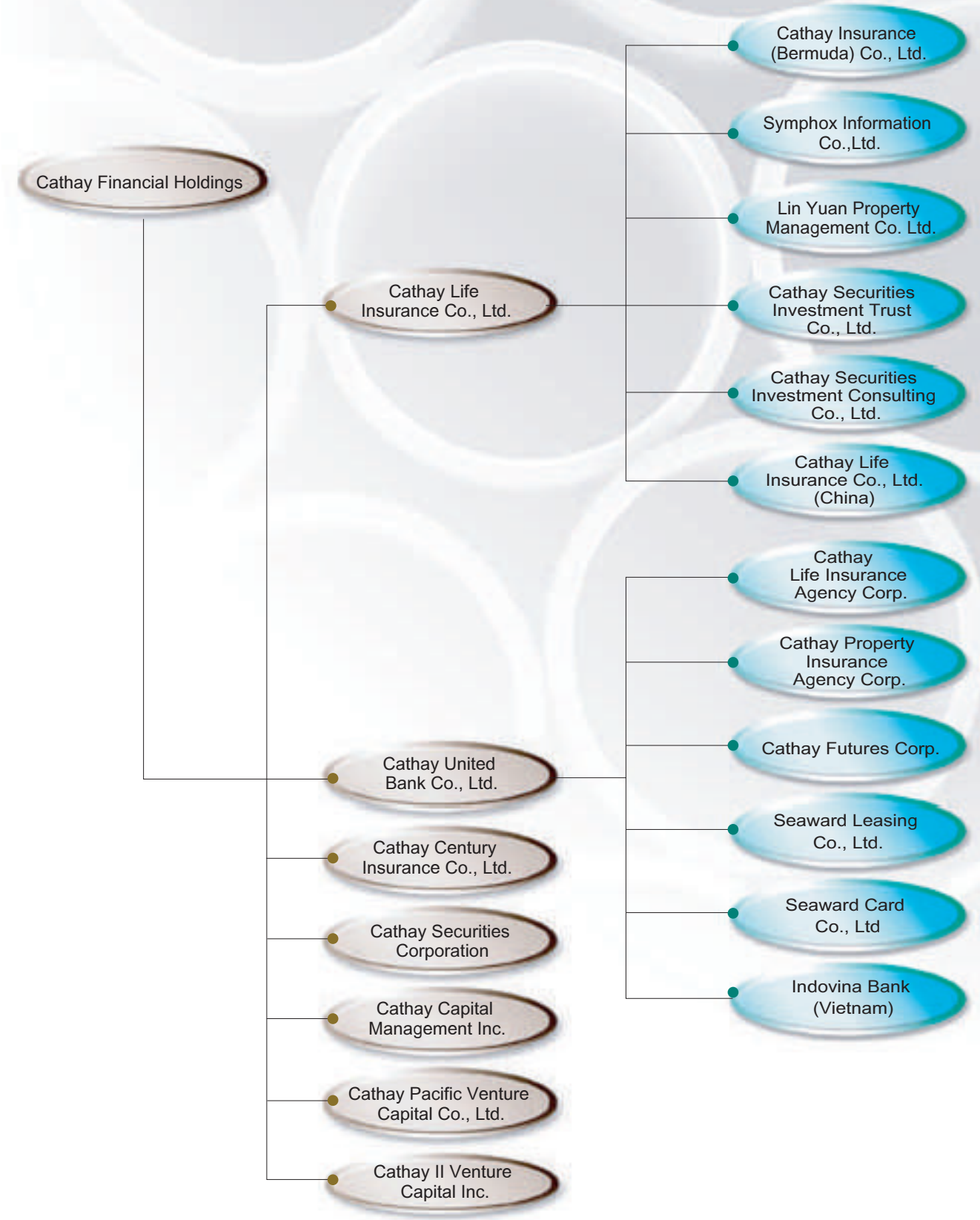


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NOBLE CLUB

2. Organization



3. Parent and Subsidiaries Structure





4. Board of Directors, Supervisors and Key Managers

Board of Directors

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

Supervisors

Name	Education	Main Experience
Wan-teh Tsai	B.A., Tokyo Liberal Arts University	Supervisor, Cathay Life Insurance
Ruey-yun Lee	M.A., Lincoln University (U.S.A.)	Executive Vice President, Cathay Life Insurance

Executive Officer

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

Key Managers

Position	Name	Education
President	Cheng-cheng Tung	B.A., National Chengchi University
Executive Vice President	J.H. Chen	B.A., Fu-Jen Catholic University
Chief Auditor	Jinn-shing Leou	M.A., Iowa University
Chief Strategy Officer	Chang-ken Lee	M.B.A., University of Pennsylvania
Chief Financial Officer	Grace Chen	M.B.A., National Chengchi University

5. Shares and Capital

Share Type	No. of Outstanding Shares	Value
Common Shares	8,316,712,984	NT\$83,167,129,840

6. 2005 Business Goals and Strategies

CFH's goal is to maximize returns for our shareholders, customers and employees. In 2005, CFH and all its subsidiaries will pursue the following strategies to further improve our operating efficiency:

- **Focus on product innovation and provide a full range of financial services**

A new subsidiary, Cathay Securities, was set up in 2004 to expand CFH's broad range of financial offerings, which already includes banking, life insurance and property insurance, as well as strengthen our capabilities in the design and development of new and more sophisticated financial products that can better meet our customers' needs. With our customer focus and comprehensive array of financial products and services, CFH aims to build up its reputation as the most reliable and trusted financial institution in the market.

- **Promote integration to maximize group synergy**

In the fast changing financial market, CFH's strength in both banking and life insurance provides us with a significant competitive advantage and enables us to cross-sell our products and services across our extensive customer base. We will continue to restructure our organization to take advantage of the strengths of each subsidiary and increase our operating flexibility and efficiency. Through integrated marketing and cross-selling, we will also seek to lower our costs and further strengthen our competitiveness.

- **Seek M&A opportunities to expand scale**

With the government actively encouraging consolidation in the domestic financial industry, CFH continues to pursue and evaluate attractive targets for mergers and acquisitions in order to boost our scale. CFH also seeks to expand its banking and securities operations and to streamline its broad distribution channels. At the same time, we continue to recruit and train high-caliber talent and management to meet the demands of an increasingly competitive global financial market.

- **Be the leading financial institution in the Asia-Pacific region**

CFH aims not only to maintain its leading position in Taiwan's financial market, but also to aggressively enter China's expansive market by leveraging off its strengths in banking and life insurance. Given low market penetration for insurance in China, we will

apply our past experience in Taiwan to build up our business on the mainland. In December 2004, we obtained the China Insurance Regulatory Commission's approval to set up a life insurance joint venture with China Eastern Airlines Group. The new subsidiary, Cathay Life Insurance Co., Ltd. (China), launched its operations in February 2005. Currently focused on Taiwan, Hong Kong, China and Vietnam, we seek to become a financial powerhouse in the Asia Pacific region.

7. Capital Utilization Plan

- **Expand financial services platform**

As the financial service industry becomes increasingly diversified and global, each of CFH's subsidiaries will continue to expand our business both domestically and internationally. At the same time, CFH will seek out potential merger and acquisition targets in order to build a more comprehensive financial service platform and provide our customers with an even broader range of financial products and services.

- **Continue to support integration and restructuring plans of our subsidiaries**

CFH plays an active role in assisting its subsidiaries in implementing their restructuring and integration plans. CFH will continue to provide both financial and technical assistance, including support services, product design, distribution channel integration and systems development, as well as the coordination and supervision of these tasks.

- **Upgrade information technology systems**

Information technology systems have a tremendous impact on the pace of growth and operational efficiency of a company and are a key determinant of a financial institution's competitiveness. To enhance our long-term competitiveness, CFH will continue to integrate and upgrade the group's information technology systems with an emphasis on compatibility, expandability and security in order to better meet the diverse needs of our customers.

- **Adopt a dynamic approach to capital management**

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

Cathay Life Insurance Co., Ltd.

Message from the President

Despite the global economic recovery last year, 2004 proved to be a challenging year for the life insurance business given pressure from rising interest rates, new competition due to property & casualty insurers' move into the personal accident insurance field, and fiercer rivalry among the financial holding companies.

To secure its leading position, Cathay Life Insurance has adopted a number of proactive measures to ensure profitability and organizational stability. These include closely monitoring industry developments to ensure fast and speedy response to changes in the market, recruiting high-caliber marketing professionals, and retaining a top-flight management consulting team to oversee the organizational restructuring. At the same time we are replicating the best business model and posting insurance and financial management experts for our banking channels in order to expand and improve our sales and business scale.

Thanks to the combined efforts of the staff and management, Cathay Life had an impressive performance last year. Premium income from new policies reached NT\$84.77 billion, bringing total premium income to NT\$305.35 billion and the number of policies in-force to 8.57 million.

Ever conscious of the need to "grow with the society," Cathay Life has endeavored to fulfill its corporate responsibility by promoting and sponsoring all kinds of social and cultural events—including long-term support for and sponsorship of the annual National Children's Drawing Competition, outdoor performances of the world-renowned Cloud Gate Dance Theater of Taiwan, as well as women's basketball and table tennis—for which it has received critical praise and recognition both locally and abroad. For seven years in a row, Cathay Life was the recipient of the Executive Yuan's Council for Cultural Affairs' "Best Cultural Sponsor Award." Cathay Life was also the only Taiwanese company that made it to Fortune Magazine with ranking 395th on the list of the world's largest companies. At the same time, Cathay Life was rated as the number one life insurance company in Taiwan in Commonwealth Magazine's "2004's Survey of Most Admired Companies"

Looking into 2005, the new year promises to be even more challenging in light of the economic slowdown, rising interest rates, and increased competition from property & casualty insurers, banks, as well as other financial holding companies' move into the life insurance business. While the task ahead is difficult, we believe that backed by our core competencies, including our professional expertise, innovative products and services, as well as superior marketing capability, we can maintain our status as the market leader. To support further business growth, we will focus on new product and channel development, promote cross-selling, as well as tap into the retirement funds market. Financially, we will strive to further improve capital efficiency through better asset allocation. In terms of management, we will continue with our organizational restructuring and upgrading our e-business to boost operating efficiency. Lastly, we will continue to pursue overseas expansion, focusing on potentially rich markets such as China and Vietnam, to pave the way our long-term objective of becoming an outstanding player in the region.

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

Sincerely,

Huang Tiao-kuei
President





Company Profile

Founded in August 1962, Cathay Life Insurance Co., Ltd. became the first listed private insurance company in Taiwan in November 1964. Over the past 43 years, with the support of our entire staff and shareholders, Cathay Life has been able to maintain steady revenue, asset and policy growth, making it the number one life insurer on the island.

In recent years, in response to changes in the market and the industry, Cathay Life has actively applied and upgraded its information technology system to increase its customer service efficiency. This, coupled with an extensive customer network, has enabled Cathay Life to increase cross-selling opportunities. Realizing the importance of professionalism, Cathay Life Insurance could maintain its leading position in the market and raise capital utilization efficiency. On the back of its solid management, Cathay Life has been given the highest credit rating among its peers in Taiwan.

Personnel : No. of employees: 26,168 Average age: 40.5 Average length of employment: 8.4 years

Board of Directors

Name	Education	Main Experience
Hong-tu Tsai	J.D., Southern Methodist University	Chairman, Cathay Financial Holdings
Cheng-ta Tsai	B.A., Chinese Cultural University	Chairman, Wan Pao Development Co., Ltd.
Tiao-kuei Huang	M.A., National Tsing Hua University	President, Cathay Life Insurance
Fa-te Chang	B.A., National Chung Hsing University	Executive Vice President, Cathay Life Insurance
Wen-ruey Hsiao	M.A., National Chung Shan University	Executive Vice President, Cathay Life Insurance
Ruey-yun Lee	M.A., Lincoln University	Executive Vice President, Cathay Life Insurance
Young-jann Lee	M.A., National Taiwan University	Executive Vice President, Cathay Life Insurance
Chia-sheng Chang	Ph.D., Case Western Reserves University	Chief Information Officer, Cathay Life Insurance
Chang-ken Lee	M.B.A., University of Pennsylvania	Chief Strategy Officer, Cathay Financial Holdings
Ming-ho Hsiung	M.A., University of Iowa	Executive Vice President, Cathay Life Insurance
Jiunn-liang Lin	B.A., National Taiwan Normal University	Executive Vice President, Cathay Life Insurance
Chung-yuan Chu	M.A., Columbia University	Vice Chairman, May Feng Co., Ltd.
Chin-Lin Hsu	Tatung University	Chairman, Jiunn Yuan Enterprise Inc.
Wei-ming Lu	Kainan Commercial & Technical School	Chairman, Seng Hong Co., Ltd.

Supervisors

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

Executive Officer

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

Key Managers

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

Business Scope

Sales of life insurance policies and other related businesses

2004 Revenue Breakdown

Item	(Unit: NT\$ million)	
	Amount	% of Total
Premium Income	281,951	53.07
Recovered Premium Reserves	142,283	26.78
Interest Income	51,888	9.77
Investment Income	19,457	3.66
Revenues from Real Estate Investments	4,718	0.89
Revenues from Investment-linked Products	29,867	5.62
Other Income	1,141	0.21
Total	531,305	100.00



- Premium Income
- Recovered Premium Reserves
- Interest Income
- Investment Income
- Revenues from Real Estate Investments
- Revenues from Investment-linked Products
- Other Income

2005 Business Goals and Strategies

1. Products

- i. Promote conventional life as well as investment-linked products and interest crediting annuity, taking into consideration both our customers' needs and prospective market share in order to maintain our competitiveness.
- ii. Lead in developing the new market for individual and group annuity in response to the implementation of new labor retirement regulations.

2. Distribution

- i. Strengthen cross-selling efficiency through our affiliate's banking channels; develop other sales channels to expand our marketing reach.
- ii. Form cross-industry alliances and utilize outside capital to launch creative marketing themes designed to improve customer satisfaction.

3. Organization

- i. Recruit high-caliber marketing professionals, train staff to acquire professional certification, strengthen employees' cross-selling capabilities, and raise agents' retention rate to secure our distribution advantage.
- ii. Continue programs to streamline our organization and introduce incentive-based performance evaluation system; emphasize human resources development and career mobility and planning.

4. Marketing

- i. Utilize Customer Relationship Management application to identify target markets and improve sales and marketing efficiency.
- ii. Make full use of our vast customer base to promote our comprehensive range of financial products; promote e-marketing to better meet our customers' diverse financial needs.

2005 Operational Targets

(Unit:NT\$ million)

Item	Target
New Life Insurance Policy Coverage	678,749
Effective Life Insurance Policy Coverage	7,389,200
Total Premium Income	316,034





Message from the Chairman

The year 2004 marked the first year of the merger between United World Chinese Commercial Bank (UWCCB) and Cathay United Bank. This involved the complex task of implementing various post-merger works, including organizational restructuring, personnel adjustments, information systems integration and corporate culture consolidation. Despite all these difficulties, under the leadership of CFH's Chairman Hong-tu Tsai and Honorary Vice Chairman Tseng-yu Tsai and aided by the hard work of all our employees and the support of our customers, we were able to deliver an outstanding performance in the past year.

As part of our organizational restructuring, we have set up four divisions in line with our goal of promoting specialized consumer and corporate banking services and targeting different market segments. These four divisions are: corporate banking, consumer banking, credit card services and wealth management. With the full support of other Cathay Financial Holdings subsidiaries, Cathay United Bank was able to achieve significant business growth in 2004. As of the end of 2004, Cathay United Bank's total assets surpassed the NT\$1 trillion mark. Total loans and deposits reached NT\$591.6 billion and NT\$780.8 billion, up 13% and 11%, respectively, from a year ago. The number of credit cards outstanding likewise posted double-digit growth to 3.51 million, or up 20% year-on-year. Pre-tax profits amounted to NT\$17.7 billion, with return on assets reaching 1.85% and return on equity coming in at 23.71%. Both overdue loan and capital adequacy ratios were also sound at 0.76% and 11.91%, respectively. All these highlight Cathay United Bank's outstanding performance in terms of business growth, profitability enhancement and asset quality improvement. Indeed, Taiwan Ratings Corp. adjusted Cathay United Bank's long-term credit rating upward twice to "twAA+" in 2004. Cathay United Bank was also the only bank in Taiwan to have met the six competitiveness benchmarks set by the Financial Supervisory Commission. Cathay United Bank also won the "Most Recommended Bank for Wealth Management by Taiwan" Global Views Magazine.

At the same time, Cathay United Bank has continued to promote and sponsor various social and cultural events for the benefit of the public. In 2004, our foundation initiated the "Big Tree Campaign" to provide financial aid and enable poverty-stricken children to continue with their education. Together with Cathay United Financial Library and Cathay United Art Center, Cathay United Culture and Charity Foundation has been devoted to promoting a society of "Truth (Knowledge), Kindness (Charity) and Beauty (Art)". In 2004, Cathay United Bank garnered a "Leading Cultural Sponsor" award from the Executive Yuan's Council for Cultural Affairs, as well as the "Social Contribution Award" from the Taipei Municipal Government and "Social Service Award" from the Chinese Library Society.

Looking forward, we will continue with our efforts to develop new products and upgrade our service quality, as well as provide more diverse, professional and "one-stop shopping" services to the over 10 million customers that comprise Cathay Financial Holdings client base. At the same time, we will further pursue business growth by seeking out merger and acquisition opportunities and through overseas expansion into other Chinese communities, especially in China, Southeast Asia, and the US's West Coast. We will work hand in hand with our affiliates in building up a comprehensive financial services line and establishing Cathay Financial Holdings reputation as the best financial group in the global Chinese community.

Sincerely,

Gregory K. H. Wang
Chairman



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



Company Profile

Cathay United Bank Co., Ltd. was established through the merger of United World Chinese Commercial Bank (UWCCB) and Cathay United Bank in October 2003, with UWCCB as the surviving company and renamed Cathay United Bank. Formerly known as Taiwan First Investment & Trust (TFIT), Cathay United Bank was founded in June 1961 and was listed in March 1998. The company changed its name to Cathay United Bank in October 1998 and was further consolidated by Cathay Financial Holdings Company in April 2002. Established in May 1975, UWCCB merged with Overseas Chinese Investment & Trust in 1995 and went public in November 1996. UWCCB was further acquired by Cathay Financial Holdings Company in December 2002.

The new Cathay United Bank currently operates 111 branches and 1,034 automated teller machines (ATM) in Taiwan, as well as three branches and four representative offices overseas. Cathay United Bank has also obtained approval from Taiwan's Bureau of Monetary Affairs under Financial Supervisory Commission to set up two branches in Chu Lai and Hanoi, and a representative office in Ho Chi Minh in Vietnam.

Ranked as the third largest private bank in Taiwan, Cathay United Bank accounted for 4% of the banking industry's total assets. Rated well by both local and international credit rating agencies, Cathay United Bank garnered a twAA+ rating for long-term credit and twA-1 for short-term credit from Taiwan Ratings Corp., A3 for long-term credit and P-1 for short-term credit from Moody's, and BBB+ for long-term credit and A-2 for short-term credit from Standard & Poor's.

Personnel

Total full-time regular employees: 4,050 Average age of full-time regular employees: 33.17 Average seniority of years : 7.3

Board of Directors

Name	Education	Main Experience
Gregory K. H. Wang	B.A., Tamkang University	Chairman, Cathay United Bank
Roger M. H. Lee	B.A., National Chengchi University	Vice Chairman, Cathay United Bank
Hoc-kim Loi	Shiamen Shuan Shih High School	President, Haihwa Construction Group Taiwan
Roger H. L. Wu	B.A., National Chengchi University	President, Cathay United Bank
Sheng-yann Lii	Ph.D., University of Pittsburgh	President, Bank of Taiwan
Cheng-cheng Tung	B.A., National Chengchi University	President, Cathay Financial Holdings
William C.W. Huang	M.A., University of Washington	Chairman, Tai Long Industrial Co., Ltd.
Tiong-tay Chung	M.A., Sichuan Fudan University	Chairman, Philippine Bank of Communications
Irene Lee	B.A., UC Berkeley	Chairman & CEO, Japan HI Group
Teong-boon Chan	M.A., New York University	Chairman, Coastal Realty Group (HK)
J.H. Chen	B.A., Fu-Jen Catholic University	Vice President, Cathay United Bank
Grace Chen	M.B.A., National Chengchi University	Vice President, Cathay United Bank
Tsu-pei Chen	B.A., National Chengchi University	Vice President, Cathay United Bank
Joseph S. Jao	M.B.A., University of Missouri	Vice President, Cathay United Bank
Daniel Tung	M.B.A., University of Indiana	Vice President, Cathay United Bank

Supervisors

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

Executive Officer

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

Key Managers

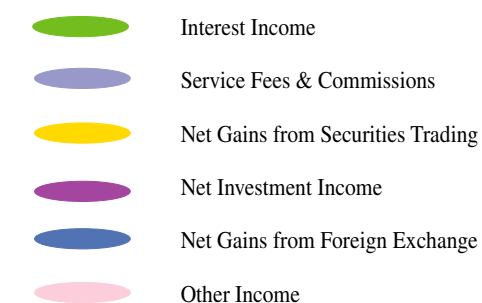
Position	Name	Education
CEO & President	Roger H. L. Wu	B.A., National Chengchi University
Chief Operating Officer /Vice President	J. H. Chen	B.A., Fu-Jen Catholic University
CFO / Vice President	Grace Chen	M.B.A., National Chengchi University
Chief SEVP-Corporate Banking	Tzu-pei Chen	B.A., National Chengchi University
Chief SEVP-Individual Banking	Joseph S. Jao	M.B.A., University of Missouri
Senior Executive Vice President	Daniel Tung	M.B.A., University of Indiana
Chief Auditor	Peggy Wang	B.A., National Taiwan University

Business Scope

- All types of deposits
- Loans and credits
- Checks discounting
- Securities investments
- Domestic remittances
- Cashing of commercial paper
- Issuance of domestic letters of credit
- Corporate bond guarantees
- Domestic guarantees
- Payment and collection agency
- Sales of government bonds and bills, as well as corporate bonds and stocks
- Securities underwriting
- Proprietary securities trading
- Custody and warehousing
- Rental of safekeeping boxes
- All other agency services covered by our business license and/or approved by the proper regulatory authorities
- Credit card business
- Gold nugget/coin and silver coin agency/services
- Sell/buy foreign currencies (cash and traveler's checks)
- Import and export foreign exchange transactions, inbound/outbound wire transfer, foreign currency deposits, loans and guarantees
- Permitted financial derivatives services
- Trust services in compliance with existing Trust laws and subject to approval by the proper regulatory authorities
- Stock certification.
- Broking, dealing, underwriting and certification of negotiable money market instruments
- Issuance, transfer, registration, and interests and dividends disbursements agency/consulting services of securities
- Trustee and related bond issuance agency services
- Will executor and estate administrator
- Discretionary investment trust service

2004 Revenue Breakdown

Item	Amount	Percentage
Interest Income	31,991	76.44
Service Fees & Commissions	6,910	16.51
Net Gains from Securities Trading	516	1.23
Net Investment Income	694	1.66
Net Gains from Foreign Exchange	316	0.76
Other Income	1,424	3.40
Total	41,851	100.00



2005 Business Goals and Strategies

1. Deposits:

- Streamline operational procedures and provide quick services in order to reduce processing costs.
- Develop automated sales channels and promote financial information technology services.
- Integrate more functions into deposit accounts to enhance product value

2. Loans:

- Emphasize new product development and design the best products targeted at different market segments.
- Secure existing channels and build up full sales service systems, centralize credit processing and improve operational efficiency and qualities.
- Provide comprehensively financial consultation services both in assets and liabilities management, including investment, funding and hedging activities, to corporate clients.
- Form strategic partnerships or alliances to develop lending business to Taiwanese enterprises in Mainland China.
- Set up a dedicated business unit to take charge of loans to small and medium businesses.
- Develop a quantitative and systematic approach to measuring and controlling risk to meet the new Basel II on risk management.

3. Foreign Exchange

- Develop new FX loan products to expand our loan market share.
- Develop Internet banking services for import and export related transactions.
- Apply for government approval to provide large-scale foreign currency remittances online and to expand the electronic financial transactions scope of MyB2B and MyBank.
- Strengthen cooperation with correspondent banks in Mainland China and increase our overseas presence.

4. Credit Cards

- Raise customer service quality to promote credit card usage and revolving balance in order to boost profits.
- Launch strategic cross-industry joint marketing campaigns and increase credit cards value-added features.
- Integrate affiliated companies and bank's products to strengthen cross-marketing effectiveness.
- Establish a payment and collection system to provide more complete services to our joint credit card issuers.
- Utilize "Customer Credit Evaluation and Scoring System," an objective statistical and analytical tool, to improve and facilitate the qualities of credit card and loan applications and processing.
- Define standard operating procedures for all aspects of credit card business to raise services and operations quality and fulfill the requirements of ISO accreditation.

- Promote the shift to IC cards for Cathay United Bank's Combo cards, ATM cards and credit cards, as required by local administrative authorities, as well as international credit card organizations.

5. Wealth Management:

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

6. Other businesses:

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

2005 Operational Targets (Unit: NT\$ million)

Item	Target
Deposits	\$839,625
Loans	\$658,660
No. of Credit Cards	4,200,000



Message from the Chairman

Despite a series of natural calamities both at home and abroad, Taiwan experienced a relatively safe and peaceful year in 2004. We witnessed a gradual recovery in the world economy, tempered by the adverse impacts of soaring oil prices, China's austerity program and rising interest rates. In spite of these economic uncertainties, Taiwan's property insurance market still grew by 5.5% year-on-year.

Cathay Century Insurance gave an outstanding performance last year. Our market share increased from 6.1% to 6.9%, making us the fifth largest in the domestic industry. Premium income growth was an impressive 18.6% year-on-year, placing us ahead of the competition. By maintaining a low loss ratio and further reducing our expense ratio, we also led the industry in terms of profitability. With our strong financial condition, we received an "A-" rating from Standard & Poor's, an "A3" rating from Moody's, and a "twAA+" from Taiwan Ratings Corp. in 2004.

Backed by our continuous research and development efforts, we launched several new products in 2004, e.g., Motorcycle Theft and Third Party Liability Insurance, Motor TPL insurance with extra coverage, Consolation Payment Endorsement for Motor TPL Insurance, new Homeowner's Comprehensive Insurance with Optional Personal Accident Insurance and Group Accident Insurance with extra coverage for specific accidents. On the operations front, we also continued our shift to electronic processing, including electronic documentation management system, online credit card payment system, as well as the development of a B2B service platform.

As a member of Cathay Financial Holdings, our goal is to provide "one-stop shopping" services for insurance products through our partnership and alliance with Cathay Life Insurance. We are also working with Cathay United Bank and other financial institutions to explore new banking distribution channels. With the aid of these strategic alliances, we are looking to tap into an even bigger customer base, increase our cross-selling opportunities, and expand our business scale.

Looking into the future, we aim to further boost our market share and make Cathay Century Insurance one of the top three companies in the industry. While aggressively pursuing sales growth, we also realize the importance of adopting appropriate reinsurance and risk management measures. We will also strengthen our manpower training program and cultivate outstanding talent to support new product developments and secure long-term growth and competitiveness. At the same time, we will continue to streamline our processing systems to raise operating efficiency. More importantly, we will continue to uphold our philosophy of maintaining a solid and stable management and pursue the highest returns as an expression of our deepest gratitude for the support of both our customers and shareholders.

Sincerely,

C. Y. Lee

Chairman





Company Profile

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

Personnel No. of Employees: 880 Average age: 33.2 Average length of employment: 6.5 years

Board of Directors

Name	Education	Main Experience
C. Y. Lee	B.A., National Chung Hsing University	Chairman, Cathay Century Insurance
Cheng-chiu Tsai	M.A., Keio University (Japan)	Vice Chairman, Cathay Century Insurance
Wan-chie Mar	M.A., Tamkang University	President, Cathay Century Insurance
K. C. Tsai	College	Chairman, Central Construction Co., Ltd.
Y. F. Wu	B.A., Tamkang University	Executive Vice President, Cathay Century Insurance
L. C. Huang	B.A., Feng Chia University	Executive Vice President, Cathay Century Insurance
Chu-yao Lu	B.A., Shih Hsin University	President, Wen Yi Investment Co., Ltd.
Min-yang Wu	M.A., Georgia State University	Assistant Vice President, Cathay Century Insurance
J. H. Hsu	B.A., Soochow University	Assistant Vice President, Cathay Century Insurance

Supervisors

Name	Education	Main Experience
Po-tsun Liu	M.A., San Francisco University	Tenure Supervisor, Cathay Century Insurance
Ching-tien Su	B.A., National Taipei Teachers College	Supervisor, Cathay Century Insurance
R. C. Sun	B.A., Tainan Commercial College	Supervisor, Cathay Century Insurance

Executive Officer

Position	Name	Education
Chairman	C. Y. Lee	B.A., National Chung Hsing University
Vice Chairman	Cheng-chiu Tsai	M.A., Keio University (Japan)

Key Managers

Position	Name	Education
President	Wan-chie Mar	M.A., Tamkang University
Executive Vice President	Y. F. Wu	B.A., Tamkang Univ. University
Executive Vice President	L. C. Huang	B.A., Feng Chia University

Business Scope

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

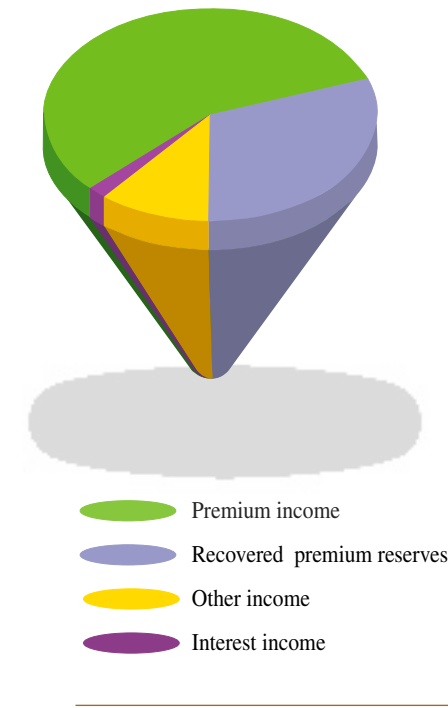
2004 Revenue Breakdown

(Unit: NT\$ million)

Item	Amount	% of Total
Premium income	8,308	59.80
Recovered premium reserves	3,733	26.87
Other income	1,627	11.71
Interest income	225	1.62
Total	13,893	100.00

2005 Business Goals and Strategies

- Expand revenue sources and increase product cross-selling:
 - Leverage off resources of other Cathay group members and promote product cross-selling by tapping into the group's vast customer base.
 - Build and maintain favorable relations with corporations in the industrial and science parks to expand our customer base; set up new service points to enhance our service coverage.
 - Work in cooperation with sound domestic financial institutions, e.g., regional banks, farmers' credit unions, and insurance agencies and brokers, to penetrate different market segments.
 - Form alliances with non-financial businesses, e.g. car dealers, property developers, medical institutions, travel and leisure companies, to create joint marketing campaigns and raise corporate awareness.
 - Utilize advanced technical tools, such as data warehousing and data mining, to increase customer understanding and enhance our call centers' function and work goal-ward to telemarketing.
- Focus on product development and explore new customer base through banking channels:
 - Keep abreast of changes in the market and develop integrated financial products based on customer requirements and market competitiveness.
 - Emphasize product differentiation by developing products that target different market segments.
 - Leverage off Cathay Financial Holdings' vast service network to increase revenues through the group's banking franchise.
 - Maintain good relations with corporates and financial institutions.
 - Streamline insurance claims processing procedures to raise brand recognition and win the trust of our customers.
- Train and develop specialists, continue organizational restructuring
 - Strengthen manpower training and encourage employees to acquire professional certification and foreign language skills.
 - Conduct periodic reviews of new management systems to raise operational efficiency as well as employee loyalty.
 - Build a corporate culture that encourages creative and innovative thinking, as well as stresses teamwork and group learning.



- Maintain a flexible organizational structure to cope with rapid changes in the market.
- Strengthen training of overseas personnel (including Mainland China) to meet the needs of a growing international insurance market.
- Strengthen risk management; build up a solid financial structure
 - Build stricter risk control systems as large corporations account for an increasingly higher percentage of total business.
 - Improve loss prevention technology, lower underwriting risks, and increase retention ratio in order to boost profits.
 - Maintain a solid financial structure and healthy liquidity to comply with risk-based capital system requirements.
 - Strengthen capital efficiency and establish an evaluation system aimed at maximizing financial returns.
 - Aggressively train and develop investment professionals, and establish a financial reporting system that integrates financial information systems in order to raise financial management performance.

2005 Operational Targets

(Unit: NT\$ million)

Item	Target
Motor Insurance	4,570
Fire Insurance	1,920
Marine Insurance	510
Engineering Insurance	450
Other Property & Casualty Insurance	1,550
Total	9,000

Message from the Chairman

With lower interest rates driving up consumption and stock markets worldwide, the global economy gradually picked up steam last year. However, investment risk also rose on the back of surging commodity and oil prices, coupled with sharp fluctuations in the currency markets. In Taiwan, the domestic economy benefited from the global uptick and posted 5.71% growth year-on-year—the highest in seven years. Dampened, however, by political uncertainties and rising concerns over the continuing shift overseas of domestic capital and high-tech industries, the Taix edged up a mere 4% in 2004, significantly lagging behind the performance of major stock markets worldwide. Going forward, we expect the global economy to grow steadily, thus clearing up anxieties over a potential hard landing for China's economy. Should this be accompanied by a marked improvement in cross-strait relations, it could provide new growth momentum for the Taix.

Cathay Securities is the newest member of the Cathay group. Under the guidance of the group's top management and supported by the hard work of the entire staff, Cathay Securities officially opened on August 13, 2004, offering securities broking, dealing and underwriting, as well as futures broking assistance and proprietary trading, and other new financial products and services. Our aim is to build a full securities service platform in order to provide a broader range of services to the group's large existing customer base. Recognizing the fierce competition in the securities industry, we will seek to break out of the traditional securities company business model and concentrate on developing and designing more innovative and sophisticated products and services to meet the ever changing needs of our customers.

Our goal this year is to continue our work to establish a full securities service platform. To build up our service network, we plan to relocate existing branches to improve coverage of our service areas, set up securities service counters at Cathay United Bank branches, as well as develop a new online trading system for securities, futures and options. As for product development, we will bear in mind the importance of risk control and management in developing new products. We will also concentrate on designing customized financial solutions for major clients. Following in the footsteps of the group, we will actively evaluate plans to expand into Hong Kong to take advantage of the opportunities offered by the greater China market.

On behalf of the company, I would like to extend our deepest gratitude to all of those who have provided us with their guidance and support. We remain committed to continuing to reinforce Cathay group's philosophy of building solid and stable businesses by establishing a firm foundation, exploiting market opportunities, leveraging the resources of the groups and expanding the range of products and services we provide our customers in order to maximize the returns of our shareholders and the Cathay group.

Sincerely,

Eliot C. M. Wu

Chairman





Company Profile

Cathay Securities was founded in August 2004 with paid-in capital of NT\$3.5 billion. The company was established to fill the need for a securities arm to enhance Cathay Financial Holdings' comprehensive range of financial services and increase cross-marketing opportunities within the group. Cathay Securities is currently focused on building a full securities service platform to fulfill both individual and institutional customers' demand for "one-stop shopping" services.

In response to market deregulation and the increased diversity of financial offerings in Taiwan, Cathay Securities seeks to focus on the development of financial derivative products and trading strategies both within strict risk management parameters, in addition to traditional securities brokering. Our aim is to provide competitive tools and advisory services, including utilizing various types of derivatives for hedging and arbitraging purposes to assist our customers in managing their assets and achieving stable, long-term investment returns with manageable levels of risk. We also plan to launch timely products in response to changes in the market, including structured products with varying risk levels and other customized solutions that meet the needs of our individual and institutional customers.

Personnel No. of employees: 95 Average age: 33.8 years old Average length of employment: 0.5 year

Board of Directors

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

Supervisor

Name	Education	Main Experience
Shao-chou Huang	B.A., Feng Chia University	Assistant Vice President, Cathay Financial Holdings

Executive Officer

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

Key Managers

Position	Name	Education
President	David P. Sun	M.B.A., Harvard University
Chief Compliance Officer	JunChi Chen	M.B.A., Purdue University

Business Scope

1. Central exchange securities brokering
2. Central exchange securities dealing
3. Over-the-counter securities brokering
4. Over-the-counter securities dealing
5. Underwriting
6. Futures trading assistance
7. Other authorized securities-related businesses

2005 Business Strategies

1. Build a solid and stable operation by leveraging off the group's integrated resources to maximize returns.
2. Conduct business with integrity and honesty; comply fully with the code of conduct specified in relevant securities rules and regulations.
3. Develop and implement internal audit and control systems.
4. Strengthen management, as well as the development and training of employees.
5. Strive for efficient cost control to maximize profitability.

2005 Business Goals

1. Brokering: continue to increase market share.
2. Dealing: Develop and issue structured products, such as equity-linked notes (ELN), principal-guaranteed notes (PGN), interest rate derivatives (IRS), and investment-linked insurance products and begin proprietary trading.

Company Profile

Cathay Capital Management joined in July 2004 as a subsidiary of Cathay Financial Holdings. Its main business covers venture capital management, project investments, and private equity investment management.

Board of Directors and Supervisor

Title	Name	Education	Main Experience
Chairman	Ching-lan Lee	M.B.A., M.I.T.	Assistant Vice President, Cathay Life Insurance
Director	Chang-ken Lee	M.B.A., University of Pennsylvania	Chief Strategy Officer, Cathay Financial Holdings
Director	Ching-jen Yo	Tenth Credit Union Commercial College	
Supervisor	Shang-chi Liu	B.A., Soochow University	Assistant Vice President, Cathay Life Insurance

Executive Officer

Position	Name	Education
Chairman/President	Ching-lan Lee	M.B.A., M.I.T.

Business Scope

Venture capital fund, business and investment consulting services

2004 Revenue Breakdown

Service fee revenue: NT\$27,250,000

(Unit: NT\$ thousand)

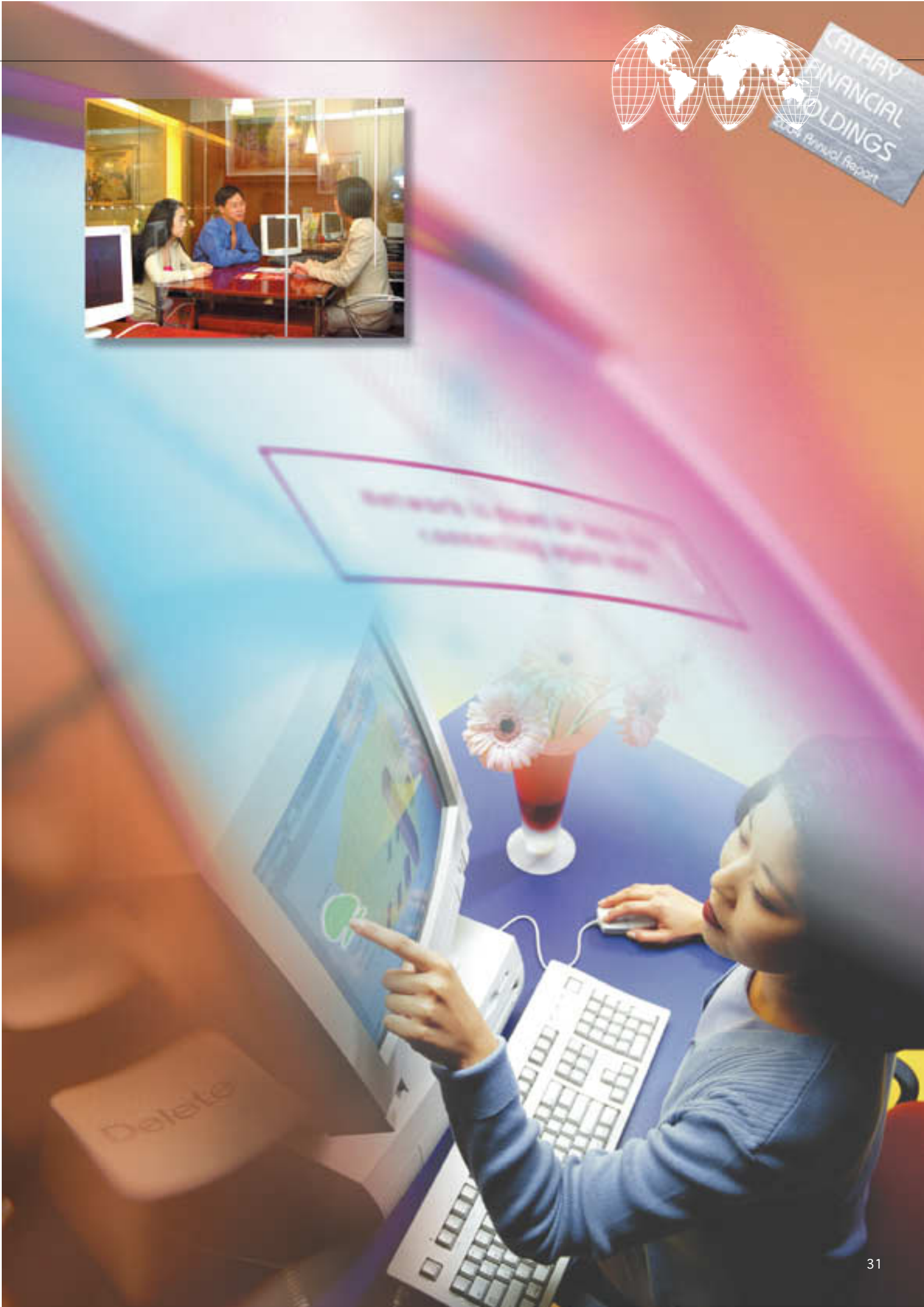
Item	Amount	% of Total
Service fee revenue	27,250	100.00
Total	27,250	100.00



Service fee revenue

2005 Business Goals and Strategies

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





Company Profile

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

Board of Directors and Supervisor

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

Executive Officers

Position	Name	Education
Chairman	Mei-hsiung Huang	B.A., National Taiwan University
President	Chuang-cheng Liu	B.S., National Chiao Tung University

2004 Revenue Breakdown

(Unit: NT\$ thousand)

Item	Amount	% of Total
Investment Income	9,261	99.8
Interest Income	16	0.2
Total	9,277	100.0



■ Investment Income
■ Interest Income

2005 Business Goals and Strategies

1. Target industries:
High growth technology industries that we consider to be the most competitive both locally and globally. These include IC, IC design, digital cameras, optoelectronics, network equipment and telecommunications.
2. Investment areas:
 - a. Asia: R&D of new technologies, business development, regional expansion and technology transfer.
 - b. US: Seek out companies interested in expanding into Asia and companies led by Asian-Americans.
3. Investment strategy:
 - a. Focus on companies whose operations are in the mature stage or those that are about to go public.
 - b. Invest in undervalued but still competitive listed companies through alliances with business partners in the respective sectors.

Company Profile

Cathay II Venture Capital Inc. was set up in April 2004 as a subsidiary of Cathay Financial Holdings. It is managed by Cathay Capital Management, another Cathay Financial Holdings subsidiary, and focuses on investments in technology industries that offer high growth and returns.

Board of Directors and Supervisor

Position	Name	Education	Main Experience
Chairman	Ching-lan Lee	M.B.A., M.I.T.	Assistant Vice President, Cathay Life Insurance
Director	Shang-chi Liu	B.A., Soochow University	Assistant Vice President, Cathay Life Insurance
Director	Yi-cheng Liu	M.B.A., University of Pennsylvania	Assistant Vice President, Cathay Financial Holdings
Supervisor	Shu-ying Wu	M.B.A., University of Michigan	Manager, Cathay Life Insurance

Executive Officer

Position	Name	Education
Chairman/President	Ching-lan Lee	M.B.A., M.I.T.

Business Scope

Venture capital investments

2004 Revenue Breakdown (Unit: NT\$ thousand)

Item	Amount	% of Total
Investment Income	1,684	97.01
Interest Income	52	2.99
Total	1,736	100.00



Investment Income
Interest Income

2005 Business Goals and Strategies

1. Target industries: Local and global industries that offer long-term growth potential, e.g., optoelectronics, key components and materials. Specifically, companies that produce high value-added raw materials, critical equipment, import substitution products and other items that form part of the industry value chain.
2. Investment area(s): Focus on Taiwan market
3. Investment type: Concentrate on growth stage companies

IV The Year in Review



February

- Cathay Century Insurance co-conducted Non-life Insurance Actuarial Seminar with China Insurance Regulatory Commission(CIRC) in Beijing, China.

March

- Cathay Life Insurance was honored with “Outstanding Internet Insurer Award” by the Executive Yuan’s Council for Labor Affairs—the only recipient of the award in the financial and insurance sector.
- Cathay Life Insurance held grand opening of its dedicated insurance service counter at Terminal 1 of the Chiang Kai-Shek International Airport.
- Cathay United Bank Culture & Charity Foundation held a “Big Tree Project” ceremony and raised NT\$3 million in funds for the education and food allowance of indigent elementary school children in Nantou, Taitung and Hualien Counties.

April

- Cathay Life Insurance’s application to form a life insurance joint venture with China Eastern Airlines Group was approved by the China Insurance Regulatory Commission.
- Cathay II Venture Capital Inc. was officially formed.
- Cathay Century Insurance participated in the “The Cross-strait Insurance Advance Forum 2004” held in Shanghai, China.

May

- Cathay Life Insurance led the market in introducing and implementing a system for processing electronic insurance policies.
- Cathay United Bank was rated “Outstanding” by the Ministry of Economic Affairs under the Ministry’s Project C.

June

- Cathay group’s charity foundations jointly sponsored “Summer Blood Donation by 10,000 Hearts” at 104 locations island-wide.
- Cathay Life Insurance served as the exclusive sponsor of the outdoor performance of the internationally renowned Cloud Gate Dance Theater of Taiwan at the 2004 Cathay Art Festival.
- Cathay United Bank finalized an agreement with Taipei Rapid Transit Corp. to provide financial services at the Tamshui, Mucha and Hsintien-Chunggho lines’ stations.

July

- Cathay Financial Holdings donated NT\$20 million to the victims of Typhoon Mindulle.
- Cathay Life Insurance donated NT\$2 million to the Taekwondo association’s “Olympics Development Fund;” Taiwan’s representatives subsequently won two gold and one silver medals at the 2004 Olympic Games in Athens.
- Cathay Life Insurance was rated as the 395th largest company worldwide by Fortune Magazine.
- Cathay United Bank launched its Combo smart card, the first multifunctional card to combine six major functions—ATM, fund transfer, credit card, overseas cash withdrawal, prepayment plus an anti-forgery feature.
- Cathay Capital Management Inc. was officially joined.

August

- Cathay Securities Corporation was officially established.

September

- Cathay group’s founder Wan-lin Tsai passed away at age 81.

October

- Cathay Life Insurance held its 29th Annual Children’s Drawing Competition.
- Cathay Life Insurance was rated as the number one life insurer in Commonwealth magazine’s “2004’s Survey of Most Admired Companies”
- Cathay United Bank Culture & Charity Foundation held a “Big Tree Project” ceremony and raised NT\$5 million in funds for the education of indigent elementary school children in Nantou, Taitung, Hualien, Yunlin and Chiayi counties.
- Cathay United Bank sponsored an “Enrich Your Life” concert headed by the popular band Mayday to celebrate the first anniversary of the bank’s merger.
- Cathay United Bank was awarded the honor of “Excellence in Image Promotion by Taiwan’s Leading Financial Professionals” by Taiwan Academy of Banking and Finance under the second Taiwan Banking And Finance Best Practice Awards.
- Cathay Securities launched its first structured note product.

November

- Cathay Life Insurance won the Executive Yuan’s Council for Cultural Affairs’ “Best Cultural Sponsor Award” for the seventh consecutive year.
- Cathay United Bank Culture & Charity Foundation won the Bronze prize for “Best Cultural Sponsor” by the Executive Yuan’s Council for Cultural Affairs.
- Cathay United Bank promoted its “Internet ATM” financial services in cooperation with major portals, including Yahoo! and Yam.

December

- Cathay United Bank, in cooperation with NCR and Harmonation Inc., developed Taiwan’s most advanced graphics processing and management system for checks and bills.
- Cathay Financial Holdings issued its second GDR offering, which was cited as “2004 Best Taiwan Deal” by Finance Asia.

Company	CFH	Cathay Life Insurance	Cathay United Bank	Cathay Century Insurance	Cathay Securities
Moody's July 2004	Baa1	A2	A3	A3	NA
S&P Sept. 2004	BBB+	A+	BBB+	A-	
Taiwan Ratings Dec. 2004	twAA	twAAA	twAA+	twAA+	twA+



Cathay Life Insurance Co., Ltd.**Shanghai Subsidiary**

32F, Jin Mao Tower, #88, Century Ave.,
Pudong New Area, Shanghai, P.R.C
Tel : 8621-61006168
Fax : 8621-61001682
Web : www.cathaylife.cn
e-mail : service@cathaylife.cn

Hong Kong Office

Rm. 4704, 47F, Central Plaza, #18, Harbor Road,
Hong Kong
Tel : 852-2802-7726
Fax : 852-2824-9277
E-mail : hongkong.rep@cathlife.com.tw

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 : cathaylifetokyo@yahoo.co.jp

Beijing Representative Office

Rm. 1008, 10F, #88, Shoudu Times Plaza, Chang'an St.
West District, Beijing, P.R.C
Tel : 8610-8391-3425
Fax : 8610-8391-3427
E-mail : beijing.rep@cathlife.com.tw

Chengdu Representative Office

Rm. 2301, 23F, #88, Jianxing Building, Tidu St.,
Chengdu, Sichuan Province, P.R.C
Tel : 86-28-86766498
Fax : 86-28-86766500
E-mail : chengdu.rep@cathlife.com.tw

Hanoi Representative Office

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

Cathay United Bank Co., Ltd.**Los Angeles Agency**

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 - 06, 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 3(C), 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 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 Co., Ltd.**Shanghai representative office**

Rm. 216, 21st Floor, Marine Tower,
1 Pudong Ave., Pudong New Area,
Shanghai 200120, China
Tel : 86-21-68860929
Fax : 86-21-68861829
E-mail : shanghai.rep@cathay-ins.com.tw

VI Prestige and Honors



Awards and honors received by Cathay Financial Holdings and subsidiary companies include the following:

Cathay Financial Holdings

- Ranked in Forbes' International Top 2000, as the leading company among all Taiwanese companies.
- Received a credit rating of "twAA" by Taiwan Ratings, the highest credit rating among its peers in Taiwan.
- Surveyed as No. 1 in Taiwan's financial industry by Business Week's Global Top 1000 Companies.
- Surveyed as No. 1 in Taiwan's financial industry by Financial Times' Worldwide 500 Largest Companies.
- Voted as the "Financial Holding Company with Best Image" in a public poll held by Taiwan's Global Views Magazine.
- Cited with the second GDR issuance as "Best Taiwan Deal in 2004" by Finance Asia.

Cathay Life Insurance

- Won the "National Quality Award" from the Executive Yuan, the "National Social Welfare Award" and the "Asia's Best Employer Award" by Hewitt Associates.
- Awarded the "Best Brands for Consumers" by Taiwan's Breakthrough Magazine and the number one life insurance company in "2004's Survey of Most Admired Companies" by Commonwealth Magazine, and voted as the "Healthy Brand" of the financial industry in the public poll held by Common Health Magazine.

Cathay United Bank

- Won the "Most Recommended Bank for Wealth Management" by Taiwan's Global Views Magazine.
- Awarded the honor of "Excellence in Image Promotion by Taiwan's Leading Financial Professionals" by Taiwan Academy of Banking and Finance.

Cathay Century Insurance

- Achieved the international certification of ISO9001.
- Received positive and excellent credit ratings from S&P and Taiwan Ratings.

Cathay Securities

- Received the credit rating of "twA+" from Taiwan Ratings.



English Translation of Financial Statements Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Cathay Financial Holding Co., Ltd. (the "Company") as of December 31, 2004 and the related statements of income, changes in stockholders' equity and cash flows for the year 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 the Company as of and for the year ended December 31, 2003. For that year, the Company was audited by other auditors which provided a modified unqualified opinion.

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

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

In addition, we have also audited the consolidated financial statements of the Company as of and for the year ended December 31, 2004 and the separate auditors' report with unqualified opinion was issued.

Diwan, Ernst & Young
Taipei, Taiwan
The Republic of China
January 28, 2005



Notice to Readers

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

Cathay Financial Holding Co.,Ltd.

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**



English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Balance sheets

As of December 31, 2003 and 2004
(Expressed in thousands of dollars)

Assets	2003		2004	
	NT \$	US \$	NT \$	US \$
Current assets				
Cash and cash equivalents	\$6,322,799	\$186,019	\$20,472,483	\$645,006
Short-term investments	2,147,421	63,178	-	-
Tax refund receivable	631,947	18,592	589,326	18,567
Interest receivable	42,742	1,258	293	9
Other receivable	58,452	1,720	584,594	18,418
Deferred income tax assets-current	21,836	642	149,698	4,717
Subtotal	9,225,197	271,409	21,796,394	686,717
Long-term investments				
Long-term investments in stocks				
Long-term investments under equity method	158,086,904	4,650,983	178,515,166	5,624,296
Long-term investments under cost method	100,000	2,942	100,000	3,151
Allowance for valuation loss on long-term investments in stocks	(136,202)	(4,007)	(110,435)	(3,479)
Subtotal	158,050,702	4,649,918	178,504,731	5,623,968
Property and equipment	3,199	94	3,199	101
Transportation and communication equipment	2,673	78	3,880	122
Other equipment	5,872	172	7,079	223
Subtotal	(1,202)	(35)	(2,258)	(71)
Less: Accumulated depreciation	4,670	137	4,821	152
Net				
Other assets	167	5	1	-
Temporary payments and suspense accounts	171,822	5,055	-	-
Deferred income tax assets -noncurrent	231,582	6,813	66,627	2,099
Deferred charges	403,571	11,873	66,628	2,099
Subtotal	\$167,684,140	\$4,933,337	\$200,372,574	\$6,312,936
Total assets				
Liabilities & stockholders' equity				
Current liabilities				
Collections for others	\$896	\$26	\$761	\$24
Accrued expenses	36,628	1,078	53,546	1,687
Income taxes payable	-	-	145,714	4,591
Dividends payable	1,476	43	2,316	73
Other payable	695,999	20,477	987,900	31,125
Subtotal	734,999	21,624	1,190,237	37,500

	2003		2004	
	NT \$	US \$	NT \$	US \$
Long-term liabilities				
Bonds payable	25,135,091	739,485	23,774,560	749,041
Accrued pension liabilities	3,576	105	8,037	253
Subtotal	25,138,667	739,590	23,782,597	749,294
Other liabilities				
Deferred income tax liabilities -noncurrent	-	-	49,794	1,569
Temporary receipts and suspense accounts	694	20	709	22
Subtotal	694	20	50,503	1,591
Total liabilities	25,874,360	761,234	25,023,337	788,385
Stockholders' equity				
Capital stock				
Common stock	83,074,891	2,444,098	83,167,130	2,620,262
Capital surplus				
Additional paid-in capital	53,101,717	1,562,275	53,524,308	1,686,336
Treasury stock transactions	-	-	4,852,742	152,891
Others	549,329	16,161	581,647	18,325
Retained earnings				
Legal reserve	1,335,046	39,278	3,026,715	95,360
Special reserve	1,833,255	53,935	122,653	3,864
Unappropriated retained earnings	16,916,694	497,696	30,640,997	965,375
Equity adjustments				
Unrealized valuation losses on long-term equity investments	(136,202)	(4,007)	(110,435)	(3,479)
Cumulative conversion adjustments	176,537	5,194	(96,005)	(3,025)
Net loss not yet recognized as net pension cost	(1,971)	(58)	(5,560)	(175)
Treasury stock	(15,039,516)	(442,469)	(354,955)	(11,183)
Total stockholders' equity	141,809,780	4,172,103	175,349,237	5,524,551
Total liabilities and stockholders' equity	\$167,684,140	\$4,933,337	\$200,372,574	\$6,312,936

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.**Statements of income**

For the years ended December 31, 2003 and 2004
(Expressed in thousands of dollars, except earning per share)

	2003		2004	
	NT \$	US \$	NT \$	US \$
Operating revenues				
Interest income	\$426,013	\$12,534	\$194,076	\$6,115
Gain on disposal of investments	3,455	102	-	-
Gain on long-term equity investments	20,645,091	607,387	29,689,400	935,394
Other operating income	-	-	71,070	2,239
Subtotal	21,074,559	620,023	29,954,546	943,748
Operating costs				
Interest expenses	(825,612)	(24,290)	(723,072)	(22,781)
Provision for securities trading losses reserve	(71,070)	(2,091)	-	-
Loss on disposal of investments	-	-	(41,783)	(1,317)
Subtotal	(896,682)	(26,381)	(764,855)	(24,098)
Operating gross profit	20,177,877	593,642	29,189,691	919,650
Operating expenses				
Administrative and general expenses	(366,604)	(10,786)	(382,621)	(12,055)
Operating income	19,811,273	582,856	28,807,070	907,595
Non-operating revenues				
Gain on foreign exchange	667,733	19,645	956,637	30,140
Miscellaneous income	69,790	2,053	121,846	3,839
Subtotal	737,523	21,698	1,078,483	33,979
Income from continuing operations before income taxes	20,548,796	604,554	29,885,553	941,574
Income taxes	39,967	1,176	(58,398)	(1,840)
Net income	\$20,588,763	\$605,730	\$29,827,155	\$939,734
Earnings per share(expressed in dollars)				
Primary earnings per share:				
Income from continuing operations before income taxes	\$2.69	\$0.08	\$3.71	\$0.12
Net income	\$2.69	\$0.08	\$3.70	\$0.12
Fully-diluted earnings per share:				
Income from continuing operations before income taxes	\$2.65	\$0.08	\$3.60	\$0.11
Net income	\$2.63	\$0.08	\$3.57	\$0.11
Pro-forma as if subsidiaries' investment in the Company were not treated as treasury stock:				
Income from continuing operations before income taxes	\$21,873,053	\$643,514	\$30,041,879	\$946,499
Net income	\$21,913,019	\$644,690	\$29,983,481	\$944,659
Earnings per share(expressed in dollars)				
Primary earnings per share:				
Income from continuing operations before income taxes	\$2.78	\$0.08	\$3.72	\$0.12
Net income	\$2.79	\$0.08	\$3.71	\$0.12
Fully-diluted earnings per share:				
Income from continuing operations before income taxes	\$2.74	\$0.08	\$3.61	\$0.11
Net income	\$2.72	\$0.08	\$3.58	\$0.11

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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



English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of changes in stockholders' equity

For the Years ended December 31, 2003 and 2004

(Expressed in thousands of dollars)

Summary	Capital Stock				Retained Earnings				Equity Adjustment								Treasury Stock		Total	
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Cumulative conversion adjustments		Unrealized valuation losses on long-term equity investments		Net loss not yet recognized as net pension cost		NTS	US\$	NTS	US\$
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2003	\$84,531,631	\$2,486,956	\$56,807,974	\$1,671,314	\$13,713	\$404	\$-	\$-	\$13,085,153	\$384,971	\$(1,032,426)	\$(30,374)	\$199,570	\$5,871	\$-	\$-	\$(42,706,265)	\$(1,256,436)	\$110,899,350	\$3,262,706
Disposal of property and equipment retransfer to unappropriated retained earnings			(185,853)	(5,468)					185,853	5,468										
Appropriations and distributions for 2002																				
Legal reserve					1,321,332	38,874			(1,321,332)	(38,874)										
Special reserve							1,833,255	53,935	(1,833,255)	(53,935)										
Cash dividends			(1,649,407)	(48,526)					(10,053,091)	(295,766)									(11,702,498)	(344,292)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(137)									(5,400)	(159)
Bonus paid to employees			(165)	(5)					(1,006)	(30)									(1,171)	(35)
Retired treasury stock	(1,456,740)	(42,858)	(978,976)	(28,802)					(3,687,982)	(108,502)							6,123,698	180,162	-	-
Cash dividends to subsidiaries			549,329	16,162															549,329	16,162
Capital surplus			(772,940)	(22,740)															(772,940)	(22,740)
Cumulative conversion adjustments													(23,033)	(677)					(23,033)	(677)
Unrealized valuation losses on long-term equity investments			(558,274)	(16,425)							896,224	26,367					4,221,829	124,208	896,224	26,367
Disposal of treasury stock			440,119	12,948													17,321,223	509,597	3,663,555	107,783
Treasury stock									(41,770)	(1,229)									17,719,572	521,316
Net income for the year ended December 31, 2003									20,588,763	605,730									20,588,763	605,730
Net loss not yet recognized as net pension cost															(1,971)	(58)			(1,971)	(58)
Rounding					1	-											(1)	-	-	-
Balance on December 31, 2003	83,074,891	2,617,356	53,651,046	1,690,329	1,335,046	42,062	1,833,255	57,759	16,916,694	532,977	(136,202)	(4,291)	176,537	5,562	(1,971)	(62)	(15,039,516)	(473,835)	141,809,780	4,467,857
Appropriations and distributions for 2003																				
Legal reserve					1,691,669	53,298			(1,691,669)	(53,298)										
Special reserve							(1,710,602)	(53,895)	1,710,602	53,895										
Cash dividends									(16,105,155)	(507,409)									(16,105,155)	(507,409)
Remuneration paid to directors and supervisors									(5,700)	(179)									(5,700)	(179)
Bonus paid to employees									(1,611)	(51)									(1,611)	(51)
Convertible notes converted into common stock	92,239	2,906	422,591	13,314															514,830	16,220
Cash dividends to subsidiaries			22,194	699															22,194	699
Capital surplus			10,124	319															10,124	319
Cumulative conversion adjustments													(272,542)	(8,587)					(272,542)	(8,587)
Unrealized valuation losses on long-term equity investments											25,767	812							25,767	812
Disposal of treasury stock			4,737,927	149,273													11,450,763	360,768	16,188,690	510,041
Treasury stock			114,815	3,618					(9,319)	(294)							3,233,798	101,884	3,339,294	105,208
Net income for the year ended December 31, 2004									29,827,155	939,734					(3,589)	(113)			29,827,155	939,734
Net loss not yet recognized as net pension cost																			(3,589)	(113)
Balance on December 31, 2004	\$83,167,130	\$2,620,262	\$58,958,697	\$1,857,552	\$3,026,715	\$95,360	\$122,653	\$3,864	\$30,640,997	\$965,375	\$(110,435)	\$(3,479)	\$(96,005)	\$(3,025)	\$(5,560)	\$(175)	\$(354,955)	\$(11,183)	\$175,349,237	\$5,524,551

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

December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)
part of these financial statements.

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

For the years ended December 31, 2003 and 2004
(Expressed in thousands of dollars)

	2003		2004	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income	\$20,588,763	\$605,730	\$29,827,155	\$939,734
Adjustments:				
Amortizations	145,366	4,276	146,688	4,622
Depreciation	855	25	1,055	33
Provision loss on short-term investments	71,070	2,091	-	-
Investment income recognized by equity method excess of cash dividends received	(15,066,074)	(443,250)	(13,212,631)	(416,277)
Increase in bonds payable redemption premium	825,611	24,290	716,399	22,571
Effects of exchange rate changes	39,267	1,155	571,275	17,999
(Increase) decrease in short-term investments	(1,768,236)	(52,022)	2,147,421	67,657
(Increase) decrease in tax refund receivable	(631,947)	(18,592)	42,621	1,343
Decrease in interest receivable	1,464	43	42,449	1,337
Decrease (increase) in other accounts receivable	49,972	1,470	(526,142)	(16,577)
Decrease in prepayments	6	-	-	-
Increase in deferred income tax assets-current	(17,767)	(523)	(127,862)	(4,028)
(Increase) decrease in deferred income tax assets-noncurrent	(30,495)	(897)	171,822	5,413
Decrease in temporary payments and suspense accounts	461	13	166	5
Increase (decrease) in collections for others	391	12	(135)	(4)
(Decrease) increase in accrued expenses	(367,986)	(10,826)	16,918	533
Increase in income tax payable	-	-	145,714	4,591
Increase in dividends payable	514	15	840	26
Increase in other accounts payable	695,999	20,477	291,901	9,197
Increase accrued pension liabilities	1,169	34	872	27
(Decrease) increase in temporary receipts and suspense accounts	(14)	-	14	-
Increase in deferred income tax liabilities-noncurrent	-	-	49,794	1,569
Net cash provided by operating activities	4,538,389	133,521	20,306,334	639,771
Cash flows from investing activities				
Acquisition of long-term investments in stocks	(775,000)	(22,801)	(4,116,560)	(129,696)
Acquisition of property and equipment	(3,224)	(95)	(1,207)	(38)
Decrease in deferred charges	18,103	533	18,267	576
Net cash used in investing activities	(760,121)	(22,363)	(4,099,500)	(129,158)
Cash flows from financing activities				
Decrease in bonds payable	(707,000)	(20,800)	(1,562,099)	(49,216)
Remuneration paid to directors and supervisors	(5,400)	(159)	(5,700)	(179)
Bonus paid to employees	(1,171)	(35)	(1,611)	(51)
Cash dividends	(11,702,498)	(344,292)	(16,105,155)	(507,409)
Disposal of treasury stock	3,663,555	107,783	16,188,690	510,041
Net cash used in financing activities	(8,752,514)	(257,503)	(1,485,875)	(46,814)
Effects of exchange rate changes	(39,267)	(1,155)	(571,275)	(17,999)
(Decrease) increase in cash and cash equivalents	(5,013,513)	(147,500)	14,149,684	445,800
Cash and cash equivalents at the beginning of year	11,336,312	333,519	6,322,799	199,206
Cash and cash equivalents at the end of year	\$6,322,799	\$186,019	\$20,472,483	\$645,006
Supplemental disclosure of cash flows information				
Interest paid during the period	\$-	\$-	\$971	\$31
Interest paid (excluding capitalized interest)	\$-	\$-	\$971	\$31
Income tax paid	\$640,244	\$18,836	\$5,054	\$159
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$-	\$-	\$514,830	\$16,220

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

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

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2003 and 2004

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

1. Organization and business scope

On December 31, 2001, Cathay Life Insurance Co., Ltd. ("Cathay Life") was reincorporated as Cathay Financial Holding Co., Ltd. (the "Company") through stock conversion pursuant to the provisions of the Republic of China ("ROC") Financial Holding Company Act ("Financial Holding Company Act") and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. ("Cathay Century") and Cathay United Bank Co., Ltd. ("Cathay United Bank") were merged into the Company through stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. ("UWCCB") became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank merged on October 27, 2003. UWCCB was the surviving company, and the merged bank was re-named Cathay United Bank Co., Ltd. ("Cathay United Bank (merged)"). On May 12, 2004 the Company build-in a wholly owned subsidiaries of Cathay Securities Corporation ("Cathay Securities"). On July 29, 2003 and November 9, 2004, the Company listed a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depository Shares (GDSs). The Company mainly engages in financial holding business activities.

As of December 31, 2003 and 2004, the total numbers of employees were 40 and 59, respectively.

2. Summary of significant accounting policies

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

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

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

(2) Cash and cash equivalents

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

(3) 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.

Beneficiary certificates are stated at cost. The cost and gain/loss of beneficiary certificates sold are determined based on the weighted-average cost method.

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

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

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to "capital surplus" as well as the "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.

B. Transactions with affiliated companies

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

(5) Property and equipment

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

Upon the sale or disposal of properties and equipment, the relating cost and accumulated depreciation are eliminated. Gain or loss resulting from such sale or disposal is classified as non-operating gain or loss.

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

(6) Deferred charges

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

(7) Convertible notes

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

The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts

of convertible notes and reserve amount for bonds redemption are transferred to the accounts of capital stock and capital surplus and accordingly, no gain or loss is recognized upon conversion.

(8) Foreign currency transactions

Foreign currency transactions are recorded in NT dollars at the spot rate when the conversion occurs. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income in the period of actual conversion or settlement. Long-term investments in foreign currency are accounted for as cumulative translation adjustments and are treated as adjustments of stockholders' equity. Year-end foreign currency assets and liabilities are converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

(9) Derivative financial instruments

Interest rate swap ("IRS") transactions may involve the exchange of fixed-rate interest payment for the market floating-rate interest payment obligations based on a notional principal amount. For IRS transactions undertaken for hedging purposes, income and expenses arising upon settlement are netted off and recognized in the statement of income and expenditure. Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged against current income. As of the balance sheet dates, any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

(10) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries jointly file corporation income tax returns and pay a 10% surcharge on their undistributed retained earnings under the Integrated Income Tax System. If there are any tax effects due to the adoption of the foregoing 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 asset or liability is, according to the classification of its related asset or liability, classified as current or non-current. However, if a deferred asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or non-current based on the expected length of time before it is realized.

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

(11) Capital expenditure expenses

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

(12) Treasury stock

The stock that the Company repurchases is recorded in the "treasury stock account". The book value of this treasury stock

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

According to the Ministry of Finance Security and Future Committee (91) article 108164:

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

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

(13) Pension plan

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

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

(14) Convenience conversion US dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 2003 and 2004 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the noon buying rate of NT\$33.99 and NT\$31.74 to US\$1.00 on December 31, 2003 and 2004, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as representation that the NT dollars amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Accounting changes: None

4. Cash and cash equivalents

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Petty cash	\$40	\$1	\$60	\$2
Cash in banks	746,698	21,968	15,707,437	494,878
Time deposits	3,031,635	89,192	2,673,595	84,234
Cash equivalents	2,544,426	74,858	2,091,391	65,892
Total	\$6,322,799	\$186,019	\$20,472,483	\$645,006

5. Short-term investments

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Government bonds	\$217,506	\$6,399	\$-	\$-
Oversea Investments	2,000,985	58,870	-	-
Less: Allowance for valuation loss	(71,070)	(2,091)	-	-
Total	\$2,147,421	\$63,178	\$-	\$-

As of December 31, 2003 and 2004, the Company didn't provide collateral or guarantee on short-term investments.

6. Long-term investments in stocks

Name of investee	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Under the equity method:				
Cathay Life	\$86,233,341	\$2,537,021	\$90,571,820	\$2,853,555
Cathay United Bank (merged)	68,153,847	2,005,115	80,149,348	2,525,184
Cathay Century	2,896,883	85,227	2,966,117	93,450
Cathay Securities	-	-	3,458,434	108,961
Cathay Pacific Venture Capital Co., Ltd.	592,879	17,443	583,715	18,391
Cathay Venture Capital Co., Ltd.	73,752	2,170	69,538	2,191
Cathay II Venture Capital Co., Ltd.	-	-	586,314	18,472
Cathay Capital Management Inc.	-	-	19,445	613
Subtotal	157,950,702	4,646,976	178,404,731	5,620,817
Under the cost method:				
Debt Instruments Depository and Clearing Co., Ltd. Taiwan	100,000	2,942	100,000	3,151
Total	\$158,050,702	\$4,649,918	\$178,504,731	\$5,623,968

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

	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance on January 1	\$123,840,475	\$3,643,439	\$157,950,702	\$4,976,393
Add: Investment gains under equity method recognized	20,645,091	607,387	29,689,400	935,394
Add: Increment of investment	675,000	19,859	4,116,560	129,696
Add: Cash dividends to subsidiaries	549,329	16,162	22,194	699
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	17,724,647	521,466	3,339,295	105,208
Add: Unappropriated retained earnings under equity method recognized	57,683	1,697	-	-
Add: Unrealized valuation loss on long-term equity investments under equity method recognized	896,224	26,367	25,767	812
(Less) Add: Capital surplus under equity method recognized	(830,622)	(24,437)	10,124	319
Less: Cumulative conversion adjustments under equity method recognized	(23,033)	(678)	(272,542)	(8,587)
Less: The Company stocks that the subsidiaries held as investments were treated as treasury stocks	(5,075)	(149)	-	-
Less: Cash dividends received	(5,579,017)	(164,137)	(16,476,769)	(519,117)
Balance on December 31	\$157,950,702	\$4,646,976	\$178,404,731	\$5,620,817

(2) The investment gains (losses) recognized by the equity method for the years ended December 31, 2003 and 2004 are listed below:

Name of Investee	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life	\$16,676,188	\$490,621	\$15,386,051	\$484,753
Cathay United Bank (merged)	3,518,271	103,509	13,767,747	433,766
Cathay United Bank (formerly)	(73,106)	(2,151)	-	-
Cathay Century	532,513	15,667	587,903	18,522
Cathay Securities	-	-	(41,566)	(1,309)
Cathay Pacific Venture Capital Co., Ltd.	(7,121)	(210)	(8,372)	(264)
Cathay Venture Capital Co., Ltd.	(1,654)	(49)	(3,744)	(118)
Cathay II Venture Capital Co., Ltd.	-	-	(7,904)	(249)
Cathay Venture Management Inc.	-	-	9,285	293
Total	\$20,645,091	\$607,387	\$29,689,400	\$935,394

A. The investment gains/losses of the subsidiaries were determined based on the audited financial statements of the investees for the same period as the Company.

B. We did not audit the financial statements of Cathay Pacific Venture Capital Co., Ltd. for the year ended December 31, 2004. Cathay Pacific Venture Capital Co., Ltd. was audited by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gains/losses on investments in accordance with the statements audited by other auditors.

C. Joined with its subsidiaries, the Company had significant influence on Cathay Venture Capital Co., Ltd. Thus, the investment gains/losses of Cathay Venture Capital Co., Ltd. for the year ended December 31, 2004 were recognized by the equity method based on the audited financial statements in the same period.

D. UWCCB and Cathay United Bank (formerly) were merged on October 27, 2003. UWCCB was the surviving company but the merged bank was re-named under Cathay United Bank (merged).

E. The consolidated financial statements of the Company as of and for the year ended December 31, 2003 include the Company and its subsidiaries, which include Cathay Life, Cathay Century, Cathay United Bank (merged). As of and for the year ended December 31, 2004, the consolidated financial statements include the Company, Cathay Life, Cathay United Bank (merged), Cathay Century and Cathay Securities. The consolidated financial statements of the Company as of and for the year ended December 31, 2004 excluded Cathay Pacific Venture Capital Co., Ltd., Cathay Venture Capital Co., Ltd., Cathay II Venture Capital Co., Ltd. and Cathay Capital Management Inc. because their total assets and operating revenues were less than 10% of the total assets and operating revenues of the Company.

(3) As of December 31, 2003 and 2004, the Company didn't provide collateral or guarantee on long-term investments.

7. Bonds payable

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Zero coupon convertible notes	\$23,793,000	\$700,000	\$21,759,548	\$685,556
Redemption premium payable	1,342,091	39,485	2,015,012	63,485
Total	\$25,135,091	\$739,485	\$23,774,560	\$749,041

Please see note 20(3), "Zero coupon convertible notes related information" for details.

8. Common stock

As of December 31, 2003 and 2004, the numbers of issued shares, par value of NT10 dollars (US0.3 dollars), per share, were 8,307,489 thousand shares and 8,316,713 thousand shares, respectively.

On December 31, 2001, the Company listed its shares of stock on Taiwan Stock Exchange (TSE) in accordance with relevant regulations. On July 29, 2003 and November 9, 2004, the Company listed a portion of its common shares on the Luxembourg Stock Exchange in the form of Global Depository Shares (GDSs).

9. Capital surplus

- (1) The capital surplus of the Company consists of premium of stock conversion from consolidation, equity method adjustments from investee companies, and transactions of treasury stocks. Capital surplus was NT\$53,651,046 (US\$1,578,436) and NT\$58,958,697 (US\$1,857,552) as of December 31, 2003 and 2004. Before conversion into a financial holding company, NT\$267,215 (US\$8,419) constituted retained earnings of certain subsidiaries of the Company.
- (2) The additional paid-in capital of par value through the conversion 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 undistributed retained earnings is allowed to be distributed as cash dividends.
- (3) In addition, pursuant to the Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

10. Retained earnings

(1) Legal reserve

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

(2) Unappropriated retained earnings

- A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.
- B. The distribution of the 2003 earnings was approved in the shareholders' meeting on June 3, 2004. The distribution resulted from retained earnings of NT\$20,588,763 (US\$648,669) in 2003, amounts from special reserve which were converted into undistributed retained earnings totaling NT\$887,442 (US\$27,960) and the disposition of fixed assets from subsidiaries which amounted to NT\$57,683 (US\$1,817), respectively. The Company declared cash dividends of NT\$2 (US\$0.06) on each common share and such dividends were paid on July 9, 2004.
- C. The stockholder's meeting of the Company approved the declaration of dividends on June 6, 2003. It is the Company's policy to distribute the aforementioned dividends based on its annual earnings of NT\$13,085,153 (US\$384,971), its subsidiaries' capital surplus belongs to unappropriated retained earnings before stock conversion of NT\$1,917,548 (US\$56,415) and its disposal of fixed assets retransfer as unappropriated retained earnings of NT\$128,170 (US\$3,771). The Company declared cash dividends of NT\$1.5 (US\$0.04) on each common share and such dividend was paid on July 11, 2003.
- D. Cathay Life originally held 156,927 thousand shares of the Company. After conversion into a financial holding company, Cathay Life's treasury stock has been treated as the Company's treasury stock without any stockholder rights. As of December 31, 2004, Cathay Life had transferred all such treasury shares to employees.
- E. According to the revised Tax Law of 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

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

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

H. Dividends policy

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

I. In 2004, pursuant to SFC, the information regarding the appropriation of employees, directors and supervisors, and estimate earnings per share will be available on the website of "Market Observation Post System" immediately after the meeting of directors.

In accordance with SFC regulations, the Company should assume that the dividends of year 2003 would be appropriated to the employees, directors and supervisors, and pro forma earnings per share for the current year.

Name of Investee	For the year ended December 31,	
	2003(NT\$)	2003(US\$)
a. Distributions		
Bonus paid to employees-cash	\$1,611	\$47
Bonus paid to employees-stock	-	-
Remuneration paid to directors and supervisors	5,700	168
b. After income taxes earnings per share:		
(expressed in dollars)	\$2.69	\$0.08
Pro forma earnings per share		
(expressed in dollars)	\$2.69	\$0.08
Pro forma earnings per share=	$\frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$	

11. Treasury Stock

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

(Unit: in thousands of shares)

Reason for acquisition	Jan. 1, 2004			Dec. 31, 2004			Per Share Book Value		Per Share Market Value	
	Jan. 1, 2004	Increase	Decrease	Dec. 31, 2004	Book Value	Book Value	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Subsidiaries transferred shares to employees	51,551	-	51,551	-	\$-	\$-	\$-	\$-	\$-	\$-
The Company that the subsidiaries held were treated as treasury stock	11,705	-	4,808	6,897	354,955	11,183	51.47	1.62	63.00	1.98
Subsidiaries' stocks held by the Company after conversion which are treated as treasury stock	254,911	-	254,911	-	-	-	-	-	-	-
Total	318,167	-	311,270	6,897	\$354,955	\$11,183				

(2) The Companies' stocks held by subsidiaries are illustrated as follows:

(Unit: in thousands of shares)

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

12. Personnel, depreciation, depletion and amortizations

Item	For the year ended December 31, 2003 (NT\$)			For the year ended December 31, 2004 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$ -	\$58,760	\$58,760	\$ -	\$77,383	\$77,383
Labor & health Insurance expenses	-	2,051	2,051	-	3,008	3,008
Pension expenses	-	1,169	1,169	-	3,687	3,687
Other expenses	-	44,599	44,599	-	46,525	46,525
Depreciation	-	855	855	-	1,055	1,055
Depletion	-	-	-	-	-	-
Amortizations	-	145,367	145,367	-	146,688	146,688

Item	For the year ended December 31, 2003 (US\$)			For the year ended December 31, 2004 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$ -	\$1,729	\$1,729	\$ -	\$2,438	\$2,438
Labor & health Insurance expenses	-	60	60	-	95	95
Pension expenses	-	34	34	-	116	116
Other expenses	-	1,312	1,312	-	1,466	1,466
Depreciation	-	25	25	-	33	33
Depletion	-	-	-	-	-	-
Amortizations	-	4,277	4,277	-	4,622	4,622

13. Estimated income taxes

(1) Income tax expenses for the years ended December 31, 2003 and 2004 is estimated as follows:

	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Income before income taxes	\$20,548,796	\$604,554	\$29,885,553	\$941,574
Adjustments:				
Interest income of tax on a separate basis	(63,344)	(1,864)	(19,636)	(619)
Investment gains recognized by equity method	(20,645,091)	(607,387)	(29,689,400)	(935,394)
Unrealized bonds payable redemption premium	825,612	24,290	716,399	22,571
Realized exchange gain	-	-	687,352	21,656
Unrealized exchange gain	(687,352)	(20,222)	(1,652,397)	(52,060)
Unrealized loss (gain) on market price loss (recovery) of short-term investment	71,070	2,091	(71,070)	(2,239)
Others	(16,075)	(473)	(15,067)	(475)
Taxable income	33,616	989	(158,266)	(4,986)
Times: Taxes rate	25%-10	25%	25%-10	25%
Subtotal	8,394	247	(39,576)	(1,247)
Add: Extra 10% income tax on undistributed retained earnings	-	-	-	-
Add: Tax on a separate basis	13,430	395	3,927	124
Deferred income tax (benefit) expense	(48,263)	(1,420)	93,755	2,954
Dissimilitude on estimate tax after time	(13,528)	(398)	292	9
Income taxes (benefit) expense	\$(39,967)	\$(1,176)	\$58,398	\$1,840

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

	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
A. Total deferred income tax liabilities	\$171,838	\$5,056	\$558,728	\$17,603
B. Total deferred income tax assets	\$365,496	\$10,753	\$658,632	\$20,751
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized redemption premium payable of bonds	\$1,342,091	\$39,485	\$2,015,012	\$63,485
b. Deductible temporary difference from organization costs amortization into 5 years	48,827	1,436	32,551	1,025
c. Deductible temporary difference from unrealized loss on market price loss of short-term investments	71,070	2,091	-	-
d. Deductible temporary difference from pension expenses	-	-	4,449	140
e. Deductible temporary difference from unrealized loss on foreign exchange	-	-	582,515	18,353
f. Taxable temporary difference from unrealized gain on foreign exchange	(687,352)	(20,222)	(2,234,913)	(70,413)
Subtotal	\$774,636	\$22,790	\$399,614	\$12,590
D. Deferred income tax assets-current	\$21,836	\$642	\$149,698	\$4,717
Deferred income tax liabilities- current	-	-	-	-
Net offset balance of deferred income tax assets (liabilities)-current	\$21,836	\$642	\$149,698	\$4,717
E. Deferred income tax assets-noncurrent	\$343,660	\$10,111	\$508,934	\$16,034
Deferred income tax liabilities- noncurrent	(171,838)	(5,056)	(558,728)	(17,603)
Net offset balance of deferred income tax assets (liabilities) - noncurrent	\$171,822	\$5,055	\$(49,794)	\$(1,569)

(3) The Tax Authority has examined and cleared income tax returns of the Company through 2001.

(4) The Company, in accordance with the Financial Holding Company Act, elected to be the payer of the consolidated income tax and the 10% additional undistributed earnings tax filing the consolidated income tax return which includes all subsidiaries that have twelve months of operations in a taxable year.

(5) Information related tax imputation:

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Balance of imputation credit account	\$1,435,439	\$42,231	\$362,239	\$11,413
	For the year ended December 31, 2003 (Actual)		For the year ended December 31, 2004 (Estimate)	
Imputation credit account ratio	19.17%		1.66%	

(6) Information relating of undistributed earnings:

Year	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Prior to 1997	\$267,215	\$7,862	\$267,215	\$8,419
After 1998	16,916,694	497,696	30,640,997	965,375
Total	\$17,183,909	\$505,558	\$30,908,212	\$973,794

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

14. Earnings Per Share

For the year ended December 31, 2003

	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS				
	Before income taxes		After income taxes			Before income taxes		After income taxes		
	NT\$	US\$	NT\$	US\$		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						
Primary earnings per share										
Net income for common stock holder	\$20,548,796	\$604,554	\$20,588,763	\$605,730	7,642,463	\$2.69	\$0.08	\$2.69	\$0.08	
Effect of potentially dilutive common stock										
Convertible bonds payable	825,612	24,290	619,209	18,217	431,864					
Fully-diluted earnings per share										
Net income for common stock holder & effect of potentially common stock	\$21,374,408	\$628,844	\$21,207,972	\$623,947	8,074,327	\$2.65	\$0.08	\$2.63	\$0.08	

For the year ended December 31, 2004

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

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

(In thousands of shares)	For the years end December 31,	
	2003	2004
Shares at the beginning of year	8,453,163	8,307,489
Less: Treasury stock	(313,375)	(222,873)
The Company that the subsidiaries held were treated as treasury stock	(351,651)	(20,852)
Retired treasury stock	(145,674)	-
Add: Convertible notes conversion	-	898
Total	7,642,463	8,064,662

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\$)	2004(NT\$)	2004(US\$)
Income before income taxes	\$21,873,053	\$643,514	\$30,041,879	\$946,499
Net income after income taxes	\$21,913,019	\$644,690	\$29,983,481	\$944,659
Before income taxes primary earnings per share (expressed in dollars)	\$2.78	\$0.08	\$3.72	\$0.12
After income taxes primary earnings per share (expressed in dollars)	\$2.79	\$0.08	\$3.71	\$0.12
Before income taxes fully – diluted earnings per share (expressed in dollars)	\$2.74	\$0.08	\$3.61	\$0.11
After income taxes fully – diluted earnings per share (expressed in dollars)	\$2.72	\$0.08	\$3.58	\$0.11

15. Related Party Transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay II Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Capital Management Inc.	Subsidiary of the Company
Cathay Venture Capital Co., Ltd.	The investee is accounted for using the equity method
Lin Yuan Property Management Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Life Insurance Ltd.	Subsidiaries' investee is accounted for using the equity method
Symphox Information Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Securities Investment Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Bank Life Insurance Agency of Association (merged with Seaward Insurance Agent Corp. on February 5, 2004, Cathay Bank Life Insurance Agency of Association was the surviving company)	Subsidiaries' investee is accounted for using the equity method
Cathay Futures Corp. (formerly Seward Futures Corp.)	Subsidiaries' investee is accounted for using the equity method
Cathay General Hospital	Their chairman is the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Cathay Securities Investment Trust Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Seaward Leasing Ltd.	Subsidiaries' investee is accounted for using the equity method
Seaward Property Insurance Agent Corp. (liquidated in October 2003)	Subsidiaries' investee is accounted for using the equity method
Huong Yee Co., Ltd. (liquidated in July 2003)	Subsidiaries' investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	Subsidiaries' investee is accounted for using the equity method
Taiwan Finance Corp.	Subsidiaries' investee is accounted for using the equity method
Seaward Card Co., Ltd.	Subsidiaries' investee is accounted for using the equity method
Indovina Bank	Subsidiaries' investee is accounted for using the equity method
Vista Technology Venture Capital Crop.	Subsidiaries' investee is accounted for using the equity method
Cathay Bank Property Agency of Association	Subsidiaries' investee is accounted for using the equity method
China England Co., Ltd.	Investee company of Cathay United Bank (merged)
Gemfor Tech Co., Ltd.	Their Chairman of the board is the president of Cathay United Bank (merged) (resigned on April, 2004)
Taipei Smart Card Corp.	Investee company of Cathay United Bank (merged)
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Cathay Life Charity Foundation	Their chairman is an immediate family member of the company's chairman
KG Telecommunication Ltd.	Cathay Life appointed a supervisor for KG Telecommunication Ltd. (resigned on January 19, 2004)

(2) Significant transactions with related parties:

A. Cash in bank

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

Name	Item	For the year ended December 31, 2003			
		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, 2004			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank (merged)	Time deposits	\$1,289,648	\$41,462	1.00%	\$5,824
	Cash in bank	3,412,484	5,767	0.10%	524
			\$47,229		

Name	Item	For the year ended December 31, 2004			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank (merged)	Time deposits	\$40,632	\$1,306	1.00%	\$183
	Cash in bank	107,514	182	0.10%	17
			\$1,488		

B. Interest receivable

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay United Bank (merged)	\$6	\$-	\$50	\$2

C. Other accounts receivable

Name	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life	\$25,283	\$744	\$-	\$-
Cathay United Bank (merged)	-	-	508,186	16,011
Cathay Century	33,169	976	76,408	2,407
Total	\$58,452	1,720	\$584,594	\$18,418

D. Other accounts payable

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life	\$-	\$-	\$409,990	\$12,917
Cathay United Bank (merged)	695,999	20,477	571,606	18,009
Cathay Pacific Venture Capital Co., Ltd.	-	-	5,906	186
Total	\$695,999	\$20,477	\$987,502	\$31,112

E. Rental expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life	\$8,207	\$241	\$8,207	\$258
Symphox Information Co., Ltd.	-	-	56	2
Total	\$8,207	\$241	\$8,263	\$260

F. Insurance Expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay Life	\$-	\$-	\$511	\$16
Cathay Century	169	5	128	4
Total	\$169	\$5	\$639	\$20

G. Repair expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Lin Yuan Property Management Co.,Ltd.	\$-	\$-	\$235	\$7

H. Property transactions

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Lin Yuan Property Management Co.,Ltd.	\$-	\$-	\$152	\$5

I. Transportation expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Seaward Leasing Ltd.	\$-	\$-	\$204	\$6

J. Benefits expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Symphox Information Co., Ltd.	\$-	\$-	\$167	\$5

K. Transportation expense

Name	For the years ended December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
Cathay United Bank (merged)	\$-	\$-	\$358	\$11
Seaward Card Co., Ltd.	-	-	853	27
Total	\$-	\$-	\$ 1,211	\$38

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 2004 was as follows:

A. Pension fund status

	December 31,			
	2003(NT\$)	2003(US\$)	2004(NT\$)	2004(US\$)
a. Vested benefit obligation	\$(1,698)	\$(50)	\$(3,668)	\$(116)
b. Non-vested benefit obligation	(1,878)	(55)	(4,785)	(151)
c. Accumulated benefit obligation	(3,576)	(105)	(8,453)	(267)
d. Additions benefits based on future salaries	(1,636)	(48)	(4,548)	(143)
e. Projected benefit obligation	(5,212)	(153)	(13,001)	(410)
f. Fair value of plan assets	-	-	416	13
g. Vested benefit	3,152	93	9,173	289
h. Funded status = e + f	(5,212)	(153)	(12,585)	(397)
i. Unrecognized transitional net benefit obligation (net assets)	-	-	-	-
j. Unrecognized prior service cost	-	-	-	-
k. Unrecognized pension gain and loss	3,607	106	10,108	319
l. Additional accrued pension liability	(1,971)	(58)	(5,560)	(175)
m. (Accrued pension liability) / prepaid pension cost =h+i+j+k+l	\$(3,576)	\$(105)	\$(8,037)	\$(253)

B. Actuarial Assumptions

	For the years ended December 31,	
	2003	2004
a. Discount rate	3.5%	3.0%
b. Expected rate of increase in salaries	3.0%	3.0%
c. Expected long-term rate of return on plan assets	3.5%	3.0%

(2) Financial instruments related information

A. Derivative Financial Instruments related information:

a. Credit and market price risk

The Company has entered into certain derivative transactions with financial institutions with high credit ratings to manage exposures related to interest rates and foreign currencies. Management believes its exposure related to the potential default by those counterparties is low. In addition, gains or losses from forward foreign exchange contracts are likely to be offset by gains or losses from the hedged payables. Thus, market risks are believed to be minimal.

b. Liquidity and cash requirement

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

c. Cash flow and demand

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

d. Interest Rate Swaps (IRS)

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

(b) As of December 31, 2004, the maturity dates of IRS ranged from May 20, 2002 to May 20, 2007.

As of December 31, 2003:

Counterpart	Effective	Contract amount	Contract value
Goldman Sachs International	2002.5.20	USD 700,000	USD 700,000

As of December 31, 2004:

Counterpart	Effective	Contract amount	Contract value
Goldman Sachs International	2002.5.20	USD 700,000	USD 700,000

e. Foreign currency options

The Company uses foreign currency option contracts to manage currency exposures.

As of December 31, 2003:

Counterpart	Effective date	Put date	Contract amount	Contract value
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	USD 594,000	USD 594,000

Up to December 31, 2004, all of the option contracts of the Company have been terminated.

B. Non-derivative financial instruments related information

Item	December 31, 2003			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$6,322,799	\$6,322,799	\$186,019	\$186,019
Short-term investments	2,147,421	2,147,421	63,178	63,178
Other receivable	58,452	58,452	1,720	1,720
Long-term investments in stocks	158,050,702	158,050,702	4,649,918	4,649,918
Deferred charges	231,582	231,582	6,813	6,813
Liabilities				
Other payable	\$695,999	\$695,999	\$20,477	\$20,477
Bonds payable	25,135,091	25,135,091	739,485	739,485

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

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

- Short-term financial instruments are stated at carrying amount on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents and receivables.
- If short-term investments and long-term investment in stocks have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on other financial information or their carrying amount on the balance sheet date.

(3) Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd.

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

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

Conversion rights:

Subject to certain conditions, each holder of the notes (the "Holder") has the right during the conversion period to convert its notes (or any portion thereof being US1,000 dollars in principal amount or an integral multiple thereof) into common shares and,

upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period.

Repurchase at the option of the holder:

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

Repurchase in the event of desisting:

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

Repurchase in the event of change of control:

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

Redemption at the option of the Company:

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

Tax redemption:

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

Redemption amount at maturity:

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

Negative pledge:

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

Further issues:

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

Governing law:

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

Status quo:

Up to December 31, 2004, the Company has converted US\$ 14,444 convertible notes at conversion price of NT\$ 54.15 (US\$1.71) per share, into 9,224 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$ 422,591 (US\$13,314), and are recognized as capital surplus.

(4) Capital adequacy ratio on a consolidated basis

As of December 31, 2003 and 2004 the consolidated capital adequacy ratios were 120.71% and 153.89%, respectively.

(5) Material contract: None.

(6) Presentation of financial statements:

Certain accounts in the financial statements for the year ended December 31, 2003 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2004.

21. Information for investment in Mainland China:

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

22. Segment information: None

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

(a) Concise balance sheets:

Items/Period	Cathay Life				Cathay United		Bank (merged)		Cathay Century				Cathay Securities	
	December 31, 2003		December 31, 2004		December 31, 2003		December 31, 2004		December 31, 2003		December 31, 2004		December 31, 2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$538,378,543	\$15,839,322	\$571,371,303	\$18,001,616	\$309,843,530	\$9,115,726	\$371,856,922	\$11,715,719	\$6,772,966	\$199,263	\$7,725,799	\$243,409	\$4,199,265	\$132,302
Exchange bills negotiated, discounted, and loans	478,362,995	14,073,639	450,828,752	14,203,804	511,762,416	15,056,264	585,618,279	18,450,481	761,767	22,411	788,350	24,838	-	-
Funds and long-term investments	394,179,994	11,596,940	537,449,975	16,932,892	26,841,388	789,685	37,399,221	1,178,300	2,270,550	66,801	2,579,776	81,278	18	1
Fixed assets	15,465,945	455,015	14,855,948	468,051	26,049,117	766,376	24,794,199	781,166	55,506	1,633	65,002	2,048	35,871	1,130
Other assets(including intangible assets)	28,337,778	833,709	50,215,565	1,582,091	7,930,653	233,323	4,696,134	147,956	436,349	12,838	500,402	15,766	245,152	7,723
Current liabilities	8,301,670	244,239	8,191,707	258,088	786,840,025	23,149,162	893,869,496	28,162,240	749,488	22,050	1,201,945	37,869	1,018,191	32,079
Long-term liabilities	736,217	21,660	1,431,436	45,099	-	-	-	-	8,584	253	9,209	290	-	-
Other liabilities	1,359,454,027	39,995,705	1,524,526,580	48,031,713	27,002,873	794,436	50,135,101	1,579,556	6,466,208	190,238	7,268,050	228,987	3,681	116
Capital stocks	50,686,158	1,491,208	50,686,158	1,596,917	43,182,407	1,270,445	43,182,407	1,360,504	2,317,006	68,167	2,317,006	73,000	3,500,000	110,271
Capital surplus	5,200	153	12,591	397	13,461,820	396,052	13,463,074	424,168	430	13	1,909	60	-	-
Retained earnings	38,590,027	1,135,335	39,956,516	1,258,869	11,886,259	349,699	23,830,886	750,815	754,135	22,187	861,358	27,138	(41,566)	(1,310)
Equity adjustments	(15,078)	(444)	(83,445)	(2,629)	53,720	1,580	(116,209)	(3,661)	1,287	38	(148)	(5)	-	-
Treasury stocks	(3,032,966)	(89,231)	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$1,454,725,255	\$42,798,625	\$1,624,721,543	\$51,188,454	\$882,427,104	\$25,961,374	\$1,024,364,755	\$32,273,622	\$10,297,138	\$302,946	\$11,659,329	\$367,339	\$4,480,306	\$141,156
Total liabilities	\$1,368,491,914	\$40,261,604	\$1,534,149,723	\$48,334,900	\$813,842,898	\$23,943,598	\$944,004,597	\$29,741,796	\$7,224,280	\$212,541	\$8,479,204	\$267,146	\$1,021,872	\$32,195
Total stockholders' equity	\$86,233,341	\$2,537,021	\$90,571,820	\$2,853,554	\$68,584,206	\$2,017,776	\$80,360,158	\$2,531,826	\$3,072,858	\$90,405	\$3,180,125	\$100,193	\$3,458,434	\$108,961

(2) Concise statements of income:

Items/Period	Cathay Life				Cathay United		Bank (merged)		Cathay Century				Cathay Securities		Former Cathay United Bank	
	For the year ended Dec.31, 2003		For the year ended Dec.31, 2004		For the year ended Dec.31, 2003		For the year ended Dec.31, 2004		For the year ended Dec.31, 2003		For the year ended Dec.31, 2004		5.12.2003~12.31.2004		1.1.2003~10.26.2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$474,956,405	\$13,973,416	\$531,305,391	\$16,739,300	\$30,350,469	\$892,924	\$41,851,027	\$1,318,558	\$12,254,223	\$360,524	\$13,892,595	\$437,700	\$76,521	\$2,411	\$10,076,237	\$296,447
Operating costs & expenses	(457,215,568)	(13,451,474)	(515,392,739)	(16,237,956)	(27,697,691)	(814,878)	(25,322,607)	(797,814)	(11,566,764)	(340,299)	(13,083,064)	(412,195)	(125,734)	(3,961)	(9,786,111)	(287,911)
Operating income	17,740,837	521,942	15,912,652	501,344	2,652,778	78,046	16,528,420	520,744	687,459	20,225	809,531	25,505	(49,213)	(1,550)	290,126	8,536
Non-operating revenues	2,072,947	60,987	2,106,927	66,381	74,340	2,187	1,287,486	40,563	14,214	418	37,466	1,180	-	-	60,615	1,783
Non-operating expenses	(43,485)	(1,279)	(2,757,105)	(86,866)	(106,717)	(3,140)	(147,659)	(4,652)	(8,103)	(238)	(27,414)	(864)	-	-	(29,714)	(874)
Operating income before taxes	19,770,299	581,650	15,262,474	480,859	2,620,401	77,093	17,668,247	556,655	693,570	20,405	819,583	25,821	(49,213)	(1,550)	321,027	9,445
Net income	17,830,597	524,583	15,618,806	492,086	2,706,059	79,613	13,879,247	437,279	592,660	17,436	640,617	20,183	(41,566)	(1,310)	(62,795)	(1,847)
Earning per share before taxes (in dollars)	\$4.01	\$0.12	\$3.02	\$0.10	\$0.65	\$0.02	\$4.09	\$0.13	\$2.99	\$0.09	\$3.54	\$0.11	\$(0.14)	\$-	\$0.03	\$-
Earning per share (in dollars)	\$3.61	\$0.11	\$3.09	\$0.10	\$0.67	\$0.02	\$3.21	\$0.10	\$2.56	\$0.08	\$2.76	\$0.09	\$(0.12)	\$-	\$(0.01)	\$-

Annotation 1:

On April 11, 2002 former Cathay United Bank transferred certain non-performing loans to the Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609 (US\$59,692). According to Article 15 of the ROC Financial Institution Merger Act, the losses on the transaction are being amortized over five years from April 2002. According to general accepted accounting principles in the ROC, the losses are 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), and the net income after tax of its subsidiary increased by NT\$237,069 (US\$6,975) from January 1 to October 16, 2003. From Jan. 1 to Oct. 26, 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).

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.



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

FINANCIAL STATEMENTS

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co.,Ltd and Subsidiaries**Consolidated balance sheets**As of December 31, 2003 and 2004
(Expressed in thousands of dollars)

Assets	2003		2004		2003		2004		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Current assets:									
Cash and cash equivalents	\$124,703,821	\$3,668,839	\$227,694,422	\$7,173,737					
Due from Central Bank	54,304,374	1,597,657	55,597,382	1,751,650					
Short-term investments	576,557,763	16,962,570	536,243,039	16,894,866					
Receivables	90,745,853	2,669,781	101,561,714	3,199,802					
Deferred income tax assets-current	73,495	2,162	198,506	6,254					
Prepayments	1,528,031	44,956	1,322,453	41,665					
Subtotal	847,913,337	24,945,965	922,617,516	29,067,974					
Exchange bills negotiated discounted and loans	986,713,769	29,029,531	1,032,935,426	32,543,649					
Long-term investments in stocks, bonds and real estate									
Long-term investments in stocks									
Long-term investments under equity method	8,939,203	262,995	10,314,140	324,957					
Long-term investments under cost method	50,736,114	1,492,678	16,189,091	510,053					
Allowance for valuation loss on long-term investments in stocks	(136,202)	(4,007)	(110,435)	(3,479)					
Long-term investments in bonds	269,635,361	7,932,785	450,545,469	14,194,879					
Investments in real estate	94,484,088	2,779,761	101,449,738	3,196,274					
Other long-term investments	400,000	11,768	400,000	12,603					
Subtotal	424,058,564	12,475,980	578,788,003	18,235,287					
Property and equipment									
Land	20,353,251	598,801	19,023,094	599,341					
Buildings and construction	20,492,579	602,900	20,273,128	638,725					
Furniture and fixtures	3,611,753	106,259	3,662,698	115,397					
Transportation and communication equipment	243,261	7,157	192,629	6,069					
Other equipment	7,946,350	233,785	8,747,721	275,606					
Subtotal	52,647,194	1,548,902	51,899,270	1,635,138					
Less: Accumulated depreciation	(12,229,512)	(359,797)	(12,936,630)	(407,581)					
Construction in progress	1,157,555	34,056	793,201	24,990					
Subtotal	41,575,237	1,223,161	39,755,841	1,252,547					
Intangible assets	7,261	214	83,941	2,645					
Other assets									
Net non-operating assets	3,704,121	108,977	2,714,309	85,517					
Miscellaneous assets	18,365,164	540,311	34,237,607	1,078,690					
Deferred income tax assets-noncurrent	4,291,581	126,260	940,001	29,616					
Deferred charges	781,638	22,996	606,112	19,096					
Investment-linked products assets	14,285,128	420,274	37,399,668	1,178,313					
Subtotal	41,427,632	1,218,818	75,897,697	2,391,232					
Total assets	2,341,695,800	\$68,893,669	\$2,650,078,424	\$83,493,334					
Liabilities & Stockholders' Equity									
Current liabilities									
Due to Central Bank and commercial banks	80,992,693	2,382,839	\$80,179,515	\$2,526,134					
Payables	24,811,113	729,954	26,600,461	838,074					
Deferred income tax liabilities-current	1,125,244	33,105	442,800	13,951					
Accounts collected in advance	843,904	24,828	392,214	12,357					
Subtotal	107,772,954	3,170,726	107,614,990	3,390,516					
Deposits and remittances	670,210,790	19,717,882	757,637,840	23,870,127					
Bankers acceptances and funds borrowed	1,753,524	51,589	1,414,687	44,571					
Long-term liabilities									
Bonds payable	25,135,091	739,485	23,774,560	749,041					
Reserve for land revaluation increment tax	37,845	1,113	37,846	1,192					
Accrued pension liabilities	744,651	21,908	1,446,767	45,582					
Subtotal	25,917,587	762,506	25,259,173	795,815					
Other liabilities									
Reserve for operations and liabilities	1,349,881,160	39,714,068	1,490,717,276	46,966,518					
Miscellaneous liabilities	30,064,877	884,521	54,685,553	1,722,922					
Investment-linked products liabilities	14,285,128	420,274	37,399,668	1,178,314					
Subtotal	1,394,231,165	41,018,863	1,582,802,497	49,867,754					
Total liabilities	2,199,886,020	64,721,566	2,474,729,187	77,968,783					
Stockholders' Equity									
Capital stock									
Common stock	83,074,891	2,444,098	83,167,130	2,620,262					
Capital surplus									
Additional paid-in capital	53,101,717	1,562,275	53,524,308	1,686,336					
Treasury stock transactions	-	-	4,852,742	152,891					
Others	549,329	16,161	581,647	18,325					
Retained earnings									
Legal reserve	1,335,046	39,278	3,026,715	95,360					
Special reserve	1,833,255	53,935	122,653	3,864					
Unappropriated retained earnings	16,916,694	497,696	30,640,997	965,375					
Equity adjustments									
Unrealized valuation losses on long term equity investments	(136,202)	(4,007)	(110,435)	(3,479)					
Cumulative conversion adjustments	176,537	5,194	(96,005)	(3,025)					
Net loss not yet recognized as net pension cost	(1,971)	(58)	(5,560)	(175)					
Treasury stock	(15,039,516)	(442,469)	(354,955)	(11,183)					
Total stockholders' equity	141,809,780	4,172,103	175,349,237	5,524,551					
Total liabilities and stockholders' equity	2,341,695,800	\$68,893,669	\$2,650,078,424	\$83,493,334					

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co.,Ltd and Subsidiaries**Consolidated statements of income**For the years ended December 31, 2003 and 2004
(Expressed in thousands of dollars,except earning per share)

	2003		2004	
	NT\$	US\$	NT\$	US\$
Operating revenues				
Interest income	\$79,585,908	\$2,341,451	\$84,082,332	\$2,649,097
Premiums income	267,200,820	7,861,160	289,831,277	9,131,420
Reinsurance commission earned	407,646	11,993	469,354	14,787
Claims recovered from reinsures	1,166,449	34,317	1,369,061	43,134
Recovered premiums reserve	131,830,534	3,878,509	145,377,625	4,580,265
Recovered special reserve	157,197	4,625	263,301	8,296
Recovered claims reserve	314,691	9,258	374,404	11,796
Commission and handing fee earned	5,022,542	147,765	7,715,740	243,092
Investment-linked products revenues	17,094,832	502,937	29,866,689	940,980
Gain on disposal of investments	13,120,447	386,009	20,072,740	632,411
Gain on long-term equity investments	494,366	14,544	496,823	15,653
Gain on investments-real estate	4,267,767	125,559	4,396,629	138,520
Other operating income	5,233,677	153,977	1,558,890	49,114
Subtotal	525,896,876	15,472,106	585,874,865	18,458,565
Operating costs				
Interest expenses	(9,848,890)	(289,758)	(8,849,029)	(278,797)
Insurance expenses	(2,798,398)	(82,330)	(3,599,161)	(113,395)
Brokerage expenses	(23,818,122)	(700,739)	(24,333,563)	(766,653)
Commissions expenses	(448,127)	(13,184)	(791,369)	(24,933)
Insurance claims payment	(137,334,589)	(4,040,441)	(165,275,069)	(5,207,154)
Provision for premiums reserve	(268,859,214)	(7,909,950)	(282,467,467)	(8,899,416)
Provision for special reserve	(2,606,949)	(76,698)	(3,923,117)	(123,602)
Contribution to the stabilization funds	(273,243)	(8,039)	(297,199)	(9,364)
Provision for claims reserve	(374,404)	(11,015)	(399,975)	(12,602)
Handling fee paid	(2,343,935)	(68,960)	(1,882,690)	(59,316)
Investment-linked products expenses	(17,094,832)	(502,937)	(29,866,689)	(940,979)
Provision for possible losses	(14,736,594)	(433,557)	(2,555,113)	(80,501)
Agency expenses	(2,488)	(73)	-	-
Other operating cost	(1,622,825)	(47,744)	(5,223,077)	(164,558)
Subtotal	(482,162,610)	(14,185,426)	(529,463,518)	(16,681,270)

	2003		2004	
	NT\$	US\$	NT\$	US\$
Operating gross profit	43,734,266	1,286,680	56,411,347	1,777,295
Operating expenses	(22,537,288)	(663,056)	(24,071,595)	(758,399)
Operating income	21,196,978	623,624	32,339,752	1,018,896
Non-operating revenues	2,194,089	64,551	4,082,072	128,610
Non-operating expenses	(179,914)	(5,293)	(2,932,285)	(92,385)
Income from continuing operations before income taxes	23,211,153	682,882	33,489,539	1,055,121
Income taxes	(2,622,390)	(77,152)	(3,662,384)	(115,387)
Consolidated net income	\$20,588,763	\$605,730	\$29,827,155	\$939,734
Earnings per share(expressed in dollars)				
Primary earnings per share:				
Income from continuing operations before income taxes	\$3.04	\$0.09	\$4.15	\$0.13
Net income	\$2.69	\$0.08	\$3.70	\$0.12
Fully-diluted earnings per share:				
Income from continuing operations before income taxes	\$2.98	\$0.09	\$4.02	\$0.13
Net income	\$2.63	\$0.08	\$3.57	\$0.11

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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



Cathay Life Insurance Co., Ltd.

FINANCIAL STATEMENTS

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.**Balance Sheets**As of December 31, 2003 and 2004
(Expressed in thousands of dollars)

	2003		2004	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$110,832,510	\$3,260,739	\$219,409,605	\$6,912,716
Short-term investments	394,517,196	11,606,861	308,494,073	9,719,410
Notes receivable	15,256,262	448,846	12,360,660	389,435
Notes receivable-related parties	34,225	1,007	-	-
Accounts receivable-related parties	13,476	396	79,573	2,507
Tax refund receivable	15,029	442	-	-
Interest receivable	10,672,933	314,002	8,778,274	276,568
Other accounts receivable	7,006,490	206,134	22,225,245	700,228
Prepayments	30,422	895	23,873	752
Subtotal	538,378,543	15,839,322	571,371,303	18,001,616
Exchange bills negotiated, discounted and loans				
Policy loans	183,721,399	5,405,160	169,330,068	5,334,911
Short-term secured loans	61,106	1,798	100,430	3,164
Medium-term secured loans	9,928,879	292,112	9,127,958	287,585
Long-term secured loans	284,651,611	8,374,569	272,270,296	8,578,144
Subtotal	478,362,995	14,073,639	450,828,752	14,203,804
Funds, long-term investments, and receivable				
Long-term investments in stocks				
Under the equity method	2,133,813	62,778	3,602,793	113,510
Under the cost method	44,369,985	1,305,383	10,639,592	335,211
Allowance for valuation loss on long-term investments in stocks	(19,419)	(571)	-	-
Long-term investments in bonds	253,211,527	7,449,589	421,757,853	13,287,897
Investments in real estate	94,484,088	2,779,761	101,449,737	3,196,274
Subtotal	394,179,994	11,596,940	537,449,975	16,932,892
Property and equipment				
Land	5,161,509	151,854	5,018,358	158,108
Buildings and construction	11,193,060	329,304	11,142,721	351,063
Communication and transportation equipment	137,010	4,031	85,457	2,693
Other equipment	4,359,036	128,245	4,467,766	140,761
Subtotal	20,850,615	613,434	20,714,302	652,625
Less: Accumulated depreciation	(5,494,597)	(161,653)	(6,052,476)	(190,690)
Construction in progress and prepayment for equipment	109,927	3,234	194,122	6,116
Subtotal	15,465,945	455,015	14,855,948	468,051
Intangible assets				
Computer software cost	-	-	68,921	2,171
Subtotal	-	-	68,921	2,171
Other assets				
Non-operating assets	3,002,047	88,322	1,116,667	35,182
Guarantee deposits paid	1,176,827	34,623	1,221,763	38,493
Overdue receivables	1,431,930	42,128	856,746	26,993
Temporary payments and suspense accounts	244,124	7,182	1,061,317	33,438
Securities serving as deposits paid-bonds	7,937,998	233,539	8,090,599	254,902
Other assets-other	-	-	42,957	1,354
Deferred income tax assets	259,724	7,641	356,927	11,245
Investment-linked products assets	14,285,128	420,274	37,399,668	1,178,313
Subtotal	28,337,778	833,709	50,146,644	1,579,920
Total assets	\$1,454,725,255	\$42,798,625	\$1,624,721,543	\$51,188,454

	2003		2004	
	NT\$	US\$	NT\$	US\$
Liabilities & Stockholders' Equity				
Current Liabilities				
Notes payable	\$1,603	\$47	\$1,949	\$61
Accounts payable-related parties	209,741	6,171	85,301	2,688
Collections for others	142,696	4,198	146,704	4,622
Accrued expenses	3,196,696	94,048	3,503,500	110,381
Taxes payable	322,235	9,480	354,950	11,183
Commissions payable	1,148,918	33,802	1,093,224	34,443
Dividends payable	175,596	5,166	93,565	2,948
Life insurance proceeds payable	481	14	2,042	64
Other payable	1,443,383	42,465	2,311,870	72,838
Deferred income tax liabilities- current	1,125,244	33,105	442,800	13,951
Accounts collected in advance	535,077	15,743	155,802	4,909
Subtotal	8,301,670	244,239	8,191,707	258,088
Long-term Liabilities				
Reserve for land revaluation increment tax	3,726	110	3,726	117
Accrued pension liability	732,491	21,550	1,427,710	44,982
Subtotal	736,217	21,660	1,431,436	45,099
Other Liabilities				
Reserve for operations and liabilities				
Unearned premium reserve	9,471,557	278,657	9,486,598	298,885
Reserve for life insurance	1,320,057,659	38,836,648	1,456,702,273	45,894,841
Special reserve	13,379,990	393,645	16,732,119	527,162
Claims reserve	329,851	9,704	348,034	10,965
Miscellaneous liabilities				
Guarantee deposits received	1,327,385	39,052	1,647,431	51,904
Temporary receipts and suspense accounts	602,457	17,725	2,210,457	69,643
Investment-linked products liabilities	14,285,128	420,274	37,399,668	1,178,313
Subtotal	1,359,454,027	39,995,705	1,524,526,580	48,031,713
Total Liabilities	1,368,491,914	40,261,604	1,534,149,723	48,334,900
Stockholders' Equity				
Capital stock				
Common stock	50,686,158	1,491,208	50,686,158	1,596,917
Capital surplus	5,200	153	12,591	397
Retained earnings				
Legal reserve	14,552,065	428,128	16,330,948	514,523
Special reserve	6,249,135	183,852	8,016,080	252,554
Unappropriated retained earnings	17,788,827	523,355	15,609,488	491,792
Equity adjustment				
Unrealized valuation losses on long-term equity investment	(19,419)	(572)	-	-
Cumulative conversion adjustments	4,341	128	(83,445)	(2,629)
Treasury stock	(3,032,966)	(89,231)	-	-
Total Stockholders' Equity	86,233,341	2,537,021	90,571,820	2,853,554
Total liabilities and stockholders' equity	\$1,454,725,255	\$42,798,625	\$1,624,721,543	\$51,188,454

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.**Statements of income**

For the Years Ended December 31, 2003 and 2004

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

	2003		2004	
	NT\$	US\$	NT\$	US\$
Operating revenues				
Premiums income	\$260,375,620	\$7,660,360	\$281,951,493	\$8,883,160
Reinsurance commission earned	100,663	2,962	121,490	3,827
Claims recovered from reinsurers	191,186	5,625	214,363	6,754
Recovered premiums reserve	128,477,867	3,779,873	141,776,609	4,466,812
Recovered special reserve	-	-	176,245	5,553
Recovered claims reserve	278,080	8,181	329,851	10,392
Handling fees earned	545,547	16,050	805,495	25,378
Interest income	47,277,701	1,390,930	51,887,670	1,634,772
Gain on disposal of investments	11,006,551	323,817	19,378,500	610,539
Gain on long-term equity investments	22,960	675	78,674	2,479
Gain on investments-real estate	4,513,133	132,778	4,718,312	148,655
Other operating revenues	5,072,265	149,228	-	-
Investment-linked products revenues	17,094,832	502,937	29,866,689	940,979
Subtotal	474,956,405	13,973,416	531,305,391	16,739,300
Operating costs				
Insurance expenses	(445,229)	(13,099)	(563,924)	(17,767)
Brokerage expenses	(23,818,122)	(700,739)	(24,333,563)	(766,653)
Commissions expenses	(314,055)	(9,240)	(651,145)	(20,515)
Insurance claims payment	(134,132,353)	(3,946,230)	(161,667,595)	(5,093,497)
Provision for premiums reserve	(265,258,198)	(7,804,007)	(278,436,263)	(8,772,409)
Provision for special reserve	(2,224,669)	(65,451)	(3,528,373)	(111,165)
Contribution to the stabilization funds	(259,913)	(7,647)	(281,656)	(8,874)
Provision for claims reserve	(329,851)	(9,704)	(348,034)	(10,965)
Handling fees paid	(1,775,924)	(52,248)	(662,641)	(20,877)
Interest expenses	(32,377)	(953)	(51,052)	(1,608)
Provisions expenses	(592,873)	(17,443)	-	-
Other operating cost	(693,125)	(20,392)	(4,248,985)	(133,869)
Investment-linked products expenses	(17,094,832)	(502,937)	(29,866,689)	(940,979)
Subtotal	(446,971,521)	(13,150,090)	(504,639,920)	(15,899,178)
Operating gross profit	27,984,884	823,326	26,665,471	840,122
Operating expenses				
Marketing expenses	(2,740,427)	(80,624)	(2,811,532)	(88,580)
Administrative and general expenses	(7,503,620)	(220,760)	(7,941,287)	(250,198)
Operating income	17,740,837	521,942	15,912,652	501,344
Non-operating revenues & gains				
Gains on foreign exchange	500,780	14,734	-	-
Gains on disposal of property and equipment	2,903	85	4,041	127
Miscellaneous income	1,569,264	46,168	2,102,886	66,254
Subtotal	2,072,947	60,987	2,106,927	66,381
Non-operating expenses & losses				
Losses on foreign exchange	-	-	(2,749,797)	(86,635)
Losses on disposal of property and equipment	(15,004)	(441)	(1,298)	(41)
Miscellaneous expenses	(28,481)	(838)	(6,010)	(190)
Subtotal	(43,485)	(1,279)	(2,757,105)	(86,866)
Income from continuing operations before income taxes	19,770,299	581,650	15,262,474	480,859
Income taxes (expense) benefit	(1,939,702)	(57,067)	356,332	11,227
Net income	\$17,830,597	\$524,583	\$15,618,806	\$492,086
Earnings per share (In dollars)				
Income before income tax	\$4.01	\$0.12	\$3.02	\$0.10
Net income	\$3.61	\$0.11	\$3.09	\$0.10

((The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00))

CATHAY
FINANCIAL
HOLDINGS
2004 Annual Report

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank Co., Ltd.
Balance Sheets

As of December 31, 2003 and 2004
(Expressed in thousands of dollars)

Assets	2003		2004	
	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	\$18,754,891	\$551,777	\$17,860,193	\$562,703
Due from Central Bank and call loans to banks	54,304,373	1,597,657	55,597,382	1,751,650
Securities purchased-net	178,434,377	5,249,614	240,083,384	7,564,064
Receivables-net	56,557,857	1,663,956	56,933,442	1,793,744
Prepayments	1,792,032	52,722	1,382,521	43,558
Bills and loans-net	511,762,416	15,056,264	585,618,279	18,450,481
Long-term investments				
Equity method	5,787,084	170,259	5,123,460	161,420
Cost method	6,066,749	178,486	5,365,686	169,051
Others	14,987,555	440,940	26,910,075	847,829
Premises and equipment				
Cost				
Land	15,191,742	446,947	14,004,736	441,233
Building	9,299,518	273,596	9,130,407	287,663
Furniture and fixtures	3,611,754	106,259	3,662,697	115,397
Transportation equipment	85,878	2,527	79,700	2,511
Miscellaneous equipment	3,435,204	101,065	4,071,163	128,266
Total Cost	31,624,096	930,394	30,948,703	975,070
Less: Accumulated depreciation	(6,622,608)	(194,840)	(6,751,064)	(212,699)
Construction in progress and procurement	1,047,629	30,822	596,560	18,795
Premises and Equipment-net	26,049,117	766,376	24,794,199	781,166
Other assets	7,930,653	233,323	4,696,134	147,956
Total Assets	\$882,427,104	\$25,961,374	\$1,024,364,755	\$32,273,622

Liabilities and shareholders' equity	2003		2004	
	NT\$	US\$	NT\$	US\$
Due to Central Bank and commercial banks	\$80,992,693	\$2,382,839	\$80,179,515	\$2,526,135
Payables	17,410,089	512,212	17,251,133	543,514
Advances	1,676,799	49,332	1,185,596	37,353
Deposits and remittances	659,956,920	19,416,208	745,288,566	23,481,051
Financial debentures payable	25,050,000	736,982	48,550,000	1,529,616
Banker's acceptances and funds borrowed	1,753,524	51,589	1,414,686	44,571
Other liabilities	27,002,873	794,436	50,135,101	1,579,556
Total Liabilities	813,842,898	23,943,598	944,004,597	29,741,796
Capital stock	43,182,407	1,270,445	43,182,407	1,360,504
Capital reserves				
Additional paid-in capital	13,449,023	395,676	13,449,023	423,725
Others	12,797	376	14,051	443
Retained earnings				
Legal reserve	9,122,517	268,388	9,951,639	313,536
Unappropriated earnings	2,763,742	81,311	13,879,247	437,279
Unrealized losses on long-term investments	(116,783)	(3,436)	(104,653)	(3,297)
Conversion adjustments	170,503	5,016	(11,556)	(364)
Total shareholders' equity	68,584,206	2,017,776	80,360,158	2,531,826
Total liabilities and shareholders' equity	\$882,427,104	\$25,961,374	\$1,024,364,755	\$32,273,622

((The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00))

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Statements of income**For the Years Ended December 31, 2003 and 2004
(Expressed in thousands of dollars, except per share amounts)

	2003		2004	
	NT\$	US\$	NT\$	US\$
Operating income:				
Interest revenue	\$24,049,202	\$707,538	\$31,990,552	\$1,007,894
Commission and handling fees	3,075,814	90,492	6,910,192	217,712
Gains on sales of securities-net	915,225	26,926	515,548	16,243
Investment income-net	1,537,100	45,222	694,072	21,867
Profit on exchange-net	248,015	7,297	316,177	9,962
Other operating income	525,113	15,449	1,424,486	44,880
Total operating income	30,350,469	892,924	41,851,027	1,318,558
Operating cost:				
Interest expense	(6,667,623)	(196,164)	(8,295,883)	(261,370)
Commissions and handling charges	(396,579)	(11,668)	(1,003,986)	(31,632)
Provisions for possible losses	(10,913,351)	(321,076)	(2,555,113)	(80,501)
Operating expenses	(8,511,561)	(250,413)	(12,503,201)	(393,926)
Other operating expenses	(1,208,577)	(35,557)	(964,424)	(30,385)
Total operating cost	(27,697,691)	(814,878)	(25,322,607)	(797,814)
Net operating income	2,652,778	78,046	16,528,420	520,744
Non-operating income:				
Gains on disposal of premises and equipment	1,974	58	1,168,129	36,803
Others	72,366	2,129	119,357	3,760
Total non-operating income	74,340	2,187	1,287,486	40,563
Non-operating loss:				
Losses on disposal of premises and equipment	(38,930)	(1,146)	(41,233)	(1,299)
Others	(67,787)	(1,994)	(106,426)	(3,353)
Total non-operating loss	(106,717)	(3,140)	(147,659)	(4,652)
Income before income tax	2,620,401	77,093	17,668,247	556,655
Income tax benefit (expenses)	85,658	2,520	(3,789,000)	(119,376)
Net income	\$2,706,059	\$79,613	\$13,879,247	\$437,279
Earnings per share(in NT dollars)				
Income before income tax	\$0.65	\$0.019	\$4.09	\$0.129
Income tax benefit (expenses)	0.02	0.001	(0.88)	(0.028)
Net income	\$0.67	\$0.020	\$3.21	\$0.101

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

CATHAY
FINANCIAL
HOLDINGS
2004 Annual Report**Cathay Century Insurance Co., Ltd.****FINANCIAL STATEMENTS**

English Translation of Financial Statements Originally Issued in Chinese

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

As of December 31, 2003 and 2004

(Expressed in thousands of dollars)

	2003		2004	
	NT\$	US\$	NT\$	US\$
Assets				
Current Assets				
Cash and cash equivalents	\$3,589,751	\$105,612	\$3,783,245	\$119,195
Short-term investments	2,065,103	60,756	2,448,376	77,139
Notes receivable	187,896	5,528	140,884	4,439
Interests receivable	26,298	774	20,563	648
Premiums receivable	525,251	15,453	938,056	29,554
Claims recoverable from reinsurers	209,135	6,153	252,969	7,970
Due from reinsurers and ceding companies	91,880	2,703	18,266	575
Other accounts receivable	23,430	689	80,851	2,547
Deferred income tax assets - current	51,659	1,520	39,773	1,253
Prepayments	2,563	75	2,816	89
Subtotal	6,772,966	199,263	7,725,799	243,409
Exchange bills negotiated, discounted and loans				
Medium-term secured loans	401,799	11,821	397,909	12,537
Long-term secured loans	359,968	10,590	390,441	12,301
Subtotal	761,767	22,411	788,350	24,838
Funds, long-term investments and receivable				
Long-term investments in stocks				
Under the equity method	234,892	6,911	218,439	6,882
Under the cost method	199,380	5,866	83,796	2,640
Long-term investments in bonds	1,836,278	54,024	2,277,541	71,756
Subtotal	2,270,550	66,801	2,579,776	81,278
Property and equipment				
Communication and transportation equipment	17,174	505	20,960	660
Other equipment	149,437	4,397	170,616	5,376
Subtotal	166,611	4,902	191,576	6,036
Less: Accumulated depreciation	(111,105)	(3,269)	(129,094)	(4,067)
Prepayments for equipment	-	-	2,520	79
Subtotal	55,506	1,633	65,002	2,048
Intangible assets				
Computer software cost	7,261	214	15,020	473
Subtotal	7,261	214	15,020	473
Other assets				
Guarantee deposits paid	16,821	495	17,891	564
Overdue receivables	30,884	909	94,206	2,968
Temporary payments and suspense accounts	14,919	439	7,038	222
Securities serving as deposits paid-bonds	360,284	10,600	359,937	11,340
Funds held by ceding companies	107	3	8	-
Deferred pension cost	6,059	178	6,302	199
Deferred income tax assets- noncurrent	14	-	-	-
Subtotal	429,088	12,624	485,382	15,293
Total assets	\$10,297,138	\$302,946	\$11,659,329	\$367,339

	2003		2004	
	NT\$	US\$	NT\$	US\$
Liabilities & Stockholders' Equity				
Current liabilities				
Collections for others	\$4,891	\$144	\$6,158	\$194
Accrued expenses	235,046	6,915	268,910	8,472
Commissions payable	3,935	116	1,836	58
Dividends payable	1,441	42	7,888	249
Claims outstanding	4,736	139	632	20
Due to reinsurers and ceding companies	73,494	2,162	237,938	7,497
Other payables	425,945	12,532	678,583	21,379
Subtotal	749,488	22,050	1,201,945	37,869
Long-term liabilities				
Accrued pension liabilities	8,584	253	9,209	290
Subtotal	8,584	253	9,209	290
Other liabilities				
Unearned premiums reserve	3,601,016	105,943	4,031,204	127,007
Special reserve	2,262,767	66,572	2,570,454	80,985
Claims reserve	585,308	17,220	634,173	19,980
Temporary receipts and suspense accounts	16,834	495	32,035	1,009
Funds held for reinsurers	283	8	184	6
Subtotal	6,466,208	190,238	7,268,050	228,987
Total liabilities	7,224,280	212,541	8,479,204	267,146
Stockholders' equity				
Capital stock				
Common stock	2,317,006	68,167	2,317,006	73,000
Capital surplus	430	13	1,909	60
Retained earnings				
Legal reserve	161,475	4,751	220,741	6,955
Unappropriated retained earnings	592,660	17,436	640,617	20,183
Equity adjustment				
Cumulative conversion adjustments	1,287	38	(148)	(5)
Total stockholders' equity	3,072,858	90,405	3,180,125	100,193
Total liabilities and stockholders' equity	\$10,297,138	\$302,946	\$11,659,329	\$367,339

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Statements of income

For the year ended December 31, 2003 and 2004

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

	2003		2004	
	NT\$	US\$	NT\$	US\$
Operating revenues				
Premiums income	\$7,044,600	\$207,255	\$8,307,758	\$261,744
Reinsurance commission earned	306,983	9,031	347,864	10,960
Claims recovered from reinsurers	975,264	28,693	1,154,698	36,380
Recovered unearned premiums reserve	3,352,667	98,637	3,601,016	113,453
Recovered special claim reserve	157,197	4,625	87,057	2,743
Recovered claims reserve	36,610	1,077	44,553	1,404
Handling fee earned	343	10	53	2
Interest income	216,325	6,364	224,779	7,082
Gain on trading bills and securities	162,781	4,789	124,817	3,932
Gain on long-term equity investment	1,453	43	-	-
Subtotal	12,254,223	360,524	13,892,595	437,700
Operating costs				
Reinsurance premiums ceded	(2,572,569)	(75,686)	(3,035,237)	(95,628)
Commissions expenses	(134,072)	(3,944)	(140,224)	(4,418)
Insurance claims payment	(3,229,577)	(95,016)	(3,623,241)	(114,154)
Provision for unearned premiums reserve	(3,601,016)	(105,943)	(4,031,204)	(127,007)
Provision for special claim reserve	(382,280)	(11,247)	(394,744)	(12,437)
Contribution to the stabilization funds	(13,329)	(392)	(15,543)	(489)
Provision for claims reserve	(44,553)	(1,311)	(51,941)	(1,636)
Handling fee paid	(185,472)	(5,457)	(216,977)	(6,836)
Interest expenses	(27)	(1)	(93)	(3)
Loss on long-term equity investment	-	-	(16,495)	(520)
Agent expenses	(2,488)	(73)	(4,087)	(129)
Subtotal	(10,165,383)	(299,070)	(11,529,786)	(363,257)
Operating gross profit	2,088,840	61,454	2,362,809	74,443
Operating expenses				
Marketing expenses	(1,153,637)	(33,940)	(1,291,930)	(40,704)
Administrative and general expenses	(247,744)	(7,289)	(261,348)	(8,234)
Operating income	687,459	20,225	809,531	25,505
Non-operating revenues				
Gain on foreign exchange	433	13	1,502	47
Gain on disposal of property and equipment	166	5	361	11
Miscellaneous income	13,615	400	35,603	1,122
Subtotal	14,214	418	37,466	1,180
Non-operating expenses				
Loss on foreign exchange	(8,103)	(238)	(27,396)	(863)
Loss on disposal of property and equipment	-	-	(18)	(1)
Subtotal	(8,103)	(238)	(27,414)	(864)
Income from continuing operations before income taxes	693,570	20,405	819,583	25,821
Income taxes	(100,910)	(2,969)	(178,966)	(5,638)
Net income	\$592,660	\$17,436	\$640,617	\$20,183
Earning per share (In dollars)				
Income before income taxes	\$2.99	\$0.09	\$3.54	\$0.11
Net income	\$2.56	\$0.08	\$2.76	\$0.09

((The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 to US\$1.00))

Cathay Securities Co., Ltd.

FINANCIAL STATEMENTS

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.
Balance sheet

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

ASSETS	December 31, 2004	
	NT\$	US\$
Current assets		
Cash and cash equivalents	\$1,857,623	\$58,526
Short-term investments - net	650,000	20,479
Investments in bonds with resale agreements	672,686	21,194
Operating securities - dealing	126,742	3,993
Allowance for valuation loss on operating securities - dealing	(880)	(28)
Operating securities - stock warrants	12	-
Allowance for valuation loss on operating securities - stock warrants	(1)	-
Operating securities - hedging	169,293	5,334
Receivable amount for margin loans	189,445	5,969
Securities refinancing margin deposits	687	22
Accounts receivable - net	8,982	283
Prepayments	840	26
Other receivables - net	10,227	322
Other receivables - related parties - net	2,569	81
Restricted assets - current	500,000	15,753
Deferred income tax assets - current	9,035	285
Deferred losses on financial instrument	1,203	38
Other current assets	802	25
Subtotal	4,199,265	132,302
Funds and long-term investments		
Long-term investments in stocks		
Long-term investment under cost method	18	1
Subtotal	18	1
Property and equipment		
Equipment	27,563	868
Leasehold improvement	10,046	317
Less: Accumulated depreciation	(1,738)	(55)
Subtotal	35,871	1,130
Intangible assets		
Deferred pension cost	1,680	53
Subtotal	1,680	53
Other assets		
Operating deposits	150,098	4,729
Settlement and clearance funds	65,109	2,051
Guarantee deposits paid	19,929	628
Deferred debits	4,445	140
Deferred income tax assets - noncurrent	396	12
Subtotal	239,977	7,560
Securities brokerage debit accounts - net	3,495	110
Total assets	\$4,480,306	\$141,156

Liabilities & Stockholders' Equity	2004	
	NT\$	US\$
Current liabilities		
Bonds sold under repurchase agreements	\$776,327	\$24,459
Securities financing guarantee deposits-in	744	23
Deposit payable for securities financing	822	26
Liabilities for derivative financial instruments - GreTai (over-the-counter)	226,285	7,129
Accounts payable	3,830	121
Accounts collected in advance	175	6
Receipts under custody	1,933	61
Other payable	8,035	253
Other current liabilities	40	1
Subtotal	1,018,191	32,079
Other liabilities		
Reserve for default losses	1,585	50
Reserve for trading losses	123	4
Guarantee deposits-in	163	5
Accrued pension liability	1,810	57
Subtotal	3,681	116
Total liabilities	1,021,872	32,195
Stockholders' equity		
Capital stock		
Common stock	3,500,000	110,271
Retained earnings		
Unappropriated retained earnings	(41,566)	(1,310)
Total stockholders' equity	3,458,434	108,961
Total liabilities and stockholders' equity	\$4,480,306	\$141,156

((The exchange rates of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Co., Ltd.**Statement of income**

From May 12 to December 31, 2004

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

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

ITEMS	May 12-December 31, 2004	
	NT\$	US\$
Revenue		
Brokerage commissions	\$48,658	\$1,533
Profit from trading securities - dealing	424	13
Profit from trading securities - hedging	2,581	81
Interest revenue	7,537	238
Brokerage commissions for introducing futures contracts	862	27
Revenue from derivative financial instruments - GreTai (over-the-counter)	132	4
Other operating revenue	141	5
Non-operating revenue and profits	16,186	510
Subtotal	<u>76,521</u>	<u>2,411</u>
Expenses		
Brokerage securities transaction charges	(3,677)	(116)
Dealing securities transaction charges	(105)	(3)
Refinancing transaction fees	(4)	-
Loss from trading securities - stock warrants	(294)	(9)
Interest expense	(1,211)	(38)
Loss from decline in price of operating securities - dealing	(880)	(28)
Loss from decline in price of operating securities - stock warrants	(1)	-
Operating expenses	(119,455)	(3,764)
Non-operating expenses and losses	(107)	(3)
Subtotal	<u>(125,734)</u>	<u>(3,961)</u>
Loss from continuing operations before income taxes	(49,213)	(1,550)
Income tax benefit	7,647	240
Net loss from continuing operations	<u>\$(41,566)</u>	<u>\$(1,310)</u>
Net loss	<u>\$(41,566)</u>	<u>\$(1,310)</u>
Earnings per share (in dollars)		
Loss before income taxes	<u>\$(0.14)</u>	<u>\$(0.004)</u>
Net loss	<u>\$(0.12)</u>	<u>\$(0.004)</u>

((The exchange rates of December 31, 2004 provided by the Federal Reserve Bank of New York was NT\$31.74)