

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
PRO FORMA CONSOLIDATED BALANCE SHEET
(Expressed in thousands of dollars)
December 31, 2001

| | 2001 | 2001 |
|--|-------------------------------|----------------------------|
| | NT\$ | US\$ |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Notes 2, 4) | \$173,490,638 | \$4,957,017 |
| Short-term investments (Notes 2, 5) | 215,705,693 | 6,163,196 |
| Notes receivable | 19,335,753 | 552,466 |
| Notes receivable-related parties (Note 18) | 23,607 | 675 |
| Interest receivable | 10,700,400 | 305,734 |
| Other accounts receivable | 2,072,423 | 59,214 |
| Prepayments | 378,251 | 10,807 |
| Premiums paid for others (Note 6) | 13,117,896 | 374,808 |
| Sub-total | <u>434,824,661</u> | <u>12,423,917</u> |
| Exchange Bills Negotiated, Discounted and Loans (Notes 2, 7) | | |
| Policy loans for life insurers | 173,451,836 | 4,955,908 |
| Short-term secured loans | 88,704 | 2,534 |
| Medium-term secured loans | 12,030,573 | 343,741 |
| Long-term secured loans | 295,735,633 | 8,449,831 |
| Sub-total | <u>481,306,746</u> | <u>13,752,014</u> |
| Funds, Long-Term Investments, and Receivable | | |
| Long-term investments in stocks (Notes 2, 8) | 10,688,524 | 305,395 |
| Long-term investments in bonds (Notes 2, 9) | 91,497,578 | 2,614,291 |
| Investments in real estate (Notes 2, 10) | 88,142,927 | 2,518,441 |
| Sub-total | <u>190,329,029</u> | <u>5,438,127</u> |
| Property and Equipment (Notes 2,11) | | |
| Land | 5,012,785 | 143,227 |
| Buildings and Structures | 10,086,291 | 288,188 |
| Communication and transportation equipment | 135,846 | 3,881 |
| Other equipment | 3,356,997 | 95,917 |
| Sub-total | 18,591,919 | 531,213 |
| Less: Accumulated depreciation | (4,373,984) | (124,975) |
| Construction in progress and prepayment for equipment | 129,100 | 3,689 |
| Sub-total | <u>14,347,035</u> | <u>409,927</u> |
| Other Assets | | |
| Non-operating assets (Notes 2, 23) | 2,438,193 | 69,665 |
| Guarantee deposits paid (Notes 2, 19) | 1,280,603 | 36,590 |
| Overdue receivables (Notes 2, 12) | 6,028,864 | 172,258 |
| Temporary payments and suspense accounts | 44,057 | 1,259 |
| Deferred charges | 493,389 | 14,097 |
| Sub-total | <u>10,285,106</u> | <u>293,869</u> |
| Total Assets | <u><u>\$1,131,092,577</u></u> | <u><u>\$32,317,854</u></u> |

; notes are an integral part of these consolidated financial statements.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
PRO FORMA CONSOLIDATED BALANCE SHEET - (Continued)
(Expressed in thousands of dollars)
December 31, 2001

| | 2001 | 2001 |
|--|------------------------|---------------------|
| | NT\$ | US\$ |
| Liabilities & Stockholders' Equity | | |
| Current Liabilities | | |
| Notes payable | \$1,674 | \$48 |
| Accounts payable-related parties (Note 18) | 31,996 | 914 |
| Collections for others | 161,082 | 4,602 |
| Accrued expenses | 2,846,420 | 81,329 |
| Income taxes payable | 487,897 | 13,940 |
| Commissions payable | 750,131 | 21,433 |
| Dividends payable | 321,057 | 9,173 |
| Life insurance proceeds payable | 274 | 8 |
| Other payable | 907,023 | 25,916 |
| Accounts collected in advance | 1,336,885 | 38,198 |
| Sub-total | <u>6,844,439</u> | <u>195,561</u> |
| Long-term Liabilities | | |
| Reserve for land revaluation increment tax | 3,726 | 106 |
| Sub-total | <u>3,726</u> | <u>106</u> |
| Other Liabilities | | |
| Reserve for unearned premiums (Note 2) | 13,527,642 | 386,515 |
| Reserve for life insurance liability (Note 2) | 1,017,789,468 | 29,080,530 |
| Special reserve for life insurance proceeds (Note 2) | 16,117,648 | 460,517 |
| Loss reserve (Note 2) | 266,322 | 7,610 |
| Guarantee deposits received | 1,282,097 | 36,632 |
| Temporary receipts and suspense accounts | 414,734 | 11,850 |
| Sub-total | <u>1,049,397,911</u> | <u>29,983,654</u> |
| Total Liabilities | <u>1,056,246,076</u> | <u>30,179,321</u> |
| Stockholders' Equity | | |
| Capital stock | | |
| Common stock (Note 13) | 58,386,158 | 1,668,224 |
| Capital surplus | 13,192,057 | 376,927 |
| Retained earnings (Note 14) | | |
| Unappropriated retained earnings | 10,595,492 | 302,737 |
| Equity adjustment (Notes 2, 8) | | |
| Cumulative translation adjustments | 6,657 | 190 |
| Treasury stock (Notes 2, 15) | (7,333,863) | (209,545) |
| Total Stockholders' Equity | <u>74,846,501</u> | <u>2,138,533</u> |
| Total Liabilities and Stockholders' Equity | <u>\$1,131,092,577</u> | <u>\$32,317,854</u> |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
PRO FORMA CONSOLIDATED STATEMENT OF INCOME
(Expressed in thousands of dollars, except earning per share)
Years Ended December 31, 2001

| | 2001 NT\$ | 2001 US\$ |
|---|---------------|--------------|
| Operating Revenues(Note 2) | | |
| Premiums income | \$221,005,179 | \$6,314,614 |
| Reinsurance commission earned | 181,908 | 5,198 |
| Claims recovered from reinsurers | 278,913 | 7,969 |
| Recovered premiums reserve | 100,085,518 | 2,859,668 |
| Recovered loss reserve | 229,805 | 6,566 |
| Handling fee earned | 9,279 | 265 |
| Interest Income | 46,578,346 | 1,330,848 |
| Gain on long-term investments | 255,273 | 7,294 |
| Gain on investments-real estate | 5,249,807 | 149,999 |
| Gain on foreign exchange | 1,816,429 | 51,899 |
| Other operating Income | 15,670,907 | 447,753 |
| Sub-total | 391,361,364 | 11,182,073 |
| Operating Costs(Note 2) | | |
| Insurance expenses | (594,783) | (16,994) |
| Brokerage expenses | (22,775,442) | (650,746) |
| Commissions expenses | (48,674) | (1,391) |
| Insurance claims payment | (115,296,796) | (3,294,288) |
| Provision for premiums reserve | (201,023,285) | (5,743,687) |
| Provision for special reserve | (1,519,423) | (43,413) |
| Contribution to the stabilization funds | (220,848) | (6,310) |
| Provision for loss reserve | (266,322) | (7,610) |
| Handling fee paid | (1,572,218) | (44,922) |
| Interest expenses | (69,169) | (1,976) |
| Loss on disposal of investments | (16,512,600) | (471,802) |
| Provisions expenses | (2,019,870) | (57,712) |
| Sub-total | (361,919,430) | (10,340,851) |
| Operating Gross Profit | 29,441,934 | 841,222 |
| Operating Expenses (Note 2) | | |
| Marketing expenses | (7,847,697) | (224,226) |
| Administrative and general expenses | (7,419,029) | (211,978) |
| Operating Income | 14,175,208 | 405,018 |
| Non-Operating Revenues | | |
| Gain on disposal of property and equipment | 5,299 | 151 |
| Miscellaneous income | 343,780 | 9,823 |
| Sub-total | 349,079 | 9,974 |
| Non-Operating Expenses | | |
| Loss on disposal of property and equipment | (2,661) | (76) |
| Miscellaneous expenses | (62,349) | (1,782) |
| Sub-total | (65,010) | (1,858) |
| Income from Continuing | | |
| Operations before income taxes | 14,459,277 | 413,134 |
| Income Taxes (Notes 2, 16) | (3,859,810) | (110,283) |
| Net Income | \$10,599,467 | \$302,851 |
| Earnings Per Share (Expressed in dollars) (Note 17) | \$1.81 | \$0.05 |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in thousands of dollars)
Years Ended December 31, 2001

| | <u>2001</u> | <u>2001</u> |
|--|----------------------|--------------------|
| | NT\$ | US\$ |
| Cash Flows from Operating Activities | | |
| Net Income for the Year | \$10,599,467 | \$302,851 |
| Adjustments: | | |
| Loss (gain) on bad debt | 2,019,870 | 57,712 |
| Depreciation | 1,587,959 | 45,372 |
| Provision for reserve for operations | 202,809,030 | 5,794,709 |
| Recovered premiums reserve | (12,082,673) | (345,229) |
| Recovered life insurance liability reserve | (86,586,240) | (2,473,963) |
| Recovered loss reserve | (229,805) | (6,566) |
| Applicant terminates the insurance contract income | (1,416,606) | (40,476) |
| Provision loss (gain) on short-term investments | (15,670,907) | (447,753) |
| Loss (gain) on disposal of property and equipment | (2,639) | (76) |
| Loss (gain) on disposal of investments | (2,598) | (74) |
| Loss (gain) on disposal of real estate | 2,184 | 62 |
| Amortization long-term investments in bonds | 33,784 | 965 |
| Unrealized loss (gain) on long-term investments | 4,661 | 133 |
| Effects of exchange rate changes | (50,038) | (1,430) |
| Decrease (increase) in short-term investments | (8,944,947) | (255,577) |
| Decrease (increase) in notes receivable | 3,254,913 | 93,000 |
| Decrease (increase) in notes and accounts receivable-related parties | (23,388) | (668) |
| Decrease (increase) in prepayments | (163,288) | (4,666) |
| Decrease (increase) in prepaid pension | 1,058,864 | 30,254 |
| Decrease (increase) in other current assets | (2,628,490) | (75,102) |
| Decrease (increase) in temporary payments and suspense accounts | 65,582 | 1,874 |
| Decrease (increase) in deferred income tax assets | (412,011) | (11,772) |
| Increase (decrease) in notes payable | (83) | (2) |
| Increase (decrease) in accounts payable-related parties | (71,130) | (2,032) |
| Increase (decrease) in accrued expenses | (4,862,042) | (138,920) |
| Increase (decrease) in other accounts payable | 179,461 | 5,128 |
| Increase (decrease) in accounts collected in advance | (39,613) | (1,132) |
| Increase (decrease) in other current liabilities | (21,674) | (619) |
| Increase (decrease) in temporary receipts and suspense accounts | 20,263 | 579 |
| Increase (decrease) in deferred income tax liabilities | 362,926 | 10,370 |
| Net Cash Provided by (Used in) Operating Activities | <u>88,790,792</u> | <u>2,536,952</u> |
| Cash Flows from Investing Activities | | |
| Decrease (increase) in forward exchange payable | 527,080 | 15,060 |
| Decrease (increase) in policy loans for life insurers | (12,154,585) | (347,284) |
| Decrease (increase) in secured loans | (19,853,729) | (567,266) |
| Acquisition of long-term investments in stocks | (83,538,523) | (2,386,884) |
| Proceeds from disposal of long-term investments in stocks | 54,848 | 1,567 |
| Disposal of investments in real estate | 16,902 | 483 |
| Acquisition of investments in real estate | (8,460,007) | (241,722) |
| Disposal of property and equipment | 26,972 | 771 |
| Acquisition of property and equipment | (950,566) | (27,160) |
| Decrease (increase) in deferred charges | (81,378) | (2,325) |
| Decrease (increase) in non-operating assets | (718,673) | (20,534) |
| Decrease (increase) in guarantee deposits paid | (142,513) | (4,072) |
| Decrease (increase) in overdue receivables | (4,758,041) | (135,948) |
| Net Cash Provided by (Used in) Investing Activities | <u>(130,032,213)</u> | <u>(3,715,314)</u> |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)
(Expressed in thousands of dollars)
Years Ended December 31, 2001

| | <u>2001</u> | <u>2001</u> |
|---|-----------------------------|---------------------------|
| | NT\$ | US\$ |
| Cash Flows from Financing Activities | | |
| Increase (decrease) in guarantee deposits received | (118,755) | (3,393) |
| Remuneration paid to directors and supervisors | (8,100) | (231) |
| Bonus to employees | (154,258) | (4,407) |
| Cash dividends | (5,393,258) | (154,097) |
| Treasury stock acquired | <u>(11,004,482)</u> | <u>(314,423)</u> |
| Net Cash Provided by (Used in) Financing Activities | <u>(16,678,853)</u> | <u>(476,551)</u> |
| Effects of Exchange Rate Changes | 50,038 | 1,430 |
| Increase(decrease) in Cash and Cash Equivalents | (57,870,236) | (1,653,483) |
| Cash and Cash Equivalents at the Beginning of Year | <u>231,360,874</u> | <u>6,610,500</u> |
| Cash and Cash Equivalents at the End of Year | <u><u>\$173,490,638</u></u> | <u><u>\$4,957,017</u></u> |
| Supplemental Disclosure of Cash Flows Information | | |
| Interest paid during the year | \$4,461 | \$127 |
| Less: Capitalization of interest | <u>0</u> | <u>0</u> |
| Interest paid (excluding capitalized interest) | <u>\$4,461</u> | <u>\$127</u> |
| Income tax paid | <u><u>\$7,207,830</u></u> | <u><u>\$205,944</u></u> |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
PRO FORMA CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Expressed in thousands of dollars)
Years Ended December 31, 2001

| Summary | Capital Stock | | Capital Surplus | | Retained Earnings | | Cumulative translation adjustments | | Treasury Stock | | Total | |
|---|---------------|-------------|-----------------|-----------|----------------------------------|-----------|------------------------------------|-------|----------------|-------------|--------------|-------------|
| | Common Stock | | | | Unappropriated Retained Earnings | | | | | | | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Balance on January 1, 2001 | \$53,986,340 | \$1,542,511 | \$27,171,249 | \$776,343 | \$0 | \$0 | \$0 | \$0 | (\$317,483) | (\$9,071) | \$80,840,106 | \$2,309,783 |
| Pro forma consolidated assumptions | | | (13,983,167) | (399,530) | 13,983,167 | 399,530 | | | | | | |
| Appropriations and Distributions of Subsidiary for 2000 | | | | | | | | | | | | |
| Cash dividends | | | | | (5,393,258) | (154,097) | | | | | (5,393,258) | (154,097) |
| Remuneration paid to directors and supervisors | | | | | (8,100) | (232) | | | | | (8,100) | (232) |
| Bonus paid to employees | | | | | (154,258) | (4,407) | | | | | (154,258) | (4,407) |
| Stock dividends | 5,393,258 | 154,098 | | | (5,393,258) | (154,098) | | | | | 0 | 0 |
| Treasury stock to write off | (993,440) | (28,385) | | | (2,994,662) | (85,564) | | | 3,988,102 | 113,949 | 0 | 0 |
| Effect change of ownership interest in an investee | | | | | (38,058) | (1,087) | | | | | (38,058) | (1,087) |
| Cumulative translation adjustments | | | | | (1,573) | (45) | 6,657 | 190 | | | 5,084 | 145 |
| Treasury stock acquired | | | | | | | | | (11,004,482) | (314,423) | (11,004,482) | (314,423) |
| Net Income after tax for the year ended Dec.31, 2001 | | | | | 10,599,467 | 302,851 | | | | | 10,599,467 | 302,851 |
| Capital surplus from disposal of property and equipment | | | 3,975 | 114 | (3,975) | (114) | | | | | 0 | 0 |
| Balance on Dec. 31, 2001 | \$58,386,158 | \$1,668,224 | \$13,192,057 | \$376,927 | \$10,595,492 | \$302,737 | \$6,657 | \$190 | (\$7,333,863) | (\$209,545) | \$74,846,501 | \$2,138,533 |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2001

1. ORGANIZATION OF BUSINESS SCOPE

CATHAY FINANCIAL HOLDING CO., LTD. (the "Company") was incorporated on December 31, 2001 in Taiwan, pursuant to the provision of Financial Holding Company Law and the Company Law (the "Company Law") of the Republic of China ("R.O.C."). The Company mainly engages in the business of financial holding business activities.

The Common stock of the Company is listed on the Taiwan Stock Exchange.

The Company acquired the 100% equity interest in CATHAY LIFE INSURANCE CO., LTD. (the Subsidiary) in December 31, 2001. CATHAY LIFE INSURANCE CO., LTD. was incorporated on October 23, 1962 in Taiwan, pursuant to the provision of the Company Law (the "Company Law") of the Republic of China ("R.O.C.") The Company primarily engages in the business of life insurance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) *Principles of Consolidation*

The pro forma consolidated financial statements include the accounts of the Company and CATHAY LIFE INSURANCE CO., LTD. (the Subsidiary) whose total assets or operating revenues were at least equal to or more than 10% of those of the Company.

All significant intercompany transactions and balances have been eliminated from the consolidation.

(2) *Cash and Cash Equivalents*

Cash includes cash on hand, unrestricted bank deposits, and all highly liquid investments with less than three-month to maturity.

(3) *Short-term Investments*

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

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
-(Continued)
(Expressed in thousands of dollars unless otherwise stated)
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When market value is obtainable, short-term notes are stated at the lower of aggregate cost or market value. The cost of these notes, interest income, and gain or loss due to maturity or as a result of sales of notes are determined by the specific identification method.

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

(4) Allowance for Bad and Doubtful Debts

Allowance for bad debts and doubtful accounts on notes receivable, overdue accounts and loans are determined based on the aging of outstanding balances of such accounts and the past experience of the Company.

(5) Long - Term Investments

A. Long-term Investments in Stocks

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

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

If changes occurs in the capital structure of the invested companies causing an increase or decrease of stocks, and the Company can no longer maintain its original shares of interest, adjustments will be dealt with in the capital surplus and long-term equity investment accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
-(Continued)
(Expressed in thousands of dollars unless otherwise stated)
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An invested company (“investee”) is considered to be the Company’s subsidiary if the Company owns more than 50% of the investee’s voting stock. Consolidated financial statements should include all subsidiaries; except for subsidiaries that have different business nature from that of the Company or when compared to the Company’s, each account items in the total assets and operating income of these subsidiaries are less than 10% of it. If total assets or operating income of those unconsolidated subsidiaries are more than 30% of the corresponding amount of the Company’s, these subsidiaries should be included in the Company’s consolidated financial statements until the percentage mentioned above subsides to 20% or less.

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

B. Long-Term Investments in Bonds

Long-term investments in bonds should be accounted for at cost, and any premium or discount should be amortized based on a reasonable and systematic basis.

C. Transactions with Affiliated Companies

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

(6) Investments in Real Estate

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

Depreciation is calculated by the straight-line method based on the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC government (the “Government”).

(7) Property and Equipment

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARY
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
-(Continued)
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Depreciation on depreciable assets are recognized on a straight-line method, based on the useful lives prescribed by the Executive Yuan. When the economic useful lives have expired, properties and equipment, which are still in use, are depreciated based on the residual value.

(8) Deferred Charges

According to formula set by the Ministry of Finance, the Company appropriated a “Stabilization fund “ and a counter account “Stabilization fund reserve”. These two accounts would not be listed in the financial statements due to their offsetting nature.

From 1993 to Dec.31 2001, an amount of \$1,441,813,000 NTD has been appropriated to this fund.

(9) Guaranteed Depository Insurance Payment

According to Article 141 of the Insurance Law of the Republic of China, amount equal to 15% of the Company’s stockholder’s equity should be deposited in the Central Bank of China as the “Guaranteed Depository Insurance”. The amount was deposited in the form of bond.

(10) Reserve for Operating:

A. Unearned Premium Reserve:

Unearned Premium Reserve Fund that contains the portion of the premium that has been paid in advance for insurance that has not yet been provided.

B. Special Claim Reserve:

Insurance company should set up the special claim reserve to avoid the unexpected loss for each type of insurance business with one-year term or less than one-year term. The specified calculation method is regulated by MOF.

C. Claims Reserve:

Monetary fund established to pay for claims that the insurance company is aware of (claims incurred or future claims) but that the insurance company has not yet settled. This reserve is critical since it is an accurate indication of a company’s liabilities. This reserve does not take into account INCURRED BUT NOT REPORTED LOSSES (IBNR).

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-(Continued)
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D. Reserve for Life Insurance:

Specification by MOF regarding (a) the minimum assumptions that must be used in reserve calculations as they pertain to the maximum interest rate that can be assumed; (b) the mortality table that can be used (the more conservative the table, the higher the death rates that will be shown which exceed the death rates actually expected); and (c) the reserve valuation that must be used.

(11) Insurance Premiums Income and Expenses

Direct premiums are recognized on the date the policies became effective. Policy related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At year-end, adjustments are made based on past experience.

(12) Pension Plan (and its Reserve)

The Company 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 R.O.C SFC regulations, the Company followed the R.O.C Statements of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

(13) Foreign-currency Transactions

A. Translations of Foreign Currency Transactions

Foreign-currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occurred. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Year-end foreign currency assets and liabilities are translated at year-end exchange rate, and resulting gains or losses are credited or charged to current income.

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B. Translation of Foreign Subsidiaries' Statements

Financial statements of foreign subsidiaries accounted for by the equity method are translated into New Taiwan Dollars as follows: All assets and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rate ruling on the balance sheet date. Stockholders' equity items are translated on the historical rate basis except the beginning balance of retained earnings, which is posted directly from the balance of the last year. Statements of income items are translated by the weighted-average exchange rate for the year. Differences arising from a translation are reported as "Cumulative Translation Adjustments" in the section of stockholders' equity as a separate item.

When the financial statements of the foreign operation are translated into domestic currency, the foreign currency financial statements should be first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result as if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion will be recognized in the current period because it affects directly the cash flows of the foreign operation.

(14) Income Taxes

The Company adopted SFAS Statement No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable (refund). Furthermore, it requires recognition of deferred income tax liabilities on future taxable temporary differences, and deferred income tax assets on future deductible temporary differences, prior year's loss carry-forwards and investment tax credits. The realization of deferred income tax assets is further assessed and a valuation allowance, if needed, is provided accordingly. Adjustment of prior year's income tax expense is recorded as current period income tax expense in the year of adjustment.

Deferred income tax assets and liabilities are classified as current or noncurrent in accordance with the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or noncurrent based on the length of the expected realizable or reversible period.

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The additional 10% income tax on undistributed earnings is recognized as expense on the date of the shareholders' meeting.

(15)Capital Expenditure Expenses

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

(16)Treasury Stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is debited for the cost of the shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus-treasury stock. If the disposal price is lower than cost, the difference is debited to capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus-treasury stock. If the capital surplus-treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus-treasury stock.

(17)Derivative Financial Products Transaction

Transactions on forward exchange contracts are translated into New Taiwan Dollars based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At the year-end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and resulting gains or losses are credited or charged to current income.

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The net value of receivables and payables of the forward exchange contracts is represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of the forward contracts are credited or charged to current income in the year of settlement.

The premium for an option contract is recorded at cost. Premium for the purpose of hedging is accounted for as an asset and amortized over the contract period, and is adjusted by market value as of the balance sheet date. Any gain or loss from hedging the exposed asset or liability position is recognized as a current period gain or loss. Gains or losses arising from hedging an identifiable commitment are deferred and recognized as an adjustment of the transaction price on the transaction date. Any gain or loss resulting from premium for the purpose of speculation is included in the current earnings.

3. CHANGES IN ACCOUNTING AND ITS EFFECTS: None

4. CASH AND CASH EQUIVALENTS

| | December 31 | |
|------------------|----------------------|--------------------|
| | 2001(NT\$) | 2001(US\$) |
| Cash on hand | \$467,677 | \$13,362 |
| Cash in banks | 8,396,040 | 239,894 |
| Time deposits | 146,286,296 | 4,179,728 |
| Cash equivalents | 18,340,625 | 524,033 |
| Total | <u>\$173,490,638</u> | <u>\$4,957,017</u> |

5. SHORT-TERM INVESTMENTS

| | December 31 | |
|---|---------------|-------------|
| | 2001(NT\$) | 2001(US\$) |
| Common stock and Beneficiary certificates | \$104,403,195 | \$2,983,034 |
| Oversea investments | 52,038,412 | 1,486,854 |
| Appoint purpose trust fund | 47,860,377 | 1,367,478 |
| Corporate bonds | 12,176,568 | 347,912 |

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| | | |
|------------------------------|---------------|-------------|
| Government bonds | 3,797,971 | 108,517 |
| Financial debentures | 2,340,000 | 66,859 |
| Short-term notes | 18,436,276 | 526,766 |
| Sub-Total | 241,052,799 | 6,887,420 |
| Less: Cash equivalents | (18,340,625) | (524,033) |
| Allowance for valuation loss | (7,006,481) | (200,191) |
| Total | \$215,705,693 | \$6,163,196 |

6. PREMIUNS PAID FOR OTHERS

If insurance applicants could not meet their insurance installments after their second installment, the Ministry of Finance ruled that applicants can make written statements, requesting the Subsidiary to pay the premium and interests payable by using the Subsidiary's "policy value reserve" prior the due date of installment payments or before the insurance contract's termination date. However, applicants may also choose to inform the Subsidiary by written statements, not to pay such installments.

7. LOANS

(1) Policy Loans for Life Insurers

Loans upon policies issued by CATHAY LIFE INSURANCE CO., LTD.

(2) Secured Loans

| | December 31 | |
|-------------------------------|---------------|-------------|
| | 2001(NT\$) | 2001(US\$) |
| Short-term secured loans | \$89,600 | \$2,560 |
| Less: Allowance for bad debts | (896) | (26) |
| Sub-total | 88,704 | 2,534 |
| Medium-term secured loans | 12,152,094 | 347,213 |
| Less: Allowance for bad debts | (121,521) | (3,472) |
| Sub-total | 12,030,573 | 343,741 |
| Long-term secured loans | 298,722,862 | 8,535,183 |
| Less: Allowance for bad debts | (2,987,229) | (85,352) |
| Sub-total | 295,735,633 | 8,449,831 |
| Total | \$307,854,910 | \$8,796,106 |

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Secured loans are loans on government bonds, stock, corporate bonds and real estate. Loans with terms shorter than one year are short-term loans; loans with terms longer than one year but less than seven years are medium-term loans; loans with terms longer than seven years are long-term loans.

8. LONG-TERM INVESTMENTS

(1) Long-Term Investments in Stocks

| <u>Investee</u> | December 31 | |
|---|-------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| | Book Value | Book Value |
| A. Under the equity method: | | |
| WK Technology Fund I | \$313,048 | \$8,945 |
| Cathay Insurance (Bermuda) Co., Ltd. | 48,866 | 1,396 |
| Cathay Venture Capital Crop. | 148,714 | 4,249 |
| Vista Technology venture Capital Corp | 98,038 | 2,801 |
| Omnitek Venture Capital Corp | 150,413 | 4,298 |
| IBT Venture Capital Corp | 589,991 | 16,857 |
| Wa Tech Venture Capital Co., Ltd. | 184,098 | 5,260 |
| Cathay Securities Investment Trust Co., Ltd. | 188,903 | 5,397 |
| Symphox Information Co., Ltd. | 281,531 | 8,044 |
| Sub-total | 2,003,602 | 57,247 |
| B. Under the cost method: | | |
| WK Technology Fund III | 100,000 | 2,857 |
| Taiwan Aerospace Company Koo Group | 260,000 | 7,429 |
| Telecommunications Co., Ltd. | 749,998 | 21,429 |
| Concord III Venture Capital Co., Ltd. | 89,280 | 2,551 |
| Taipei Financial Center Corp. | 1,441,591 | 41,190 |
| Investar Dayspring V.C. Inc. | 200,000 | 5,715 |
| FAT Venture Capital Co., Ltd. | 50,000 | 1,429 |

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| | | |
|---|-----------|--------|
| Concord IV Venture Capital Co., Ltd. | 50,000 | 1,429 |
| WK Technology Fund V | 100,000 | 2,857 |
| WK Technology Fund IV | 127,200 | 3,634 |
| Yi Hua Venture Capital Investment Corp | 100,000 | 2,857 |
| Super Tech Venture Capital Corp. | 100,000 | 2,857 |
| CDIB & Partners Investment Holding Corp. | 500,000 | 14,286 |
| Alex-Tech Machinery Industrial Co., Ltd. | 21,000 | 600 |
| Quanta Display Inc. | 813,282 | 23,237 |
| R.O.C. Venture Capital, Ltd. | 151,970 | 4,342 |
| National Venture Capital Co., Ltd. | 100,000 | 2,857 |
| WK Technology Fund VII | 200,000 | 5,714 |
| Capital Venture Fund II Corp | 50,000 | 1,429 |
| Fu Yu Venture Capital Investment Co., Ltd. | 200,000 | 5,714 |
| Concord VII Venture Capital Co., Ltd. | 100,000 | 2,857 |
| | | |
| Allied Material Technology Corp | 98,400 | 2,812 |
| New Century InfoComm Tech Co., Ltd. | 1,268,000 | 36,230 |
| Deltamac (Taiwan) Co., Ltd. | 15,200 | 434 |
| Srsuntour Co., Ltd. | 62,000 | 1,771 |
| Titan I Venture Capital Co., Ltd. | 150,000 | 4,286 |
| Harbinger Venture Capital Crop. | 200,000 | 5,714 |
| Prosperity Venture Capital Corp. | 100,000 | 2,857 |
| KGEx.com Co., Ltd. | 175,000 | 5,000 |
| United Venture Corp. | 50,000 | 1,429 |
| BioCare Corp. | 12,000 | 343 |
| Megic Corp. | 18,000 | 514 |
| WK Technology Fund VIII | 200,000 | 5,714 |
| Hua Chih Venture Capital Corp. | 60,000 | 1,714 |
| Jih Sun Venture Capital Investment Co. | 80,000 | 2,286 |
| Formosa Epitaxy Inc. | 20,500 | 586 |
| Win Semiconductors Corp. | 47,600 | 1,360 |

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| | | |
|---|----------------------------|-------------------------|
| Sintek Photronic Corp. | 75,000 | 2,143 |
| National Aerospace Fasteners Corp. | 38,000 | 1,086 |
| Kinik Precision Grinding Co., Ltd. | 6,000 | 171 |
| Vita Genomics Inc. | 87,500 | 2,500 |
| TurboComm Tech. Inc | 50,000 | 1,429 |
| Tong Hsing Electronic Ind.Ltd. | 27,144 | 776 |
| China Technology Venture Capital Corp. | 50,000 | 1,429 |
| Daiwa Securities SMBC-Cathay Co., Ltd. | 259,200 | 7,406 |
| Applied Vacuum Coating Technologies Co., Ltd. | 6,150 | 176 |
| TaiGen Biotechnology | 8,250 | 236 |
| Darly 3 Venture Ltd. | 10,000 | 286 |
| Sub-total | <u>8,678,265</u> | <u>247,958</u> |
| Add: Cumulative translation adjustments | 6,657 | 190 |
| Total | <u><u>\$10,688,524</u></u> | <u><u>\$305,395</u></u> |

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

| | December 31 | |
|---|---------------------------|------------------------|
| | <u>2001(NT\$)</u> | <u>2001(US\$)</u> |
| Balance at January 1 | <u>\$1,285,763</u> | <u>\$36,737</u> |
| Add: Investment income (losses) by equity method recognized | (6,924) | (198) |
| Increment of investments | 762,821 | 21,795 |
| Unrealized valuation loss in long-term invest company by investment percentage recognized | (38,058) | (1,087) |
| Balance of December 31 | <u><u>\$2,003,602</u></u> | <u><u>\$57,247</u></u> |

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- (3) The investment income (losses) recognized by the equity method for the years ended December 31, 2001 are as follows:

| <u>Investee</u> | December 31 | |
|---|-------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| WK Technology Fund VI | \$8,298 | \$237 |
| Cathay Insurance (Bermuda) Co., Ltd. | 7,853 | 224 |
| Symphox Information Co., Ltd. | (18,469) | (528) |
| Cathay Securities Investment Trust Co., Ltd. | (1,762) | (50) |
| Cathay Venture Capital Corp. | (1,286) | (37) |
| Vista Technology Venture Capital Corp. | (1,962) | (56) |
| Omnitek Venture Capital Corp. | 413 | 12 |
| IBT Venture Capital Corp | (9) | 0 |
| Wa Tech Venture Capital Co., Ltd. | 0 | 0 |
| Total | (\$6,924) | (\$198) |

- a. It is not practicable for some investee companies under the equity method to provide timely audited financial statements. If the Company owns less than 50% interest of such investees, the recognition of investment income or loss for those investees will be deferred for one year. That is, the Company will recognize in the following year investment income or loss from such investees by the percentage of ownership in last year.
- b. The Company over 50% holding investees is Cathay Insurance (Bermuda) Co., Ltd. and Symphox Information Co., Ltd. These investees' financial reports were not consolidated because total assets and operation revenue of these two interests are less than 10% of each items of the Company.
- c. The investment income (losses) were recognized based on the financial statements of Cathay Insurance (Bermuda) 、Cathay Securities Investment Trust 、Cathay Venture Capital Corp and Symphox Information Co., Ltd. in the same current year of their audited financial statements.

9. LONG-TERM INVESTMENTS IN BONDS

Long-Term investments in bonds are mainly Government Bonds and Financial Bonds up to the date of December 31, 2001, are deposited in The Central Bank of China as Capital guarantee Deposits.

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10. INVESTMENTS IN REAL ESTATE

| Item | December 31, 2001 | | | | | | | |
|---------------------------|-------------------|-------------|---------------------|-------|--------------------------|-------------|--------------|-------------|
| | Cost | | Revaluation Surplus | | Accumulated Depreciation | | Net Value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Investment in real estate | \$80,122,298 | \$2,289,274 | \$5,264 | \$150 | (\$9,181,685) | (\$262,341) | \$70,945,877 | \$2,027,083 |
| Construction | 17,197,050 | 491,358 | 0 | 0 | 0 | 0 | 17,197,050 | 491,358 |
| Total | \$97,319,348 | \$2,780,632 | \$5,264 | \$150 | (\$9,181,685) | (\$262,341) | \$88,142,927 | \$2,518,441 |

- (1) The real estate investments mainly engage in the business of to building rentals.
- (2) As of December 31, 2001, investments in real estate were pledged. Please refer to note 19, "Pledged Assets" for details.

11. PROPERTY AND EQUIPMENT

| Item | December 31, 2001 | | | | | | | |
|--|-------------------|-----------|---------------------|------|--------------------------|-------------|--------------|-----------|
| | Cost | | Revaluation Surplus | | Accumulated Depreciation | | Net Value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Land | \$5,011,275 | \$143,184 | \$1,510 | \$43 | \$0 | \$0 | \$5,012,785 | \$143,227 |
| Buildings and structures | 10,086,291 | 288,188 | 0 | 0 | (2,634,436) | (75,272) | 7,451,855 | 212,916 |
| Communication and transportation equipment | 135,846 | 3,881 | 0 | 0 | (47,878) | (1,368) | 87,968 | 2,513 |
| Other equipment | 3,356,997 | 95,917 | 0 | 0 | (1,691,670) | (48,335) | 1,665,327 | 47,582 |
| Sub-total | 18,590,409 | 531,170 | 1,510 | 43 | (4,373,984) | (124,975) | 14,217,935 | 406,238 |
| Construction in progress | 128,500 | 3,672 | 0 | 0 | 0 | 0 | 128,500 | 3,672 |
| Prepayment for equipment | 600 | 17 | 0 | 0 | 0 | 0 | 600 | 17 |
| Total | \$18,719,509 | \$534,859 | \$1,510 | \$43 | (\$4,373,984) | (\$124,975) | \$14,347,035 | \$409,927 |

There was no property or equipment pledged as collateral. The insurance coverage on property and equipment and real estate investments were in its book value, respectively.

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12. OVERDUE RECEIVABLES

| | December 31, | |
|---|--------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| Overdue receivables | \$8,491,358 | \$242,617 |
| Less: Allowance for bad and doubtful debts | (2,462,494) | (70,359) |
| Total | \$6,028,864 | \$172,258 |

13. CAPITAL STOCK

As of December 31, 2001, the total authorized shares were 5,838,615,765, with 10 dollars par value per share.

14. RETAINED EARNINGS

(1) Legal reserve

Pursuant to the Company Law, 10% of the annual after-tax net income of each company must be appropriated as legal reserve until the total amount of the legal reserve equals to the issued share capital. This legal reserve can only be used to cover deficits and not for cash dividends. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized upon resolution of the stockholders.

(2) Unappropriated Retained Earnings

As stipulated in the Company's Articles of Incorporation, the annual net income of the Company must be appropriated as tax expense to cover accumulated losses, and then 10% of annual net income as legal reserve. Apart from distributing stock interest and 2% as bonus for employees, the sequences of distributing remaining earnings which will be approved by the stockholders based on the submitted by the Board of Directors.

(3) According to revised tax law in 1998, the company has to pay an extra 10% income tax on all unappropriated retained earnings generated during the year. The regulation above is no longer standing.

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15. TREASURY STOCK

| The reason | Jan. 1, 2001 | Increase | Decrease | Unit:share Dec. 31, 2001 |
|--|------------------|--------------------|-------------------|-----------------------------|
| Transferred it to employees | 5,376,000 | 151,551,000 | 0 | 156,927,000 |
| For the purpose to conserve the credit and stockholders' equity of Cathay Life Insurance Co., Ltd. | 0 | 99,344,000 | 99,344,000 | 0 |
| Total | 5,376,000 | 250,895,000 | 99,344,000 | 156,927,000 |

- (1) Pursuant to the Securities and Exchange Law of the R.O.C., the outstanding issued shares a company can reacquire should not exceed 10% of total shares already issued. The limit for reacquisition of shares cannot exceed the sum of retained earnings plus the premium of issued shares and realized capital surplus. As of Dec. 31, 2001, the Company's holding of treasury stock reached 156,927,000 shares with the reacquisition cost at \$7,333,863.
- (2) According to the law of Securities Transaction, the treasury stocks cannot be in pledge and do not carry voting and right of taking dividends.

16. ESTIMATED INCOME TAX

(1) *Income tax expenses include the following:*

| | 2001(NT\$) | 2001(US\$) |
|--------------------------------------|--------------------|------------------|
| The Company estimated income tax | \$0 | \$0 |
| Add: Subsidiary estimated income tax | 3,859,810 | 110,283 |
| Income tax expense | \$3,859,810 | \$110,283 |

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

| | December 31 | |
|--|---------------|------------|
| | 2001 (NT\$) | 2001(US\$) |
| A. Total deferred tax liabilities | \$1,599,375 | \$45,698 |
| Total deferred tax assets | 892,355 | 25,497 |
| B. Temporary differences: | | |
| Employee benefits | \$116,972 | \$3,342 |
| Unrealized exchange gains (Losses) | (4,541,028) | (129,747) |
| bad debts exceeding law-allowed limit | 2,377,580 | 67,933 |
| Taxable temporary difference from recognition of pension expense | (797,607) | (22,789) |
| Other | 16,004 | 457 |
| C. Deferred tax assets-current | \$16,226 | \$464 |
| Deferred tax liabilities-current | (1,135,257) | (32,437) |
| Net offset balance of deferred tax assets (liabilities)-current | (\$1,119,031) | (\$31,973) |
| D. Deferred tax assets-noncurrent | \$876,129 | \$25,033 |
| Deferred tax Liabilities-noncurrent | (464,118) | (13,261) |
| Net offset balance of deferred tax assets (liabilities) - noncurrent | \$412,011 | \$11,772 |

(3) *Tax imputation related information:*

| | December 31 | |
|---|---------------|-----------------------|
| | 2001 (NT\$) | 2001(US\$) |
| Balance of imputation credit account | \$0 | \$0 |
| | | <u>2001(Estimate)</u> |
| Imputation credit account ratio (stock dividends) | | — |

(4) *Related information of unappropriated earnings*

| Year | December 31 | |
|------------|--------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| After 1998 | \$10,595,492 | \$302,737 |

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17. EARNINGS PER SHARE

| | December 31 | |
|---|---------------|---------------|
| | 2001(NT\$) | 2001(US\$) |
| Net income (a) | \$10,599,467 | \$302,851 |
| Year-end outstanding number of shares | 5,838,615,765 | 5,838,615,765 |
| Weighted average outstanding number of shares (b) | 5,870,563,751 | 5,870,563,751 |
| Earnings per share (a) / (b) (dollars) | \$1.81 | \$0.05 |

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

| shares | 2001 |
|--|---------------|
| Shares at the beginning of year | 5,398,633,969 |
| Stock Dividends, 2001 | 539,325,796 |
| Stock Dividends, 2000 | 0 |
| Stock Dividends, 1999 | 0 |
| Less: The treasury stock in 6/14, 2001 ~ 9/28, 2001 | (22,442,622) |
| The treasury stock in 10/25, 2000 ~ 11/16, 2000 | (5,376,000) |
| The treasury stock in 10/2, 2001 ~ 2/18, 2001 | (39,577,392) |
| Total | 5,870,563,751 |

About increase and decrease capital please refer to note 13.

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18. RELATED PARTY TRANSACTIONS

(1) Related parties

| Name | Relationship |
|---|---|
| Cathay Real Estate Development Co., Ltd. | Affiliate |
| Cathay United Bank | Affiliate |
| San Ching Engineering Co., Ltd. | Affiliate |
| Tong Tai Insurance Co., Ltd. | Affiliate |
| San-Ching Building Management & Maintenance Co., Ltd. | Affiliate |
| Lin Yuan Investment Co., Ltd. | Their representative is the same with the Company's general manager |
| Cathay General Hospital | Their chairman is an immediate family member of the Company's chairman |
| The Cathay Life Charity Foundation | Their chairman is an immediate family member of the Company's chairman |
| Wan Pao Development Co., Ltd. | Their chairman is an second immediate family member of the Company chairman |
| Cathay Insurance (Bermuda) Co., Ltd. | The invested Company is measured by equity method |
| Symphox Information Co., Ltd. | The invested Company is measured by equity method |
| Cathay Securities Investment Trust Co., Ltd. | The invested Company is measured by equity method |

(2) Transactions with Related Parties

A. Property Transactions (From related parties):

- (1) Transactions between the company and related parties are mainly transactions of real estate, constructions and lease. Terms of transaction are based on market surveys, contracts of both parties, and inviting bids publicly.

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| Name | Item | 2001 | |
|---------------------------------|---|--------------------|------------------|
| | | NT\$ | US\$ |
| San Ching Engineering Co., Ltd. | The construction build or extend: | | |
| | Kaohsiung International Business Building | \$118,856 | \$3,396 |
| | Lin Yuan Finance Building | 1,282,609 | 36,647 |
| | Banchian Lin Yuan General Hospital | 100,686 | 2,877 |
| | Tainan Shopping Center | 3,226,802 | 92,197 |
| | Cathay General Hospital of Hsinchu | 290,231 | 8,292 |
| | Taitung Building | 116,048 | 3,316 |
| | Other | 198,175 | 5,662 |
| | Total | <u>\$5,333,407</u> | <u>\$152,387</u> |

- a. The total amount of construction contract for real estate transaction in 2001 between the Company and San Ching Engineering Co., Ltd. are \$16,867,961. Up to the dates of Dec 31 2001, \$10,589,904 (US\$302,577) are paid according to schedule of construction contract.
- b. In 2001 the Company purchased Property and investments in real estate without selling them in previous years.
- (2) The Company did not sell real estates to related parties in the years of 2001.
- (3) Real-Estate Rental Income (From related parties)

| Name | Rental income | |
|--|------------------|-----------------|
| | 2001(NT\$) | 2001(US\$) |
| Cathay Real Estate Development Co., Ltd. | \$32,941 | \$941 |
| San Ching engineering Co., Ltd. | 21,018 | 601 |
| Tong Tai Insurance Co., Ltd. | 44,404 | 1,269 |
| Cathay United Bank | 145,408 | 4,155 |
| Cathay General Holding | 8,217 | 235 |
| Cathay Securities Investment Trust Co., Ltd. | 156,481 | 4,471 |
| Symphox Information Co., Ltd. | 31,947 | 913 |
| Lin Ynan Investment Co., Ltd. | 118 | 3 |
| Total | <u>\$440,534</u> | <u>\$12,588</u> |

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| Name | Guarantee deposits received, | |
|--|------------------------------|-------------------------|
| | Dec. 31, 2001 (NT\$) | Dec. 31, 2001 (US\$) |
| Cathay Real Estate Development Co., Ltd. | \$12,386 | \$354 |
| San Ching Engineering Co., Ltd. | 6,828 | 195 |
| Tong Tai Insurance Co., Ltd. | 10,589 | 302 |
| Cathay United Bank | 34,195 | 977 |
| Cathay General Hospital | 1,983 | 57 |
| Cathay Securities Investment Trust Co., Ltd. | 2,060 | 59 |
| Symphox Information Co., Ltd. | 70 | 2 |
| Lin Ynan Investment Co., Ltd. | 16 | 1 |
| Total | <u>\$68,127</u> | <u>\$1,947</u> |

According to the contracts, terms of lease to the third party generally expire in 2 to 5 years. Rentals are collected monthly.

(4) Real-Estate Rental Expense (From related parties)

| Name | Rental Expense | |
|--|-----------------|--------------|
| | 2001(NT\$) | 2001(US\$) |
| Cathay Real Estate Development Co., Ltd. | <u>\$28,548</u> | <u>\$816</u> |

| Name | Guarantee Deposits paid | |
|--|-------------------------|-------------------------|
| | Dec. 31, 2001 (NT\$) | Dec. 31, 2001 (US\$) |
| Cathay Real Estate Development Co., Ltd. | <u>\$402,362</u> | <u>\$11,496</u> |

According to the contracts, terms of lease from the third party generally expire in 3 years. Rentals are paid monthly.

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(5) Acquisition of other Equipment

| Name | 2001(NT\$) | 2001(US\$) |
|-------------------------------|------------|------------|
| Symphox Information Co., Ltd. | \$63,931 | \$1,827 |

B. Acquisition of in investments

| Name | Item | 2001 | | |
|--|--|--------------|----------------|----------|
| | | Shares | Cost (NT\$) | (US\$) |
| Cathay Real Estate Development Co., Ltd. | Taipei Financial Center Corp. | \$61,723,638 | \$729,573 | \$20,846 |
| | Daiwa Securities SMBC-Cathay Co., Ltd. | \$20,000,000 | 259,200 | 7,406 |

C. Cash In Bank

| Name | Item | 2001 | | | |
|--------------------|--------------|--------------------------|--------------------------|------------------|---------------------------|
| | | Maximum Amount (NT\$) | Ending Balance (NT\$) | Rate | Interest Income (NT\$) |
| Cathay United Bank | Time Deposit | \$12,189,050 | \$7,757,750 | 2.40% ~ 5.25% | \$277,407 |
| | Cash In Bank | 17,468,701 | 6,072,759 | 1.15% ~ 2.00% | 40,690 |

D. Regular Secured Loans

| Name | 2001 | | | |
|----------------------------|--------------------------|--------------------------|-------------------|---------------------------|
| | Maximum Amount (NT\$) | Ending Balance (NT\$) | Rate | Interest Income (NT\$) |
| Cathay General Hospital | \$1,175,179 | \$1,174,594 | 7.575% ~ 5.21% | \$84,370 |

| Name | 2001 | | | |
|----------------------------|--------------------------|--------------------------|-------------------|---------------------------|
| | Maximum Amount (US\$) | Ending Balance (US\$) | Rate | Interest Income (US\$) |
| Cathay General Hospital | \$33,578 | \$33,561 | 7.575% ~ 5.21% | \$2,411 |

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E. Note Receivable

| Name | December 31 | |
|-------------------------|-------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| Cathay General Hospital | \$23,607 | \$675 |

F. Accounts Payable-related Parties

| Name | December 31 | |
|---|-------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| San Ching Engineering Co., Ltd. | \$4,983 | \$142 |
| Cathay Real Estate Development Co., Ltd. | 320 | 9 |
| Tong Tai insurance Co., Ltd. | 24,253 | 693 |
| San-Ching Building Management & Maintenance Co., Ltd. | 1,018 | 29 |
| Symphox Information Co., Ltd. | 1,422 | 41 |
| Total | \$31,996 | \$914 |

G. Accounts Collected in Advance

| Name | December 31 | |
|------------------------------|-------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| Tong Tai insurance Co., Ltd. | \$1,905 | \$55 |
| Other | 712 | 20 |
| Total | \$2,617 | \$75 |

H. Insurance Expense

| Name | 2001(NT\$) | 2001(US\$) |
|------------------------------|------------|------------|
| Tong Tai Insurance Co., Ltd. | \$110,851 | \$3,167 |

Insurance Expense is mainly premium for property and equipment, cash, and public accident. Among the premium of 2001, the amounts of \$14,373 are paid for employees' fidelity guarantee insurance.

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I. Reinsurance Income

| Name | 2001(NT\$) | 2001(US\$) |
|---|------------|------------|
| Cathay Insurance (Bermuda) Co., Ltd. | \$21,727 | \$621 |

Beginning from the date of April 1, 2000 CATHAY INSURANCE (Bermuda) CO., LTD received life insurance business transferred from RGA and casualty insurance business transferred from Central Reinsurance Co., Ltd. and transferred 90% of received business to the Company.

J. Reinsurance Expense

| Name | 2001(NT\$) | 2001(US\$) |
|---|------------|------------|
| Cathay Insurance (Bermuda) Co., Ltd. | \$12,813 | \$366 |

K. Indemnity Income

| Name | 2001(NT\$) | 2001(US\$) |
|------------------------------|------------|------------|
| Tong Tai Insurance Co., Ltd. | \$13,102 | \$374 |

Indemnity Income is mainly claims received for insured property and equipment, cash, and public accident. Among the claims received in 2001, the amounts of \$10,122 are claims for employees' fidelity guarantee insurance.

L. Guarantee Deposit Paid

| Name | 2001(NT\$) | 2001(US\$) |
|-------------------------------|------------|------------|
| Wan Pao Development Co., Ltd. | \$600,000 | \$17,143 |

Guarantee Deposit Paid is deposited to Wan Pao Development Co., Ltd. This amount will be paid back without interest when the buildings constructed by the Company get the user license.

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M. Donations

| Name | 2001(NT\$) | 2001(US\$) |
|---------------------------------------|------------|------------|
| The Cathay Life Charity Foundation | \$20,000 | \$571 |

N. Other Expense (Marketing Expense)

| | 2001(NT\$) | 2001(US\$) |
|-------------------------------|------------|------------|
| Symphox Information Co., Ltd. | \$142,633 | \$4,075 |

O. Repairs And Maintenance (Administrative and general expense)

| | 2001(NT\$) | 2001(US\$) |
|--|------------|------------|
| San-Ching Building Management & Maintenance Co., Ltd. | \$840,969 | \$24,028 |
| Cathay Real Estate Development Co., Ltd. | 263 | 8 |
| Total | \$841,232 | \$24,036 |

19. PLEDGED ASSETS

| Item | December 31 | |
|-------------------------------|-------------|------------|
| | 2001(NT\$) | 2001(US\$) |
| Investment In Real Estate | \$0 | \$0 |
| Long-term Investment in Bonds | 9,045,139 | 258,440 |
| Time Deposits | 730,850 | 20,882 |
| Total | \$9,775,989 | \$279,322 |

Up to the date of Dec.31 2001, the Subsidiary. Offered its investments in real estate and time deposits as collateral to the renters from whom guarantee deposits paid of \$9,000 had been received. According to Insurance law of R.O.C. article 141, the Subsidiary deposited the long-term investment in bonds an amount equal to 15% of it is capital in Central Bank of China as capital guarantee deposit.

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20. OTHER IMPORTANT MATTERS AND CONTINGENT LIABILITIES

Up to the date of Dec.31 2001, sign by the Subsidiary were still unclosed; these contracts amount approximately to \$12.548 billion dollars. Up to this date \$7.517 billion dollars have been paid.

21. SERIOUS DAMAGES: None

22. SUBSEQUENT EVENTS:

The Company scheduled to convene the Directors' Meeting on January 30, 2002, and resolve to exchange the shares of Tong Tai Insurance Co., Ltd. and Cathay United Bank to Cathay Financial Holding CO., Ltd. The ration of split-off agreed among the three parties is 4.5 to 1 and 6 to 1.

Chiu-Te Liu, the General Manager of the Subsidiary was promoted from his position to the Vice-President on Jan.14, 2002.

In addition, the Subsidiary Tiao-Kuei Huang was promoted from Vice-General Manager to General Manager.

23. OTHER IMPORTANT EVENTS

(1) PENSION RELATED INFORMATION

1. Pension funded status:

| | Year Ended December 31 | |
|---|------------------------|-----------|
| | 2001 | 2001 |
| | (NT\$) | (US\$) |
| (1) Vested benefit obligation | (4,275,960) | (122,174) |
| (2) Non-vested benefit obligation | (2,770,200) | (79,151) |
| (3) Accumulated benefit obligation | (7,046,160) | (201,325) |
| (4) Additional benefits based on future salaries | (1,723,336) | (49,239) |
| (5) Projected benefit obligation | (8,769,496) | (250,564) |
| (6) Vested benefit | (6,885,074) | (196,722) |
| (7) Fair value of plan assets | 8,607,006 | 245,921 |
| (8) Funded status = (5) + (7) | (162,490) | (4,643) |

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| | | |
|---|------------------|-----------------|
| (9) Unrecognized transitional net benefit obligation (net assets) | (3,408,290) | (97,382) |
| (10) Unrecognized prior service cost | 517,334 | 14,781 |
| (11) Unrecognized pension gain and loss | 3,851,053 | 110,033 |
| (12) Additional accrued pension liability | 0 | 0 |
| (13) Accrued pension liability /prepaid pension cost | | |
| =(8)+(9)+(10)+(11)+(12) | <u>\$797,607</u> | <u>\$22,789</u> |

2. Actuarial assumptions

| | |
|--|-------------|
| | <u>2001</u> |
| (1) Discount rate | 4.50% |
| (2) Rate of increase in future salaries | 3.00% |
| (3) Expected return on pension plan assets | 4.50% |

(2) FINANCIAL INSTRUMENTS RELATED INFORMATION

(a) Derivative Financial Instruments related information

1. Credit and Market Risk

The Company entered forward contracts with financial institutions, which are with good credit. In addition the Company enter contracts with many financial institutions to reduce risk. Loss occurred from exchange rate fluctuation can be offset by hedge forward contract.

2. Cash Flows and Demand

For the reason that there will be cash inflow and counter cash out flow on the expiration date of a forward contract, no demand for substantial cash flow is expected.

3. Forward Contract

(1) Receivables and payables occurred from forward contract should be offset. The differences between receivables and payables should be other receivables/payables.

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(2) Up to the date of Dec.31 2001, the Company had forward exchange contracts of approximately \$1,096,000.

(b) Non Derivative Financial Instruments related information :

The book value of Non Derivative Financial Instruments as of Dec. 31, 2001, is the same as the estimated fair market value.

(3) DISCRETIONARY ACCOUNT MANAGMENT

| Item | December 31, 2001 | | | |
|-----------------------------------|-------------------|----------|-------------|----------|
| | Book Value | | Fair Value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Stocks | \$1,818,459 | \$51,957 | \$1,915,431 | \$54,728 |
| Short-term securities | 675,434 | 19,299 | 675,434 | 19,299 |
| Time deposit | 100,000 | 2,857 | 100,000 | 2,857 |
| Cash in bank | 564,218 | 16,121 | 564,218 | 16,121 |
| Net other assets less liabilities | 3,046 | 87 | 3,046 | 87 |
| Total | \$3,161,157 | \$90,321 | \$3,258,129 | \$93,092 |

(4) MATERIAL CONTRACT: None

24. INFORMATION FOR INVESTMENT IN MAINLAND CHINA: None

25. SEGMENT INFORMATION : None.