

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AS OF JUNE 30, 2002 AND 2001**

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

**Address: No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, R.O.C.**

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

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Certified Public Accountants

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## **Independent Auditors' Report**

To: Board of Directors and Stockholders' of  
Cathay Financial Holding Co., Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Cathay Financial Holding Co., Ltd. and subsidiaries as of June 30, 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months ended June 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cathay United Bank Co., Ltd., a wholly owned subsidiary. Total assets of the subsidiary is NT\$162,665 million which reflects total consolidated assets constituting 12%, and total revenues of the subsidiary is NT\$4,953 million constituting 2% of total consolidated revenues for six months ended June 30, 2002. These statements were audited by other auditors whose report have been furnished to us, and our opinion, insofar as it relates to the amounts, is based solely on the report of the other auditors.

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



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In our opinion, based upon our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. and Subsidiaries as of June 30, 2002, and the results of their operations and cash flows for the six months ended June 30, 2002 in conformity with generally accepted accounting principles in the Republic of China.

BDO TAIWAN UNION & CO.

July 25, 2002

#### Notice to Readers

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

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(Expressed in thousands of dollars)**  
**As of June 30, 2002**

	2002 NT\$	US\$	%
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 2, 4)	\$176,890,809	\$5,286,635	12.61
Due from Central Bank (Notes 2, 5)	11,307,382	337,937	0.81
Short-term investments (Notes 2, 6)	304,989,338	9,115,043	21.74
Receivable (Note 2)	53,093,375	1,586,772	3.78
Prepayments	643,871	19,243	0.05
Premiums paid for others (Note 7)	13,391,285	400,218	0.95
Indemnity refundable on reinsurance	244,649	7,312	0.02
Due from other insurers	198,734	5,939	0.01
Sub-total	<u>560,759,443</u>	<u>16,759,099</u>	<u>39.97</u>
<b>Exchange bills negotiated, discounted and loans (Notes 2, 8)</b>	591,149,389	17,667,346	42.15
<b>Long-term investments in stocks, bonds and real estate (Notes 2, 9, 10, 11, 24)</b>	215,724,199	6,447,227	15.38
<b>Property and equipment (Notes 2,12)</b>			
Land	6,114,068	\$182,728	0.44
Buildings and structures	11,827,848	\$353,492	0.84
Other equipment	4,781,996	\$142,917	0.34
Sub-total	<u>22,723,912</u>	<u>\$679,137</u>	<u>1.62</u>
Less: Accumulated depreciation	(5,567,624)	(\$166,397)	(0.40)
Construction in progress and prepayment for equipment	467,202	\$13,963	0.03
Sub-total	<u>17,623,490</u>	<u>\$526,703</u>	<u>1.25</u>
<b>Intangible assets (Note 2)</b>	6,118	\$183	0.00
<b>Other assets (Notes 2, 13)</b>	17,491,268	\$522,751	1.25
<b>Total assets</b>	<u>\$1,402,753,907</u>	<u>\$41,923,309</u>	<u>100</u>
<b>Liabilities &amp; Stockholders' Equity</b>			
<b>Current liabilities</b>			
Due to banks	\$941,614	\$28,141	0.07
Deposits and remittances payable (Note 14)	130,982,793	3,914,608	9.35
Payables	22,336,318	667,553	1.59
Accounts collected in advance	1,256,477	37,552	0.09
Provision for losses on guarantees and trading securities (Note 2)	52,695	1,575	0.00
Other liabilities	153,515	4,588	0.01
Sub-total	<u>155,723,412</u>	<u>4,654,017</u>	<u>1.11</u>
<b>Long-term liabilities</b>			
Bonds payable (Notes 2, 15)	24,593,831	735,022	1.75
Reserve for land revaluation increment tax	3,726	111	0.00
Accrued pension liability	2,126	64	0.00
Sub-total	<u>24,599,683</u>	<u>735,197</u>	<u>1.75</u>
<b>Other liabilities</b>			
Reserve for operations and liabilities (Notes 2, 16)	1,136,016,381	33,951,476	80.98
Other liabilities	1,709,547	51,092	0.12
Sub-total	<u>1,137,725,928</u>	<u>34,002,568</u>	<u>81.00</u>
<b>Total liabilities</b>	<u>1,318,049,023</u>	<u>39,391,782</u>	<u>93.96</u>
<b>Stockholders' Equity</b>			
Capital stock			
Common stock (Note 17)	60,958,728	1,821,839	4.35
Capital surplus (Note 18)	26,526,202	792,774	1.89
Retained earnings (Note 19)			
Legal reserve	13,714	410	0.00
Unassigned retained earnings	5,333,533	159,400	0.38
Equity adjustments			
Unrealized valuation losses on long term equity investments (Note 9)	(9,458)	(283)	0.00
Cumulative translation adjustments	6,686	200	0.00
Treasury stock (Notes 2, 20)	(8,124,521)	(242,813)	(0.58)
<b>Total stockholders' equity</b>	<u>84,704,884</u>	<u>2,531,527</u>	<u>6.04</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$1,402,753,907</u>	<u>\$41,923,309</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2002 were NT\$33.46 to US\$1.00)

**The accompanying notes are an integral part of these consolidated financial statements.**  
**(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)**

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Expressed in thousands of dollars, except earning per share)  
For the six months ended June 30, 2002

	2002		
	NT\$	US\$	%
<b>Operating revenues (Note 2)</b>			
Interest income	\$26,069,728	\$779,131	11.72
Premiums income	141,608,059	4,232,160	63.63
Claims recovered from reinsurers	718,681	21,479	0.32
Recovered premiums reserve	46,108,495	1,378,018	20.72
Commission and handling fee earned	825,519	24,672	0.37
Gain on disposal of investments	2,639,659	78,890	1.19
Gain on long-term investments	126,526	3,781	0.06
Gain on investments-real estate	2,224,728	66,489	1.00
Other operating Income	2,192,922	65,539	0.99
Sub-total	<u>222,514,317</u>	<u>6,650,159</u>	<u>100</u>
<b>Operating costs (Note 2)</b>			
Insurance expenses	(2,074,771)	(62,008)	(0.93)
Brokerage expenses	(11,349,255)	(339,189)	(5.10)
Commissions expenses	(138,854)	(4,150)	(0.06)
Insurance claims payment	(59,255,979)	(1,770,950)	(26.63)
Provision for premiums reserve	(127,706,756)	(3,816,699)	(57.39)
Other provisions expenses	(4,678,855)	(139,834)	(2.10)
Provision for special claim reserve	(1,166,664)	(34,867)	(0.52)
Loss on foreign exchange	(474,878)	(14,192)	(0.21)
Other operating cost	(1,367,168)	(40,860)	(0.61)
Sub-total	<u>(208,213,180)</u>	<u>(6,222,749)</u>	<u>(93.55)</u>
<b>Operating gross profit</b>	<u>14,301,137</u>	<u>427,410</u>	<u>6.45</u>
<b>Operating expenses</b>	<u>(9,076,239)</u>	<u>(271,256)</u>	<u>(4.08)</u>
<b>Operating income</b>	<u>5,224,898</u>	<u>156,154</u>	<u>2.37</u>
<b>Non-operating revenues</b>	<u>209,685</u>	<u>6,267</u>	<u>0.09</u>
<b>Non-operating expenses</b>	<u>(6,904)</u>	<u>(206)</u>	<u>0.00</u>
<b>Income from continuing operations before income taxes</b>	<u>5,427,679</u>	<u>162,214</u>	<u>2.46</u>
Income taxes (Notes 2, 22)	(486,222)	(14,532)	(0.22)
<b>Net income</b>	<u>4,941,457</u>	<u>147,682.00</u>	<u>2.24</u>
Net loss before acquisition of the subsidiaries	392,076	11,718.00	0.18
<b>Consolidated net income</b>	<u><u>\$5,333,533</u></u>	<u><u>\$159,400.00</u></u>	<u><u>2.42</u></u>
<b>Earnings per share (expressed in dollars)</b>			
Income from continuing operations before income taxes	<u>\$0.94</u>	<u>\$0.03</u>	
Net income	<u>\$0.86</u>	<u>\$0.03</u>	
Consolidated net income	<u>\$0.92</u>	<u>\$0.03</u>	

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**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Expressed in thousands of dollars)  
For the six months ended June 30, 2002

	Capital Stock		Capital Surplus	Retained Earnings				Equity Adjustments				Treasury Stock	Total			
	Common Stock			Legal Reserve	Unappropriated Retained Earnings		Cumulative translation adjustments	Unrealized valuation losses on long-term equity investments								
Summary	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
<b>Balance on January 1, 2002</b>	\$58,386,158	\$1,744,954	\$23,650,414	\$706,827	\$0	\$0	\$137,135	\$4,098	\$6,657	\$199	\$0	\$0	(\$7,333,863)	(\$219,183)	\$74,846,501	\$2,236,895
Appropriations and distributions for 2001																
Legal reserve					13,714	410	(13,714)	(\$410)							\$0	\$0
Cash dividends			(8,789,810)	(\$262,696)			(118,609)	(\$3,545)							(\$8,908,419)	(\$266,241)
Remuneration paid to directors and supervisors							(4,800)	(\$143)							(\$4,800)	(\$143)
Bonus paid to employees							(12)	\$0							(\$12)	\$0
Shares converted for issuing new shares	2,572,570	\$76,885													\$2,572,570	\$76,885
Net asset from merger			11,665,598	\$348,643											\$11,665,598	\$348,643
Cumulative translation adjustments									29	\$1					\$29	\$1
Unrealized valuation losses on long-term equity investment											(9,458)	(283)			(\$9,458)	(\$283)
Treasury stock													(790,658)	(\$23,630)	(\$790,658)	(\$23,630)
Net income after tax for the six months ended June 30, 2002							5,333,533	\$159,400							\$5,333,533	\$159,400
<b>Balance on June 30, 2002</b>	<b>\$60,958,728</b>	<b>\$1,821,839</b>	<b>\$26,526,202</b>	<b>\$792,774</b>	<b>\$13,714</b>	<b>\$410</b>	<b>\$5,333,533</b>	<b>\$159,400</b>	<b>\$6,686</b>	<b>\$200</b>	<b>(\$9,458)</b>	<b>(\$283)</b>	<b>(\$8,124,521)</b>	<b>(\$242,813)</b>	<b>\$84,704,884</b>	<b>\$2,531,527</b>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2002 were NT\$33.46 to US\$1.00)

**The accompanying notes are an integral part of these financial statements.**  
**(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)**

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in thousands of dollars)**  
**For the six months ended June 30, 2002**

	2002 NT\$	2002 US\$
<b>Cash flows from operating activities</b>		
Consolidated net income	\$5,333,533	\$159,400
Adjustments:		
Net loss before acquisition of the subsidiaries	(392,077)	(11,718)
Loss (gain) on bad debt	2,654,084	79,321
Amortization	83,647	2,500
Depreciation	1,188,022	35,506
Provision for reserve for operation	128,901,149	3,852,395
Recovered reserve for life insurance	(45,224,167)	(1,351,589)
Applicant terminates the insurance contract income	(884,328)	(26,429)
Provision loss (gain) on short-term investments	(2,259,802)	(67,537)
Gain on mortgaged property and collated assumed	(951)	(28)
Loss on disposing of delinquent assets	1,894,610	56,623
Loss (gain) on disposal of property and equipment	1,885	56
Loss (gain) on disposal of investments	(113,981)	(3,406)
Loss (gain) on disposal of real estate	14,868	444
Amortization long-term investments in bonds	5,504	164
Unrealized loss (gain) on long-term investments	10,751,089	321,312
Effects of exchange rate changes	(37)	(1)
Decrease (increase) in short-term investments	(82,661,054)	(2,470,444)
Decrease (increase) in receivable	(4,909,554)	(146,729)
Decrease (increase) in prepayments	(180,174)	(5,385)
Decrease (increase) in payables to other insurers	100,220	2,995
Decrease (increase) in prepaid pension	360,809	10,783
Decrease (increase) in other current assets	(606,354)	(18,122)
Decrease (increase) in overdue receivables	(53,484)	(1,598)
Decrease (increase) in temporary payments and suspense accounts	(207,205)	(6,193)
Decrease (increase) in deferred income tax assets	(390,125)	(11,659)
Increase (decrease) in payables	12,599,687	376,560
Increase (decrease) in accounts collected in advance	-11,985	(358)
Increase (decrease) in accrued pension liability	2,127	64
Increase (decrease) in other accounts payable	84,188	2,516
Increase (decrease) in deferred income tax liabilities	(68,422)	(2,045)
<b>Net cash provided by (used in) operating activities</b>	<b>26,011,722</b>	<b>777,398</b>
<b>Cash flows from investing activities</b>		
Decrease (increase) in forward exchange receivable	(2,873,642)	(85,883)
Decrease (increase) in exchange bills negotiated, discounted and loans	(4,016,598)	(120,042)
Acquisition of long-term investments	(23,712,583)	(708,684)
Disposal of long-term investments	143,843	4,299
Acquisition of property and equipment	(744,337)	(22,246)
Disposal of property and equipment	14,326	428
Acquisition of intangible assets	(852)	(25)
Decrease (increase) in other assets	(5,857,544)	(175,061)
<b>Net cash provided by (used in) investing activities</b>	<b>(37,047,387)</b>	<b>(1,107,214)</b>

(Continued)



**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of dollars)  
For the six months ended June 30, 2002

	2002 NT\$	2002 US\$
<b>Cash flows from financing activities</b>		
Increase (decrease) in bonds payable	24,593,831	\$735,022
Paid other payable for acquisition of property and equipment in former period in prior period	(1,777)	(\$53)
Increase (decrease) in funds held for reinsures	(803)	(\$24)
Increase (decrease) in guarantee deposits received	(41,289)	(\$1,234)
Increase in deposits	(7,932,341)	(\$237,069)
Cash dividends	(19,485,823)	(\$582,362)
Remuneration paid to directors and supervisors and bonus to paid to employees	(154,434)	(\$4,616)
<b>Net cash provided by (used in) financing activities</b>	<u>(3,022,636)</u>	<u>(\$90,336)</u>
<b>Effects of exchange rate changes</b>	37	\$1
<b>Increase(decrease) in cash and cash equivalents</b>	(14,058,264)	(\$420,151)
<b>Cash and cash equivalents at the beginning of period</b>	<u>190,949,073</u>	<u>\$5,706,786</u>
<b>Cash and cash equivalents at the end of period</b>	<u><u>\$176,890,809</u></u>	<u><u>\$5,286,635</u></u>
<b>Supplemental disclosure of cash flows information</b>		
Interest paid during the period	<u>\$2,341,637</u>	<u>\$69,983</u>
Interest paid (excluding capitalized interest)	<u>\$2,341,637</u>	<u>\$69,983</u>
Income tax paid	<u>\$85,966</u>	<u>\$2,569</u>

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**The accompanying notes are an integral part of these consolidated financial statements.**  
**(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)**

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As Of June 30, 2002 and 2001**

**1. Organization of Business Scope**

Cathay Financial Holding Co., Ltd. (the “Company”) was incorporated in Taiwan on December 31, 2001 in Taiwan, pursuant to the provisions of the Financial Holding Company Law of the Republic of China (“R.O.C”) from Cathay Life Insurance Co., Ltd. by stock conversion method. On April 22, 2002, Tong Tai Insurance Co., Ltd. and Cathay United Bank Co., Ltd. become two subsidiaries of the Company by stock conversion method. The Company mainly engages in the financial holding business activities.

**2. Summary of Significant Accounting Policies**

*(1) Principles of Consolidation*

According to R.O.C. Securities and Futures Commission (SFC) regulations, the Company should prepare the consolidated financial statements of semi-annual report and annual report.

All the significant inter-company transactions and balances have been eliminated from the consolidation.

Cathay Life Insurance Co., Ltd. (a subsidiary-Cathay Life) was incorporated in Taiwan on October 23, 1962, pursuant to the provisions of the Company Law. A subsidiary-Cathay Life mainly engages in the life insurance.

Tong Tai Insurance Co., Ltd. (a subsidiary-Tong Tai) was incorporated in Taiwan on July 19, 1993. A subsidiary-Tong Tai mainly engages in property and casualty insurance.

The predecessor of Cathay United Bank Co., Ltd. (a subsidiary-Cathay Bank) was the Taiwan First Investment & Trust Co., which was incorporated in June 1971 and transformed into a commercial bank on November 16, 1998, and renamed Cathay United Bank Co., Ltd. For strengthening its competitive edge, the Bank entered into the share conversion agreement with Cathay Financial Holding Co., Ltd. on April 22, 2002 and became a subsidiary of the Company. This subsidiary, Cathay Bank, mainly engages in banking business according to the R.O.C. Banking Law.

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2002**

*(2) Cash and Cash Equivalents*

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

*(3) Due from Central Bank*

Due from Central Bank includes a trust fund deposit reserve and a deposit reserve. According to Article 103 of the ROC Banking Law, the trust investment companies are required to maintain certain reserve for trust funds, in the form of cash or approved securities, with the Central Bank. After transformation, the ROC Banking Law requires that a commercial bank maintain a deposit reserve at the statutory ratio with the Central Bank.

*(4) Short-term Investments*

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

When market value is obtainable, short-term notes are stated at the lower of 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 market value. The cost of these bonds sold is determined by the specific identification method.

The R.O.C. Statements of Financial Accounting Standards (SFAS) No.30 "Treasury stock" considers parent company's stocks held by a subsidiary as treasury stock of the consolidated entity. Parent stocks held by subsidiary are stated individually at the lower of cost or market value.

*(5) Bills and Securities Purchased*

A subsidiary-Cathay Bank, bills and securities purchased represent investments in trading government bonds, short-term bills, open-end mutual funds, and listed equity stocks.

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2002**

The cost of equity securities purchased is determined by the weighted-average method. The receipt of stock dividends is recorded as an increase in shares without being recognized as income. The differences between selling and purchase prices are reduced by interest income recognized during the holding period and are treated as gains or losses on bills and securities.

Trading equity securities and non-equity securities are aggregately stated at the lower of cost or market value. The market price of trading government bonds is based on the quoted market price provided by the Over-the-Counter Securities Exchange. Short-term bills are stated at cost, which approximates the market price. Open-end mutual funds are valued based on the net asset value on the balance sheet date. The listed equity stocks are evaluated using the average closing price of the last month of the accounting period. When a decline in the market price of such investments occurs, the unrealized loss is recorded as a provision for loss on investment; the reversal of unrealized losses on investments in the future period should be recognized within the limit of the unrealized loss; the net result is recorded as "gain or loss on trading of bills and securities".

*(6) Unamortized Acquisition Costs*

A subsidiaries-Cathay Bank, commission and other direct expenses paid on mortgage and vehicle loans are capitalized and amortized using the interest method over the terms of the loans.

The unamortized acquisition costs are recognized as an addition to the related loans; each amortization is recognized against related interest revenue.

*(7) Allowance for Bad and Doubtful Debts*

The subsidiary-Cathay Life and Tong Tai, 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 subsidiaries.

A subsidiary-Cathay Bank, the delinquent loans represent outstanding loans which are more than 180 days past due or loans for which the Bank has begun legal actions against debtors or disposal of the collateral.

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2002**

The allowance for bad debts is measured based on the credit rating and aging analysis of loans and receivables on the balance sheet date and the value of collateral assets. Probable losses are recorded as a provision for credit losses.

According to revised Article 11 of the ROC Business Tax Law, the Ministry of Finance stipulates that 3% of core business revenue should be reserved as allowance for bad debts for four years beginning July 1, 1999. Accounts past due over six months and receivables deemed by the subsidiary-Cathay Bank to be un-collectable are written off upon the approval of the Board of Directors.

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

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

If changes occur in the capital structure of the invested companies causing an increase or decrease of the value of the 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 investments accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings accounts.

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

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Transactions with affiliated companies: Unrealized inter-company 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.

**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.

*(9) 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 pursuant to the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the ROC government (the "Government").

*(10) Mortgaged Property and Collateral Assumed*

Mortgaged property and collateral assumed are mortgaged real estate assumed from debtors and booked at the acquisition cost from the court. On the balance sheet date, it is stated at the lower of cost or net realizable value.

*(11) Property and Equipment*

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

Depreciation on depreciable assets is recognized on a straight-line method, based on the useful lives prescribed by the Government of R.O.C.. When the economic useful lives are expired, property and equipment, still in use are depreciated based on the residual value and new estimated remaining useful life.

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*(12)Deferred Charges*

The expense was occurred by issuing Zero Coupon Convertible Notes by the Company.

A subsidiary-Cathay Life, according to a formula set by the Ministry of Finance, the Company allocated a “Stabilization fund “ and an offsetting account “Stabilization fund reserve”. These two accounts would not be listed in the financial statements due to their offsetting nature. From 1993 to June 30, 2002, an amount of \$1,603,526 has been appropriated to this fund.

A subsidiary-Cathay Bank, royalty costs of SOGO affinity credit cards are capitalized and amortized on a straight-line basis over estimated economic lives of 48 months and are accounted for as other operating cost.

*(13)Guaranteed Depository Insurance Payment*

The subsidiaries-Cathay Life and Tong Tai, according to Article 141 of the Insurance Law of the Republic of China, an amount equal to 15% of the capital stock should be deposited in the Central Bank of China as the “Guaranteed Depository Insurance”. The amount was deposited in the form of a bond.

*(14)Reserve for Operating*

1. A subsidiary-Cathay Life,

A.Unearned Premium Reserve:

Unearned premium reserve fund contains the portion of the premium that has been paid in advance for insurance not yet provided.

B.Special Claim Reserve:

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

C.Claims Reserve:

This reserve established to pay for claims of which the insurance company is aware of (claims incurred or future claims) but which 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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D. Reserve for Life Insurance:

Specified 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.

2. A subsidiary-Tong Tai

A. Unearned Premium Reserve:

- a. Unearned premium reserve fund that contains the portion of the premium that has been paid in advance for insurance not yet provided.
- b. Pursuant to “Accounting Treatment of Mandatory Third-party Liability Automobile Insurance”, the provision for of mandatory third-party liability motor insurance is determined by retained pure gross premiums 50%.

B. Special Claim Reserve

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

According to the Implementation Rules of Insurance Law, the related provision and recovering of special claim reserve are expressed as follows:

- a. Provision of special claim reserve is determined by the reserve formula issued by the MOF.
- b. If the actual claims and claim adjustment expenses for a particular type of insurance are less than the expected amount of claims and claim adjustment expenses determined by the MOF, the Company is subject to provide 50% of such difference as additional special claim reserve for that year.
- c. If the actual claims and claim adjustment expenses exceed the “expected” amount, the Company can release such difference from the special claim reserve.
- d. The total amount of special claim reserve should not exceed its net earned premiums at year end; any excess must be released from its reserves and treated as income of the insurance company.



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- e. Except for the special claim reserve of compulsory car insurance policy, according to the regulations of the MOF, additional special claim reserve should be equal to total retained earned pure premium, plus reinsurance commissions, plus INCURRED BUT NOT REPORTED (IBNR) claims reserve release and plus interest of prior year's special claim reserve minus total amount of retained loss incurred and provision of IBNR reserve.

C. Claims Reserve

The reserve established to pay for claims of which the insurance company is aware (claims incurred or future claims) but 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 IBNR.

The accounting treatments of claims reserve follow, "Insurance Industry Provision of Reserve for Indemnity", issued by the MOF. Those provisions include:

- a. Provision of unpaid claim reserve for reported claims is estimated by each insurance company based on several factors, including historical information and circumstantial evidence each claim for each policy.
- b. Provision of IBNR reserve is determined according to earned premiums for each type of insurance in accordance with regulations issued by the MOF.
- c. Each year's provision of claims reserve shall be released at the end of that year.

*(15) Reserve for Securities Trading Losses*

A subsidiary-Cathy Bank, a securities underwriter license was granted to the subsidiary-Cathay Bank by the SFC, MOF on July 18, 1998. According to Article 11 of the Rules Governing Securities Firms, a securities firm engaged in trading securities is required to set aside 10% of net realized trading gains as a provision for trading losses. Such reserve for losses can only be used to cover securities trading losses. No further provision is required when the accumulated provision exceeds NT\$0.2 billion.

*(16) Convertible Bonds Payable*

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

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

*(17)Insurance Premiums Income and Expenses*

The subsidiaries-Cathay Life and Tong Tai, 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.

*(18)Recognition of Interest Income, Commissions and Service Fees*

A subsidiary-Cathay Bank, interest income on loans is recognized on an accrued basis. The past due interest income of the outstanding loans over 3 months and the delinquent loans are recognized on a cash basis. The commission and service fees are recognized when the provision of service is completed.

*(19)Reserve for Guarantee Liabilities*

The reserve for guarantee liabilities is determined by evaluating the potential losses on all the outstanding guarantees issued and recorded as “provision for loss on guarantees and trading securities”.

*(20)Pension Plan*

The company has established a pension plan for all employees. Pension plan benefits are recognized as the eligible employees’ compensation and render service.

In compliance with R.O.C. SFC regulations, the Company and subsidiaries followed the R.O.C. 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 obligations and the fair value of plan assets.

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According to the R.O.C. SFAS NO. 23 "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS NO. 18 "Accounting for Pensions".

*(21) Foreign-currency Transactions*

A. Translations of Foreign Currency Transactions

Foreign-currency transactions should be accounted for at cost and that was recognized on a straight-line method recorded in New Taiwan Dollars at the spot rates when the transactions occur. 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 the exchange rate on the balance sheet date, and the any gains or losses are resulting from the transaction credited or charged to current income.

B. Translation of Foreign Subsidiaries' Statements

Financial statements of foreign subsidiaries accounted for by the equity method are converted into New Taiwan Dollars as follows: all assets and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are translated on the historical rate basis except for the beginning balance of retained earnings, which is posted directly from the balance of the last year. Income Statement items are translated based on 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 a 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 results if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is recognized in the current period because it affects directly the cash flows of the foreign operation.

*(22) Income Taxes*

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The Company adopted SFAS Statement No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax 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 carryforward and investment tax credits. The realization of deferred income tax assets is further assessed and a valuation allowance, if needed, is provided accordingly. Adjustments of prior year's income tax expense are recorded as current period income tax expenses in the year of adjustment.

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

As per Article 49 of Financial Holding Company Law, in the case of the company holding the exceeding of 90% of issued shares of its native subsidiaries, the company can be selected as the taxpayer as the shareholding is over 12 months within a taxable year and files the income tax returns with 10% tax of undistributed retained earnings to Tax Authority Under the Income Tax Law.

The Company adopts the provision No. 12, "Accounting for Income Tax Deduction" in dealing with the deductible income tax. The deductible income tax resulting from the expenditure on the purchase of equipment and technique, R&D, education training, and investment in equity shall be dealt by the current recognition method.

*(23)Capital Expenditure Expenses*

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and benefits more than one accounting period. Otherwise, it is expensed in the year of expenditure.

*(24)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.

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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.

The shares of the Company that the subsidiaries held as investments were treated as treasury stock to meet the requirements of SFAS No. 30, "Treasury Stock".

*(25) Derivative Financial Products Transaction*

A. 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 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. 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 forward contracts are credited or charged to current income in the year of settlement.

B. Forward Exchange Contract for Hedging

The purpose of the forward exchange contracts held by the Company is hedging the risks that may result from changes in currency rates. Transactions on forward exchange contracts are recognized 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. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are recognized to current income.

C. Cross Currency Swap (CCS)

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The purpose of the CCS held by the Company is hedging the risks that may result from changes in currency rates and interest rates. Transactions on CCS are recognized 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. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are recognized as current income. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date. Interests are calculated according to the agreed period, and interest rate. The difference is recognized to the current income.

The net value of receivables and payables of the foreign currency options and forward exchange contracts is offset as an asset or a liability in the balance sheet.

D.A subsidiary-Cathay Bank, derivative financial instruments held or issued for the trading purpose are recorded at cost upon acquisition, and revalued at fair value as of each financial reporting date. Gains and losses resulting from changes in fair values are recognized as current period earnings. Receivables and payables resulting from changes in fair value and from execution of contracts after netting are included in other assets or liabilities.

For option contracts, the premium collected from put options is recognized as advance receipts and the premium paid for call options is recognized as prepaid expenses. The values of the option contracts are evaluated every month according to market price, and the differences are recognized as exchange gains or losses of derivative financial instruments. The balance of advance receipts or prepaid expenses are recognized completely as revenues or expenses of derivative financial instruments on the exercised date. The gains or losses due to the exercised contract are classified as current year's operations.

E. Interest Rate Swap Agreements

The Interest Rate Swap Agreements for the purpose of hedging risks are adjusted interest revenue or expenses based on the interest difference as agreed date of settlement.

*(26) Convenience Translation Into US Dollars*

The financial statements are stated in New Taiwan dollars. Financial statement translation of the 2002 and 2001 New Taiwan dollar amount into US dollar amount the noon buying rate provided by the Federal Reserve Bank of New York on June 30, 2002 and 2001, of NT\$33.46 and NT\$34.48 to US\$1.00. is solely for the convenience of the readers by adopting. The convenience translation should not be construed as a representation that the New Taiwan dollars amounts have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

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**3. Changes in Accounting and Its Effects:** None

**4. Cash and Cash Equivalents**

	June 30,	
	2002(NT\$)	2002(US\$)
Petty cash and cash on hand	\$1,214,734	\$36,304
Cash in banks	123,806,465	3,700,133
Cash equivalents	37,066,954	1,107,799
Checks for clearing	2,832,842	84,664
Due from banks	802,657	23,989
Call loans to banks	11,167,157	333,746
Total	\$176,890,809	\$5,286,635

**5. Due from Central Bank**

	June 30,	
	2002(NT\$)	2002(US\$)
Deposit reserve:		
Reserve-checking	\$3,365,860	\$100,593
Reserve-savings	3,327,027	99,433
Settlement account	153,846	4,598
Trust funds deposit reserve	645,649	19,296
Time deposit (issued by the Central Bank)	3,815,000	114,017
Total	\$11,307,382	\$337,937

A subsidiary-Cathay Bank's securities deposited as reserve for trust funds were recorded at cost adjusted for amortization of premium or discount as follows:

	June 30,	
	2002(NT\$)	2002(US\$)
Investment securities:		
Financial debentures	300,000	8,966
Government bonds	345,649	10,330
Total	\$645,649	\$19,296

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As of June 30, 2002, a subsidiary-Cathay Bank's securities deposited with the Central Bank of China as reserve for trust funds amounted to NT\$645,649 (US\$19,296, totally from the Banking Department).

**6. Short-Term Investments**

	June 30,	
	2002(NT\$)	2002(US\$)
Common stock	\$63,345,829	\$1,893,181
Beneficiary certificates	58,877,042	1,759,624
Oversea investments	75,964,781	2,270,316
Appoint purpose trust fund	58,946,699	1,761,706
Corporate bonds	10,106,313	302,042
Government bonds	27,483,134	821,373
Financial debentures	13,200,000	394,501
Short-term notes	1,609,886	48,114
Sub-total	309,533,684	9,250,857
Less: Allowance for valuation loss	(4,544,346)	(135,814)
Total	\$304,989,338	\$9,115,043

**7. Premiums Paid for Others**

If insurance applicants are unable to meet their insurance installments after their second installment, the MOF ruled that applicants can make written statements, requesting the subsidiary-Cathay Life to pay the premium and interests payable by using the subsidiary's "policy value reserve" prior to the due date of such installment payment or before the insurance contract's termination date. However, applicants may also choose to inform the insurance company by written statements of their intention, instead of payig such installments.

**8. Loans and Exchange Bills Negotiated and Discounted, Net**

(1) Loans and Exchange Bills Negotiated and Discounted, Net



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	June 30,	
	2002(NT\$)	2002(US\$)
Policy loans for life insurers	\$171,137,157	\$5,114,679
Short-term loans	6,093,195	182,104
Less: Allowance for bad debts	(45,500)	(1,360)
Sub-total	<u>177,184,852</u>	<u>5,295,423</u>
Short-term secured loans	12,288,524	367,260
Less: Allowance for bad debts	(90,833)	(2,715)
Sub-total	<u>12,197,691</u>	<u>364,545</u>
Medium-term loans	8,469,218	253,115
Less: Allowance for bad debts	(64,061)	(1,915)
Sub-total	<u>8,405,157</u>	<u>251,200</u>
Medium-term secured loans	48,824,061	1,459,177
Less: Allowance for bad debts	(475,871)	(14,222)
Sub-total	<u>48,348,190</u>	<u>1,444,955</u>
Long-term loans	3,640,200	108,793
Less: Allowance for bad debts	(28,200)	(843)
Sub-total	<u>3,612,000</u>	<u>107,950</u>
Long-term secured loans	344,831,554	10,305,785
Less: Allowance for bad debts	(3,430,055)	(102,512)
Sub-total	<u>341,401,499</u>	<u>10,203,273</u>
Total	<u>\$591,149,389</u>	<u>\$17,667,346</u>

Loans secured by policies issued by a subsidiary-Cathay Life.

The subsidiaries-Cathay Life and Tong Tai, secured loans are loans secured by government bonds, stock, corporate bonds and real estate. Loans with terms for less than one year are classified as short-term loans; loans with terms for more than one year but less than seven years are classified as medium-term loans ; loans with terms for more than seven years are classified as long-term loans.

A subsidiary- Cathay Bank, as of June 30, 2002, the past-due loans and other credit loans without accrued interest amounted to NT\$6,556,604 (US\$195,953), categorized under loans and delinquent loans. The non-accrued interest income is amounted to NT\$150,101 (US\$4,486) for the six months ended June 30, 2002.

- (2) According to the SFAS No.28 regulations, a subsidiary-Cathay Bank should disclosure that:

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A. Allowance for Credit Losses

The movements of allowance for credit losses were as follows:

	<b>June 30, 2002 (NT\$)</b>			<b>Total</b>
	<b>Potential risk of normal loans</b>	<b>Risk of certain uncollectible credit card receivables</b>	<b>Risk of certain uncollectible delinquent loans</b>	
Beginning balance	\$1,266,188	\$369,783	\$746,347	\$2,382,318
Add: Provision provided (reversed)	(473,200)	321,000	782,200	630,000
Less: Written-off loans	(13)	(231,522)	(814,653)	(1,046,188)
Collection of written-off loans	0	19,512	163,495	183,007
Ending balance	<u>\$792,975</u>	<u>\$478,773</u>	<u>\$877,389</u>	<u>\$2,149,137</u>

	<b>June 30, 2002 (US\$)</b>			<b>Total</b>
	<b>Potential risk of normal loans</b>	<b>Risk of certain uncollectible credit card receivables</b>	<b>Risk of certain uncollectible delinquent loans</b>	
Beginning balance	\$37,842	\$11,051	\$22,306	\$71,199
Add: Provision provided (reversed)	(14,143)	9,594	23,377	18,828
Less: Written-off loans	0	(6,919)	(24,347)	(31,266)
Collection of written-off loans	0	583	4,886	5,469
Ending balance	<u>\$23,699</u>	<u>\$14,309</u>	<u>\$26,222</u>	<u>\$64,230</u>

The subsidiary-Cathay Bank only writes off loans after completing the legal process for collection.

B. Maturities Analysis for Assets and Liabilities

The subsidiary-Cathay Bank's duration of assets and liabilities is based on the remaining period from the balance sheet date to the contractual maturity date. For those assets and liabilities that do not have a contractual maturity date, the analysis is done according to the expected date on which the assets or liabilities will be realized or repaid.

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	June 30, 2002 (NT\$)					Total
	Up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 7 years	Over 7 years	
<b>Assets</b>						
Cash and due from banks	\$14,196,108	\$671,160	\$600,000	\$0	\$0	\$15,467,268
Due from Central Bank	7,896,734	2,765,000	5,000	300,000	340,648	11,307,382
Bills and securities purchased	2,252,839	247,600	-	53,959	192,800	2,747,198
Receivables	16,384,728	74,929	418,559	130,553	0	17,008,769
Loans and exchange bills negotiated and discounted	4,662,630	10,195,295	12,418,497	37,633,500	38,664,109	103,574,031
Long-term debt investments	0	0	40,894	155,885	4,500,393	4,697,172
Total	<u>\$45,393,039</u>	<u>\$13,953,984</u>	<u>\$13,482,950</u>	<u>\$38,273,897</u>	<u>\$43,697,950</u>	<u>\$154,801,820</u>
<b>Liabilities</b>						
Due to banks	\$641,615	\$300,000	\$0	\$0	\$0	\$941,615
Interest payable	409,597	595,396	260,797	78,708	6,861	1,351,359
Deposits and remittances payable	36,510,152	50,755,237	49,057,031	4,420,751	3,586,263	144,329,434
Total	<u>\$37,561,364</u>	<u>\$51,650,633</u>	<u>\$49,317,828</u>	<u>\$4,499,459</u>	<u>\$3,593,124</u>	<u>\$146,622,408</u>

	June 30, 2002 (US\$)					Total
	Up to 1 month	1 month to 6 months	6 months to 1 year	1 year to 7 years	Over 7 years	
<b>Assets</b>						
Cash and due from banks	\$424,271	\$20,059	\$17,931	\$0	\$0	\$462,261
Due from Central Bank	236,005	82,636	149	8,966	10,181	337,937
Bills and securities purchased	67,329	7,400	0	1,613	5,762	82,104
Receivables	489,681	2,239	12,509	3,903	0	508,332
Loans and exchange bills negotiated and discounted	139,349	304,701	371,145	1,124,731	1,155,532	3,095,458
Long-term debt investments	0	0	1,222	4,658	134,501	140,381
Total	<u>\$1,356,635</u>	<u>\$417,035</u>	<u>\$402,956</u>	<u>\$1,143,871</u>	<u>1,305,976</u>	<u>\$4,626,473</u>
<b>Liabilities</b>						
Due to banks	\$19,176	\$8,965	\$0	\$0	\$0	\$28,141
Interest payable	12,241	17,795	7,794	2,353	205	40,388
Deposits and remittances payable	1,091,158	1,516,893	1,466,140	132,120	107,181	4,313,492
Total	<u>\$1,122,575</u>	<u>\$1,543,653</u>	<u>\$1,473,934</u>	<u>\$134,473</u>	<u>\$107,386</u>	<u>\$4,382,021</u>

C. Average Value and Average Interest Rates of the Subsidiary-Cathay Bank's  
Interest-bearing (Yield) Assets and Liabilities

	For the six months ended of June 30,		
	2002		
	Average		
Assets	NT\$	US\$	%
Due from and call loans to banks	\$11,694,748	\$349,514	2.24
Due from Central Bank	7,859,467	234,891	2.52
Bills and securities purchased	2,287,931	68,378	3.03
Loans and exchange bills negotiated and discounted	102,568,926	3,065,419	5.94
Long-term debt investments in bonds	3,617,097	108,102	3.89
Credit card revolving loans	10,235,535	305,904	19.15

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Liabilities			
Due to banks	\$752,147	\$22,479	2.58
Demand deposits	5,348,285	159,841	1.04
Demand savings deposits	12,358,424	369,349	2.63
Time deposits	44,527,649	1,330,773	2.98
Deposit from post office	16,205,245	484,317	3.01
Savings time deposits	51,164,532	1,529,125	3.49
Negotiated time deposits	3,831,009	114,495	3.17
Long-term loans	126,143	3,770	4.25
Trust funds	3,573,759	106,807	2.49

The average value is calculated based on the daily average value of interest-bearing (yield) assets and liabilities.

**D. Ratio of Banking Capital to Risk Assets**

In order to enhance the banking financial structure, the ROC Banking Law and related regulations required that the ratio of banking capital to risk assets should not be lower than 8% (BIS); otherwise, the authority will be able to restrict the distribution of earnings. As of June 30, 2002, the BIS ratio of the subsidiary-Cathay Bank was 8.43%.

**9. Long-Term Investments in Stock**

<u>Investee</u>	June 30,	
	2002(NT\$)	2002(US\$)
	Book Value	Book Value
A. Under the equity method:		
WK Technology Fund VI Co., Ltd.	\$380,855	\$11,382
Cathay Insurance (Bermuda) Corp., Ltd.	50,791	1,518
Cathay Venture Capital Corp.	329,123	9,836
Vista Technology Venture Capital Corp.	122,994	3,676
Omnitek Venture Capital Corp.	152,693	4,563
IBT Venture Capital Corp.	595,228	17,789
Wa Tech Venture Capital Co., Ltd.	183,877	5,495
Cathay Securities Investment Trust Co., Ltd.	193,266	5,776
Symphox Information Co., Ltd.	268,965	8,038
Cathay Property Insurance Agent Co., Ltd.	7,939	237

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Cathay Life Insurance Agent Co., Ltd.	7,917	237
Sub-total	2,293,648	68,547
<b>B. Under the cost method:</b>		
WK Technology Fund I Co., Ltd	100,000	2,989
Taiwan Aerospace Company	260,000	7,770
Koo Group Telecommunications Co., Ltd.	899,998	26,898
Concord III Venture Capital Co., Ltd.	89,280	2,668
Taipei Financial Center Corp.	1,441,591	43,084
Investar Dayspring V.C. Inc.	200,000	5,977
FAT Venture Capital Co., Ltd.	50,000	1,494
Concord IV Venture Capital Co., Ltd.	50,000	1,494
WK Technology Fund V Co., Ltd	150,000	4,483
WK Technology Fund IV Co., Ltd	127,200	3,802
Century Venture Capital Co., Ltd.	100,000	2,989
Super Tech Venture Capital Corp.	100,000	2,989
CDIB & Partners Investment Holding Corp.	500,000	14,943
Alex-Tech Machinery Industrial Co., Ltd.	21,000	628
Quanta Display Inc.	1,282,600	38,332
R.O.C. Venture Capital, Co., Ltd.	151,970	4,542
National Venture Capital Co., Ltd.	100,000	2,989
WK Technology Fund VII Co., Ltd	200,000	5,977
Capital Venture Fund II Corp.	50,000	1,494
Fu Yu Venture Capital Investment Corp.	200,000	5,977
Concord VIII Venture Capital Co., Ltd.	100,000	2,989
Allied Material Technology Corp	98,400	2,941
New Century InfoComm Tech Co., Ltd.	1,268,000	37,896
Srsuntour Co., Ltd.	62,000	1,853
Titan I Venture Capital Co., Ltd.	150,000	4,483
Prosperity Venture Capital Corp.	6,000	179
Taiwan ultra capacity Corp.	87,500	2,615
KGEx.com Co., Ltd.	200,000	5,977
United Venture Corp.	100,000	2,989
BioCare Corp.	250,000	7,472
Megic Corp.	50,000	1,494
Hua Chih Venture Capital Corp.	12,000	359
Jih Sun Venture Capital Investment Co., Ltd.	18,000	538
Formosa Epitaxy Inc.	200,000	5,977
Win Semiconductors Corp.	60,000	1,793
Sintek Photronic Corp.	80,000	2,391
National Aerospace Fasteners Corp.	20,500	613

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Kinik Precision Grinding Co., Ltd.	50,949	1,523
Vita Genomics Inc.	75,000	2,241
Tong Hsing Electronic Inc. Co., Ltd.	27,144	811
China Technology Venture Capital Corp.	50,000	1,494
Daiwa Securities SMBC-Cathay Co., Ltd.	16,500	493
Applied Vacuum Coating Technologies Co., Ltd.	259,200	7,747
TaiGen Biotechnology Co., Ltd	6,661	199
Darly 3 Venture Co., Ltd.	285,000	8,518
Cdid BioScience ventrure I Inc.	10,000	299
Taiwan Financial Asset Services Co., Ltd.	50,000	1,494
Taiwan Asset Management Co., Ltd.	20,000	598
Mondex Taiwan Inc.	25,000	747
Sub-total	9,711,493	290,242
Add: Cumulative translation adjustments	6,686	200
Less: Unrealized valuation losses on long-term equity investments	(9,458)	( 283)
Total	\$12,002,369	\$358,706

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

	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Balance at January 1	\$2,003,602	\$59,881
Add: Investment gains (losses) by equity method recognized	2,303	69
Increment of investments	304,127	9,089
Less: Cash dividends	(16,384)	( 490)
Balance on June 30	\$2,293,648	\$68,547

(2) The investment gains (losses) recognized by the equity method for the six months ended June 30, 2002 is listed below:

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<u>Investee</u>	June 30,	
	<u>2002(NT\$)</u>	<u>2002(US\$)</u>
Wa Tech Venture Capital Co., Ltd.	\$7,163	\$214
WK Technology Fund VI Co., Ltd.	1,807	54
Cathay Insurance (Bermuda) Co., Ltd.	1,925	58
Symphox Information Co., Ltd.	(12,566)	( 376)
Cathay Venture Capital Corp.	1,694	51
Vista Technology Venture Capital Corp.	(15,044)	( 450)
Omnitek Venture Capital Corp.	2,280	68
IBT Venture Capital Corp.	5,237	157
Cathay Securities Investment Trust Co., Ltd.	4,363	130
Cathay Property Insurance Agent Co., Ltd.	2,674	80
Cathay Life Insurance Agent Co., Ltd.	2,770	83
Total	<u>\$2,303</u>	<u>\$69</u>

- A. Not all of the Company's invested companies, under the equity method, can provide its audited financial statements in time for the Company's year-end consolidation. If the Company owns less than 50% interest of such investee, the investee's investment gains or losses for the year will be deferred until the following year. That is, the Company will recognize in the following year, the investment gains or losses from such investee by the percentage of shares invested. Associated companies, under the equity method, sometimes could not provide timely audited financial statements. Thus, the share interests of the associated company's profits and losses usually carry forward into the Company consolidated financial statements in the following year.
- B. The Investment gains and losses for the six months ended June 30, 2002 were recognized based on the un-audited financial statements of the investee companies, such as Cathay Venture Capital Corp. 、 Cathay Securities Investment Trust Co., Ltd. 、 Cathay Property Insurance Agent Co., Ltd. and Cathay Life Insurance Agent Co., Ltd.
- (3) The investment gains (losses) for the six months ended June 30, 2002 were recognized based on the audited financial statements of the investee companies as Cathay Insurance (Bermuda) Co., Ltd. and Symphox Information Co., Ltd.

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**10. Long-Term Investments in Bonds**

Long-term investments in bonds consist mainly the government bonds and corporate bonds as of June 30, 2002. They are deposited in The Central Bank of China as capital guarantee deposits.

**11. Investment in Real Estate**

Item	June 30, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$85,524,660	\$2,556,027	\$5,132	\$153	(\$9,861,349)	(\$294,721)	\$75,668,443	\$2,261,459
Construction	15,884,359	474,727	0	0	0	0	15,884,359	474,727
Total	\$101,409,019	\$3,030,754	\$5,132	\$153	(\$9,861,349)	(\$294,721)	\$91,552,802	\$2,736,186

(1) The real estate investments are held mainly to generate rental revenue.

(2) As of June 30, 2002, no investments in real estate were pledged.

**12. Property and Equipment**

Item	June 30, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$6,112,425	\$182,679	\$1,643	\$49	\$0	\$0	\$6,114,068	\$182,728
Buildings and structures	11,827,848	353,492	0	0	(3,205,169)	(95,792)	8,622,679	257,701
Other equipment	4,781,996	142,917	0	0	(2,362,455)	(70,605)	2,419,541	72,311
Sub-total	22,722,269	679,088	1,643	49	(5,567,624)	(166,397)	17,156,288	512,740
Construction in progress	254,128	7,595	0	0	0	0	254,128	7,595
Prepayment for equipment	213,074	6,368	0	0	0	0	213,074	6,368
Total	\$23,189,471	\$693,051	\$1,643	\$49	(\$5,567,624)	(\$166,397)	\$17,623,490	\$526,703

A. A subsidiary-Cathay Life, no property and equipment were pledged as collateral. The insurance coverages of property equipment and real estate investments are stated at book value.



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- B. A subsidiary-Tong Tai, the insurance of insured property and equipment were NT\$73,921(US\$2,209) as of June 30, 2002. No property and equipment were pledged as collateral.
- C. A subsidiary-Cathay Bank, as of June 30 of 2002, the insurance coverage on premises and equipment amounted to NT\$960,096 (US\$28,694). No property and equipment were pledged as collateral.

**13.Overdue Receivables**

	June 30,	
	2002(NT\$)	2002(US\$)
Overdue receivables	\$11,685,322	\$349,233
Less: Allowance for bad and doubtful debts	(2,731,392)	(81,632)
Total	\$8,953,930	\$267,601

A subsidiary-Cathay Bank, the delinquent loans represent outstanding loans which are more than 180 days past due or loans for which the Bank has begun its legal actions against debtors or disposal of collateral.

**14.Deposits and Remittances Payable**

	June 30,	
	2002(NT\$)	2002(US\$)
Checking accounts	\$1,049,969	\$31,380
Demand deposits	2,624,721	78,443
Demand savings deposits	12,859,379	384,321
Time deposits	38,887,556	1,162,210
Time savings deposits	50,731,941	1,516,197
Deposits from post office savings	16,210,326	484,469
Negotiable certificates of deposit	4,069,700	121,629
Discretionary pension trust funds	3,586,262	107,180
Foreign deposits others	962,939	28,779
Total	\$130,982,793	\$3,914,608

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**15.Long-Term Liabilities**

	June 30,	
	2002(NT\$)	2002(US\$)
Zero Coupon Convertible Notes	\$24,500,000	\$732,218
Redemption premium payable	93,831	2,804
Total	\$24,593,831	\$735,022

Please see note 28, “Zero Coupon Notes Related Information” for details.

**16.Liabilities**

	June 30,	
	2002(NT\$)	2002(US\$)
Unearned premium reserve	\$17,024,530	\$508,803
Reserve for life insurance	1,099,166,727	32,850,171
Special claim reserve	19,027,780	568,672
Claim reserve	797,344	23,830
Total	\$1,136,016,381	\$33,951,476

**17.Common Stock**

- A. As of June 30, 2002, the numbers of issued shares were 6,095,872,818, with par value of 10 dollars.
- B. The stockholder’s meeting of the company resolved on June 27, 2002 declared cash dividends NT\$1.5 dollars each stock and bonus. The retained earning of NT\$137,135(US\$4,098) in 2001 and capital surplus of NT\$11,324,764 (US\$338,457) , belongs to the subsidiary before conversion. The date of issuing cash dividends was on July 26, 2002.

**18.Capital Surplus**

- A. The Capital Surplus is the net asset from merger of stock conversion (the net asset from merger) and the sum is NT\$26,526,202(US\$792,774) in June 30, 2002. Before conversion NT\$2,534,954(US\$75,761) is belong to the subsidiaries’ retained earnings.

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- B. The additional paid-in capital of par value through exchange of shares was generated from subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Law, the additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.
- C. Beside the above-mentioned, pursuant to the ROC 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 a year. In addition, the amount to be capitalized cannot exceed the specific percentage of capital surplus set by the SFC.

**19.Retained Earnings**

A. Legal Reserve

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

B. Unappropriated Retained Earnings

- (1) According to the Company Law of the Republic of China and the Company's Articles of Incorporations, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be distributed as legal reserve. In addition to distributing stock interest and 0.01%~0.05% as bonus for employees, the remainder shall be allocated in accordance with the resolution in the stockholders' meeting.
- (2) After converting, the subsidiary's treasury stock had treat as the Company's treasury stock and it doesn't carry any stockholders' rights.
- (3) 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. The regulation above is no longer in effect.

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- (4) According to related regulations if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.
- (5) 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. And the costs of these shares don't distribute as special reserve.
- (6) Dividends Policy

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

**20. Treasury Stock**

(Unit: in thousands of shares)

Reason for Transfer	Jan. 1, 2002			Jun. 30, 2002			Per Share	Per Share	Per Share	Per Share
	2002	Increase	Decrease	2002	Book Value (in NT thousands of dollars)	Book Value (in US thousands of dollars)	Book Value (in NT dollars)	Book Value (in US dollars)	Market Value (in NT dollars)	Market Value (in US dollars)
Transferred it to employees	156,927	0	0	156,927	\$7,333,862	\$219,183	\$46.73	\$1.40	\$49.17	\$1.47
Parent's stock that the subsidiaries held were treated as treasury stock	0	14,893	0	14,893	790,659	23,630	53.09	1.59	49.17	1.47
Total	156,927	14,893	0	171,820	\$8,124,521	\$242,813				

**21. Trust Funds**

The trust funds of the subsidiary-Cathy Bank before transformation are all discretionary trust funds. For the administration of the discretionary trust funds, the Bank guarantees to repay the principal and pay a minimum guaranteed interest at specified rates on the principal of the funds within or upon the expiration of the period covering these funds. The remaining profit or loss from a trust fund after deducting guaranteed interest is considered as the commission income of Trust Department or the operating cost of the Trust Department or the operating cost of the Trust Department to cover the trust fund losses.

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For the purpose of conversion into a commercial bank, all discretionary trust funds had been completely diminished in accordance with the reduction plan as of December 31, 2001, except for the employee pension trust fund, which could not be reduced to zero and was approved by the Bureau of Monetary Affairs of the Ministry of Finance in October 2001 to be transferred to the Trust Department and in the custody of the Banking Department. The employee pension trust fund is recorded as deposits of the Banking Department, and the Trust Department only compensate with commission fee.

**22. Estimated Income Taxes**

A. Income tax expenses include the following:

	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Expected income tax expense	\$192,129	\$5,742
Add: Interest income of tax on a separate basis	105,473	3,152
Adjustment of prior year's income tax	2,826	84
Extra 10% income tax on undistributed retained earnings	216,820	6,480
Deferred income tax expenses (benefits)	83,004	2,481
Less: Income tax credit	(114,030)	(3,407)
Total income tax expenses	<u>\$486,222</u>	<u>\$14,532</u>

B. Tax imputation related information:

	June 30,	
	2002(NT\$)	2002(US\$)
Balance of imputation credit account	<u>\$3,248,406</u>	<u>\$97,083</u>
	June 30,	
	2002(Estimate)	
Imputation credit account ratio	<u>30.66%</u>	

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C. The undistributed retained earnings:

Year	June 30,	
	2002(NT\$)	2002(US\$)
After 1998	\$137,135	\$4,098

D. The ROC tax authority has examined and assessed the subsidiary-Cathay Bank's income tax returns through 1998. The withholding tax on the interest of prior bondholders from 1994 to 1997, amounting to NT\$141,839 (US\$4,239), was rejected by the tax authority as being able to offset income tax payable. The total amount was accounted for as tax expense in 2001. The subsidiary-Cathay Bank disagreed with these assessments and petitioned for a remedy. As of June 30, 2002, these tax returns were still in the administrative court process.

**23. Related Party Transactions**

*A. Related parties*

Name	Relationship
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Lin Yuan Investment Co., Ltd.	Major stockholder
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
Cathay Life Charity Foundation	The directors of the Company
Wan Pao Development Co., Ltd.	Major stockholder
Cathay Insurance (Bermuda) Co., Ltd.	The investee is accounted for using equity method
Symphox Information Co., Ltd.	The investee is accounted for using equity method
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Uni-President Enterprise Co., Ltd.(Uni-President)	The director of a subsidiary-Cathay Bank (resigned August 6, 2001)
TSAI WNA LIN	The immediate and second immediate families of the Company's president
TSAI HUNG TU	The Company's president

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TSAI CHENG TA	The immediate and second immediate families of the Company's president
TSAI CHEN YU	The director of the Company
TSAI CHEN CHIU	The director of a subsidiary-Tong Tai
CHOU YI WEN	The director of a subsidiary-Cathay Bank
TSAI CHOU PAO CHIN	The immediate and second immediate families of the Company's president
TSAI KUEI JU	The immediate and second immediate families of the Company's president
TSAI KUEI HUI	The immediate and second immediate families of the Company's president
TSAI HUANG LI TZU	The immediate and second immediate families of the Company's president
LEE MING HSIEN	A subsidiary-Cathay Bank president

*B. Significant transactions with related parties:*

A. Property Transactions (From related parties):

- a. Transactions between the Company, the subsidiaries, and related parties are real estate, constructions, and lease transactions. The terms of such transactions are based on market surveys and contracts of both parties.

Name	For the six months ended June 30, 2002			
	Item	NT\$	US\$	
San -Ching Engineering Co., Ltd.	The construction build or extend:			
	Lin Yuan Finance building	\$568,611	\$16,994	
	Hsinyi Distrist Base	319,994	9,563	
	Tainan Shopping Center	1,775,729	53,070	
	Cathay General Hospital of Hsinchu	332,704	9,943	
	Kaohsing International Business Building	6,629	198	
	Tainmu jungcheng	7,075	211	
	Taitung Building	90,431	2,703	
	Yungdang Building	38,147	1,140	
	Other	1,440	43	
	Cathay Real Estate Development Co., Ltd.	Other	263	8
		Total	<u>\$3,141,023</u>	<u>\$93,873</u>

- (a) The total amount of construction contracts for real estate on June 30, 2002 between and San-Ching Engineering Co., Ltd. is \$19,862,922 (US\$593,632) . As of June 30, 2002, \$14,223,596 (US\$425,093) had been paid according to schedule of construction contracts.

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- (b) During the six months ended of June 30, 2002, the Bank engaged San Ching to install office equipment and furniture, and to decorate office buildings and workplaces. The installation fees amounted to NT\$1,440 (US\$43) for the six months ended June 30, 2002, and were capitalized as premises and equipment.
- (c) For the six months ended June 30, 2002, the Company and the subsidiaries did not sell and property if previously purchased.
- b. The Company and the subsidiaries did not sell any real estate to related parties on June 30, 2002.
- c. Real-estate rental income and guarantee deposits received from a subsidiary -Cathay Life:

Name	Rental income	
	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Cathay Real Estate Development Co., Ltd.	\$15,475	\$462
San- Ching Engineering Co., Ltd.	10,001	299
Cathay Securities Investment Trust Co., Ltd.	4,550	136
Cathay General Hospital	60,448	1,806
Symphox Information Co., Ltd.	15,259	456
Lin Ynan Investment Co., Ltd.	52	2
Total	<u>\$105,785</u>	<u>\$3,161</u>

Name	Guarantee deposit received	
	June 30, 2002	June 30, 2002
	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$370
San-Ching Engineering Co., Ltd.	6,828	204
Cathay General Hospital	1,983	59
Cathay Securities Investment Trust Co., Ltd.	2,060	61
Other	86	3
Total	<u>\$23,343</u>	<u>\$697</u>

According to previously signed contracts, lease terms with third parties are usually 2 to 5 years; rental collections are received monthly.



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d. Real-estate rental expense and guarantee deposit paid from the subsidiaries –  
Cathay Life and Cathay Bank,

Name	Rental Expense	
	For the six months ended June 30,	
	2002 NT\$	2002 US\$
Cathay Real Estate Development Co., Ltd.	\$16,769	\$501

Name	Rental Expense	
	For the six months ended June 30,	
	2002 NT\$	2002 US\$
Cathay Real Estate Development Co., Ltd.	\$12,760	\$381

e. Acquisition of other equipment-a subsidiary-Cathay Life,

Name	For the six months ended June 30,	
	2002 NT\$	2002 US\$
	Symphox Information Co., Ltd.	\$21,424

**B. Cash in Bank**

Name	June 30, 2002		Interest Rate Range
	NT\$	US\$	
Relate parties deposits (The one's deposit is not up to 10% of the deposits and receipts)	\$1,571,461	\$46,966	0%~5.2%

**C. Loans**

As of June 30, 2002, loans to related parties amounted to NT\$8,733 (US\$261) and were 0.01% of total loans.

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The interest revenue received from related parties for the six months ended June 30, 2002, amounted to NT\$316 (US\$9), with interest rates ranging from 5.60% to 6.47%. The details of loan balances (over NT\$0.1 billion) were as follows:

Name	For the six months ended June 30, 2002						
	Maximum balance		Ending balance		Interest rates	Interest Revenue	
	NT\$	US\$	NT\$	US\$		NT\$	US\$
Uni-President	<u>\$500,000</u>	<u>\$14,943</u>	<u>\$500,000</u>	<u>\$14,943</u>	5.75%	<u>\$14,375</u>	<u>\$430</u>

**D.Regular Secured Loans**

Name	For the six months ended June 30, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General			4.36%~	
Hospital	<u>\$1,174,594</u>	<u>\$1,174,261</u>	5.21%	<u>\$28,931</u>

Name	For the six months ended June 30, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General			4.36%~	
Hospital	<u>\$35,104</u>	<u>\$35,094</u>	5.21%	<u>\$865</u>

**E. Beneficiary Certificates:**

Name	For the six months ended June 30, 2002	
	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	<u>\$3,221,291</u>	<u>\$96,273</u>

**F. Accounts Receivable**

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Name	For the six months ended June 30, 2002	
	Premiums Receivable	
	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$486	\$15
Cathay Real Estate Development Co., Ltd.	556	17
Cathay General Hospital	19,288	576
Others	140	4
Total	\$20,470	\$612

G. Accounts Payable

Name	June 30, 2002	
	NT\$	US\$
Lin Yuan Building Management & Maintenance Co., Ltd.	\$32,146	\$961
Others	114,348	3,417
Total	\$146,494	\$4,378

H. Prepayment

Name	June 30, 2002	
	NT\$	US\$
Symphox Information Co., Ltd.	\$72,014	\$2,152

I. Insurance Revenue

Name	For the six months ended June 30, 2002	
	Direct Written Premiums	
	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$1,204	\$36
Cathay Real Estate Development Co., Ltd.	930	28
Cathay General Hospital	2,013	60
Others	363	11
Total	\$4,510	\$135

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J. Reinsurance Income

Name	For the six months ended June 30, 2002	
	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$42,472	\$1,269

K. Reinsurance Expense

Name	For the six months ended June 30, 2002	
	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$20,513	\$613

L. Commissions Expense

Name	For the six months ended June 30, 2002	
	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$6,225	\$186

**24. Pledged Assets**

(a) A subsidiary-Cathay Life:

As of June 30, 2002, Cathay Life pledged its investments in real estate and time deposits as collateral to the tenant. Guaranteed deposits of NT\$ 9,000 (US\$269) were received from these tenant. According to Article 141, the Insurance Law of R.O.C. it should deposited long-term investment bonds, an amount equal to 15% of it's capital, into the Central Bank of China as capital guaranteed deposits.

Item	June 30, 2002	
	NT\$	US\$
Long-term Investment in Bonds	\$9,241,716	\$276,202
Time Deposits	9,000	269
Total	\$9,250,716	\$276,471

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The pledged assets are disclosed at their net carrying values.

(b) A subsidiary-Tong Tai:

Item	June 30, 2002	
	NT\$	US\$
Long-term Investment in Bonds	\$367,677	\$10,989

According to Article 141 of the Insurance Law of R.O.C., the subsidiary-Tong Tai should deposited long-term investment in bonds, an amount equal to 15% of it's capital, into the Central Bank of China as capital guarantee deposits.

The pledged assets are disclosed at their net carrying values.

**25. Other Important Matters and Contingent Liabilities**

- A. A subsidiary-Cathay Life, up to the date of June 30, 2002 signed sales contracts and construction contracts of approximately \$2,448 million (US\$73.16 million) dollars, are still in progress and remain open projects. About \$1,275 million (US\$38.11 million) dollars had been paid as of June 30, 2002.
- B. A subsidiary-Cathay Bank's commitments and contingencies as of June 30, 2002, were as follows:
- (a) Guarantees on commercial paper issued for customers and loans secured by other banks amounted to NT\$7,295,708 (US\$218,043). The reserve for guarantees amounted to NT\$10,000 (US\$299) and was determined by evaluating the potential losses of total outstanding guarantees issued.
  - (b) Unused letters of credit which were issued for customers amounted to NT\$775,989 (US\$23,192).
  - (c) Contracts for the purchase of computer systems and software that were delivered but not yet tested amounted to NT\$25,385 (US\$759).
  - (d) Total repurchase prices of bonds and bills sold under repurchase agreements amounted to NT\$7,292,157 (US\$217,937).

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- C. A subsidiary-Tong Tai was taken disciplinary action by Tax Authority and asked to pay an overdue add-value tax, NT\$5,535(US\$165), and a fine NT\$55,348(US\$1,654), on July 13, 2000. The Company could not accept this outcome and applied to re-verify but the result was the same. According to Law of Administrative Appeals, the Company appealed against this result on August 23, 2001, but the Company has not gotten any response yet till now.
- D. A subsidiary-Cathay Bank's entered into certain operating leases for its branch premises. The estimated future lease payments under the lease contracts were as follows:

Fiscal year	NT\$	US\$
2002	\$17,417	\$521
2003	20,388	609
2004	17,898	535
2005	6,674	199
2006	1,810	54
	\$64,187	\$1,918

**26.Serious Damages:** None

**27.Subsequent Events**

- (1) Board's meeting of the Company resolved the treasury stock plan on July 22, 2002. The Company planned to buy 50,000,000 shares of treasury stock and the expected per share cost between NT\$40 and NT\$70. As of July 25, 2002, the Company had bought 4,644,000 shares of treasury stock in the amount of NT\$203,864.
- (2) Board's meeting of the Company resolved to exchange the shares of United World Chinese Commercial Bank Co., Ltd (UWCCB). The common stock exchange ratios between the Company and UWCCB were 1:1.6.
- (3) A subsidiary-Tong Tai, has reached the agreement in the board meeting on June 14, 2002 that the Company will use the new name, "Cathay Century Insurance Co., Ltd.", in stated of , "Tong-Tai Insurance co., Ltd."

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**28. Other Significant Events**

(1) Disclosure of Pension Information

According to the R.O.C. SFAS NO. 23 “Interim Financial Reporting and Disclosure”, the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS NO. 18 “Accounting for Pensions”.

(2) Financial Instruments Related Information

A. Derivative Financial Instruments

a. Purpose: trading.

(a) Foreign exchange forward and swap contracts

A subsidiary-Cathay Bank entered into foreign exchange forward and swaps contracts for the purpose of foreign exchange currency demand. The foreign exchange forward and swap contracts are recorded at acquisition cost and valued at the spot currency rate on the balance sheet date. As of June 30, 2002, receivables and payables resulting from foreign exchange forward and swap contracts, which are recorded at net receivables, amounted to NT\$11,173 (US\$334). As of June 30, 2002, the unsettled balance of foreign exchange forward and swap contracts amounted to US\$24,777, JP ¥120,000 and HK\$1,700, with maturity dates ranging from July 1 to September 23, 2002.

Credit risk arises when the transaction counterpart fails to execute the contract obligation. When the derivative financial instruments are profitable, credit risk arises. To effectively lower credit risk, the subsidiary-Cathay Bank takes the same policy for its loans, and sets credit limits and selects its counterparts to those high credit rating companies. Due to the counterparts of foreign forward contracts are international banking institutions with high credit ratings, the possibility of breaking a contract is very low.

Market risk arises from the changes in market interest rates or exchange rates. To reduce interest and exchange rate exposures, it has maintained the net foreign currency positions within certain limits to reduce market risk.

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Liquidity risk arises when the contract cannot be cleared in the anticipated time period. It monitors liquidity risk by requiring credit authorization, setting position limits, maintaining stop-loss levels and using internal control procedures. To manage adverse fluctuate in interest rates and foreign exchange rates, it has diversified its selection of currencies to those with high liquidity (primarily the US dollar, Euro, Canadian dollar, and Japanese Yen) for interest rate and foreign exchange contracts held or issued.

(b) Options

A subsidiary-Cathay Bank engaged in option transactions to comply with the new business of combined foreign currency deposits. Deposits include savings deposit clients and internationally well-known banks, which have to meet the qualification under the risk management assessment. The deposit clients are those who deposit their principal into the option transaction in it and use the interest earned to buy the options. Therefore, credit risk is relatively low. In order to eliminate the potential market risk, it will purchase opposite options at the same time when the clients buy their options.

(c) As of June 30, 2002, the nominal principal and fair value of derivative contracts which had not matured were as follows:

	June 30, 2002			
	Nominal principal		Fair value	
	NT\$	US\$	NT\$	US\$
For trading purposes				
Foreign exchange forward and swap contracts	\$ 1,267,835	\$37,891	\$11,109	\$332
Options	685,654	20,492	0	0

b. Purpose: non-trading

(a) Credit and Market Risk

The Company and the subsidiary-Cathay Life entered into forward contract with financial institutions, whose credibility is quite well. In addition, the Company and the subsidiary-Cathay Life entered into various contracts with different institutions in order to hedge risk. Losses incurred from exchange rate fluctuation can be offset by forward hedging contracts.



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(b) Cash Flow and Demand

As there will be cash inflow and cash outflow on the expiration date of a forward contract, no demand for substantial cash flow is expected.

(c) Forward Contract

Receivables and payables resulting from forward contract are offset. The differences between receivables and payables should be listed as assets or liabilities.

The Company:

a) As of June 30, 2002, the Company has forward exchange contract (the contract) of approximately US\$700,000. And the forward exchange contract period is from May 20, 2002 to May 20, 2007.

b) As of June 30, 2002, the exchange rate of the contract is over and the foreign exchange loss is NT\$54,309 thousand dollars. It will be amortized over three years.

A subsidiary-Cathay Life:

As of June 30, 2002, it has forward exchange contracts of approximately US\$3,086,000 in notional value.

(d) Foreign Currency Options

As of June 30, 2002, the Company:

Counterpart	Effective Date	Put Date	Amount (in thousands of dollars)
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	US\$700,000

(e) Futures

All futures transaction had offset on June 30, 2002.

(f) Interest Rate Swap Agreement(IRSA)

The IRSA agreement is applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of June 30, 2002, The agreements of IRSA are summarized as following:

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Category	Currency	Period	Amount
IRSA	NT	2002.05.02~2009.06.17	\$18,500,000

B. Non Derivative Financial Instruments Related Information:

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of June 30, 2002, is the same as the estimated fair market value.

(3) Discretionary Account Management

A. The Subsidiary-Cathay Life

Item	June 30, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$2,945,860	\$88,041	\$2,588,744	\$77,368
Repurchase bonds	2,357,668	70,462	2,357,668	70,462
Short-term securities	99,968	2,988	99,968	2,988
Bonds	3,143,793	93,957	3,165,998	94,620
Cash in bank	765,490	22,878	765,490	22,878
Net other assets less liabilities	(9,771)	(292)	(9,771)	(292)
Total	\$9,303,008	\$278,034	\$ 8,968,097	268,024

B. The Subsidiary-Tong Tai

Item	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$23,863	\$713	\$23,676	\$708
Cash in bank	26,022	778	26,022	778
Net other assets less liabilities	(7)	0	(7)	0
Total	\$49,878	\$1,491	\$49,691	\$1,486

(4) Serious Damages: None.

(5) Zero Coupon Convertible Notes Related Information:

Issuer: Cathay Financial Holding Co., Ltd., a financial holding company organized under the ROC Financial Holding Company Act and the ROC Company Law. Cathay Financial Holdings' registration number issued by the ROC Ministry of Economic Affairs is 70827406.

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

Issue Price: 100%.

Maturity Date: May 20, 2007.

Over-allotment Option:

Cathay Financial Holdings has granted to the Purchaser an option exercisable within 30 days from May 20, 2002 to purchase up to an additional US\$150,000 thousand dollars aggregate principal amount of Notes, solely to cover over-allotments, if any, see "Plan of Distribution". In the event that the Purchaser exercises the over-allotment option, Cathay Financial Holdings will promptly inform the Luxembourg Stock Exchange.

Interest:

The Notes will not bear interest except in the limited circumstances set out under "Description of the Notes – Default Interest".

Conversion Rights:

Subject to certain conditions, each holder of the Notes (the "Holder") will have the right during the Conversion Period (as defined herein) to convert its Notes (or any portion thereof being US\$1,000 dollars in principal amount or an integral multiple thereof) into Common Shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable Deposit Agreement, direct that the Common Shares deliverable upon conversion be deposited with the Depositary (as defined herein) for issuance of GDSs, *provided, however*, that the Conversion Right during any Closed Period (as defined herein) shall be suspended and the Conversion Period shall not include any such Closed Period. See "Description of the Notes – Conversion" and "Risk Factors – Risks Relating to the Notes-There are limitations on your ability to exercise conversion rights". Cathay Financial Holdings shall as soon as practicable but in no event more than five Trading Days (as defined herein) from the Conversion Date (as defined herein) deliver Common Shares to the converting Holders or the Depositary, as the case may be.

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Repurchase at the Option of the Holder:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is 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. "Redemption Premium" means an amount payable pursuant to the Notes with respect to a repurchase or redemption of a Note that will provide a Note holder who purchased such Note at the Issue Price on the Original Issue Date (as defined herein) a compound yield of 2.75% per annum (computed on a semi-annual note equivalent basis). See "Description of the Notes – Repurchase of the Notes".

Repurchase in the Event of Desisting:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Common Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is 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. See "Description of the Notes – Repurchase of the Notes".

Repurchase in the Event of Change of Control:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is 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 (as defined herein). See "Description of the Notes – Repurchase of the Notes".

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Redemption at the Option of Cathay Financial Holdings:

The Notes may be redeemed at the option of Cathay Financial Holdings, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on the Redemption Date (as defined herein); *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 herein) and (b) the applicable Redemption Date does not fall within a Closed Period. Notwithstanding the foregoing, Cathay Financial Holdings may redeem, in whole but not in part, the Notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the Notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on the Redemption Date; *provided* that the applicable Redemption Date does not fall within a Closed Period.

Tax Redemption:

If, as a result of certain changes relating to the tax laws in the ROC or such other jurisdiction in which Cathay Financial Holdings is then organized, Cathay Financial Holdings becomes obligated to pay certain Additional Amounts (as defined herein), the Notes may be redeemed at the option of Cathay Financial Holdings, in whole but not in part, at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on such Redemption Date.

Redemption Amount at Maturity:

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

Negative Pledge:

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Subject to certain exceptions, Cathay Financial Holdings will not, and will procure that none of its Principal Subsidiaries (as defined herein) will, create or permit to subsist any Lien (as defined herein) to secure for the benefit of the holders of any International Investment Securities (as defined herein) 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. See "Description of the Notes-Certain Covenants-Negative Pledge".

**Further Issues:**

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

**Governing Law:**

The Indenture, the Notes and the Deposit Agreements will be governed by, and construed in accordance with, the laws of the State of New York.

**Listing:**

Application has been made to list the International Notes on the Luxembourg Stock Exchange and to designate the Rule 144A Notes for trading on PORTAL in the United States. Application has been made to have the International GDSs issuable upon conversion of the Notes listed on the Luxembourg Stock Exchange.

**Trading Market for the Common Shares:**

The only trading market for the Common Shares is the Taiwan Stock Exchange. The Common Shares have been listed on the Taiwan Stock Exchange since December 31, 2001.

**(6) Others**

**1. The Company:**

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In order to enhance the financial structure of the financial holding group (the Group), the ROC Financial Holding Company Law and related regulations required that the ratio of the Group's net capital to the Group's legal capital not be lower than 100% (the ratio); otherwise, the authority is subject to discipline the Company. As of June 30, 2002, the ratio was 209.40%.

2. A subsidiary-Cathay Bank

A. Credit card strategic alliance agreement

To expand the Cathay Bank's credit card business, Cathay Bank entered into a strategic alliance agreement with Pacific SOGO Department Store Co. Ltd. (SOGO) to issue Cathay United Bank and Pacific SOGO affinity credit cards (affinity credit cards). The royalty cost is amortized over the estimated economic lives of four years and is calculated based on the amount of the affinity credit cards issued and the consumption amount. As of June 30, 2002, the unamortized royalty cost and other operation cost amounted to NT\$346,081 (US\$10,343), and NT\$43,189 (US\$1,291), respectively.

B. Account reclassification

In the beginning of the commercial bank transformation, the transformation business in deposits and loans of the Cathay Bank had not yet shown much growth. Considering the operating situation and comparative analysis, the Cathay Bank decided to consolidate unassigned trust fund assets and liabilities into one account, accounted for as its assets and liabilities in the prior financial statements. As of June 30, 2002, the Cathay Bank had reduced the trust fund to zero in accordance with its reduction plan, except for the employee pension trust fund approved by the MOF in October 2001 to be maintained and transferred to the Trust Department.

**18. Information for Investment in Mainland China: None**

**19. Segment Information**

According to the R.O.C. SFAS NO.23 "Interim Financial Reporting and Disclosures", the interim financial statements are not required to follow the principles outlined in the R.O.C. SFAS NO. 20 "Disclosures of Segment Financial Information".

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**20. The Subsidiaries' Concise Balance Sheets and Statements of Income**

(a) Concise balance sheets:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				TONG TAI INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.			
	June 30, 2002		June 30, 2001		June 30, 2002		June 30, 2001		June 30, 2002		June 30, 2001	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$487,232,406	\$14,561,638	\$494,034,729	\$14,328,153	\$7,059,107	\$210,973	\$6,451,925	\$187,122	\$45,945,320	\$1,373,142	\$29,536,033	\$856,613
Fixed assets	16,301,222	487,185	14,041,997	407,251	40,923	1,223	41,422	1,201	1,279,038	38,226	1,167,906	33,872
Other assets												
(Including												
intangible assets)	706,366,093	21,110,762	582,154,331	16,883,826	2,120,106	63,363	2,171,239	62,970	116,790,306	3,490,444	104,864,461	3,041,314
Current liabilities	7,806,965	233,322	7,139,984	207,076	781,980	23,371	660,105	19,144	151,376,910	4,524,115	124,011,643	3,596,626
Long-term												
liabilities	3,726	111	3,726	108	2,126	64	1,443	42	0	0	0	0
Other liabilities	1,131,945,251	33,829,804	1,002,681,326	29,080,085	5,822,283	174,008	5,407,114	156,819	206,209	6,163	171,702	4,980
Capital stocks	58,386,158	1,744,954	59,379,598	1,722,146	2,317,006	69,247	2,317,006	67,199	12,346,083	368,980	12,346,083	358,065
Capital surplus	3,048	91	128,489	3,726	0	0	724	21	0	0	88,315	2,561
Retained earnings	19,093,470	570,636	22,997,786	666,989	294,479	8,801	278,194	8,068	85,462	2,554	(1,049,343)	(30,433)
Equity adjustments	(5,034)	(150)	3,527	102	2,262	68	0	0	0	0	0	0
Treasury stocks	(7,333,863)	(219,183)	(2,103,379)	(61,003)	0	0	0	0	0	0	0	0
<b>Total assets</b>	<b>1,209,899,721</b>	<b>36,159,585</b>	<b>1,090,231,057</b>	<b>31,619,230</b>	<b>9,220,136</b>	<b>275,559</b>	<b>8,664,586</b>	<b>251,293</b>	<b>164,014,664</b>	<b>4,901,812</b>	<b>135,568,400</b>	<b>3,931,799</b>
<b>Total liabilities</b>	<b>1,139,755,942</b>	<b>34,063,237</b>	<b>1,009,825,036</b>	<b>29,287,269</b>	<b>6,606,389</b>	<b>197,443</b>	<b>6,068,662</b>	<b>176,005</b>	<b>151,583,119</b>	<b>4,530,278</b>	<b>124,183,345</b>	<b>3,601,606</b>
<b>Total</b>												
<b>stockholders'</b>												
<b>equity</b>	<b>70,143,779</b>	<b>2,096,348</b>	<b>80,406,021</b>	<b>2,331,961</b>	<b>2,613,747</b>	<b>78,116</b>	<b>2,595,924</b>	<b>75,288</b>	<b>12,431,545</b>	<b>371,534</b>	<b>11,385,055</b>	<b>330,193</b>

(b) Concise income statement:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				TONG TAI INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.			
	Jan. 1~June 30, 2002		Jan. 1~June 30, 2001		Jan. 1~June 30, 2002		Jan. 1~June 30, 2001		Jan. 1~June 30, 2002		Jan. 1~June 30, 2001	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$212,217,263	\$6,342,417	\$179,761,924	\$5,213,513	\$5,490,404	\$164,088	\$5,288,321	\$153,373	\$4,952,515	\$148,014	\$5,074,922	\$147,184
Operating costs & expenses	206,006,404	6,156,796	171,453,433	4,972,547	5,260,543	157,219	5,050,975	146,490	4,216,409	126,013	4,454,654	129,195
Operating income	6,210,859	185,621	8,308,491	240,966	229,861	6,869	237,346	6,883	736,106	22,001	620,268	17,988
Non-operating revenues	189,354	5,659	146,572	4,251	2,577	78	1,333	39	17,754	530	20,630	598
Non-operating expenses	3,510	105	51,787	1,502	225	6	274	8	3,170	95	615	18
Operating income before taxes	6,396,703	191,175	8,403,276	243,715	232,213	6,940	238,405	6,914	750,690	22,437	640,283	18,568
<b>Net income</b>	<b>5,711,319</b>	<b>170,691</b>	<b>6,905,473</b>	<b>200,275</b>	<b>156,454</b>	<b>4,676</b>	<b>172,640</b>	<b>5,007</b>	<b>583,107</b>	<b>17,429</b>	<b>625,563</b>	<b>18,141</b>
<b>Earning per share</b>												
<b>(in dollars)</b>	<b>1.01</b>	<b>0.03</b>	<b>1.17</b>	<b>0.03</b>	<b>0.68</b>	<b>0.02</b>	<b>0.75</b>	<b>0.02</b>	<b>0.47</b>	<b>0.01</b>	<b>0.51</b>	<b>0.02</b>



**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2002**

**21. Elimination Of Reciprocal Accounts**

According to the SFC regulations, the Consolidated Statements should disclose as follows:

Six months end June 30, 2002

Transactions	Account Item	Amount	
		NT\$	US\$
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Common stock	\$73,049,246	\$2,183,181
	Capital surplus	3,048	91
	Gain on long-term investments	5,399,700	161,378
	Cumulative transaction adjustments	6,686	200
	Net loss before acquisition of the subsidiaries	392,077	11,718
	Retained earnings	370,199	11,064
	Allowance for reduction of short-term investment to market	425,746	12,724
	Operating expenses	151,722	4,534
	Reduction of short-term investment to market	\$58,376	\$1,745
	Long-term investments in stocks	83,116,335	2,484,051
	Legal reserve	13,392,730	400,261
	Short-term investments	1,158,029	34,609
	Treasury stock	7,333,863	219,183
	Unrealized valuation losses on long-term equity investments	9,458	283
	Allowance for unrealized valuation losses on long-term equity investments	9,458	283

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As Of June 30, 2002 and 2001**

Transactions	Account Item	Amount	
		NT\$	US\$
	Interest income	141,262	4,222
	Interest expenses	141,262	4,222
	Premium income	118,946	3,555
	Insurance expenses	118,946	3,555
	Gain on investments-real estate	88,251	2,638
	Rent expense	88,251	2,638
	Guarantee deposits paid	41,714	1,247
	Guarantee deposits received	41,714	1,247
	Non-operating revenues	8,100	242
	Non-operating expenses	8,100	242