

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

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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BDO Taiwan Union & Co.
Certified Public Accountants

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Independent Auditors' Report

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

We have audited the accompanying balance sheet of Cathay Financial Holding Co., Ltd. as of June 30, 2002, and the related 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 for the six months ended June 30, 2002 of Cathay United Bank Co., Ltd., a wholly owned subsidiary. Total investment for the subsidiary is NT\$ 11,022 million which represent 9% of total assets as of June 30, 2002. Related investment loss is NT\$ 259 million which represent 5% of income before tax for the six months ended June 30, 2002. The 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 financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. as of June 30, 2002, and the results of its operations and its cash flows for the six months ended June 30, 2002 in conformity with generally accepted accounting principles in the Republic of China.

Cathay Financial Holding Co., Ltd. has prepared the consolidated financial statements as of June 30, 2002 accompany with unqualified opinion issued by our auditors furnished upon request.

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.
BALANCE SHEET
(Expressed in thousands of dollars)
As of June 30, 2002

	2002		%
	NT\$	US\$	
Assets			
Current assets			
Cash and cash equivalents (Notes 2, 5)	\$20,829,593	622,522	17.62
Short-term investments (Notes 2, 6)	13,405,187	400,633	11.34
Interest receivable	380,909	11,384	0.32
Prepayments	1,645	49	0.00
Sub-total	<u>34,617,334</u>	<u>1,034,588</u>	<u>29.28</u>
Long-term investments in stocks (Notes 2, 7)	83,106,878	2,483,768	70.31
Sub-total	<u>83,106,878</u>	<u>2,483,768</u>	<u>70.31</u>
Property and equipment (Note 2)			
<u>Funds, Long-term investments and Receivable</u>			
Other equipment	2,439	73	0.00
Less: Accumulated depreciation	(132)	(4)	0.00
Sub-total	<u>2,307</u>	<u>69</u>	<u>0.00</u>
Temporary payments and suspense accounts	9,307	278	0.01
Deferred charges	476,786	14,250	0.40
Sub-total	<u>486,093</u>	<u>14,528</u>	<u>0.41</u>
Other assets			
Total assets			
	<u>\$118,212,612</u>	<u>3,532,953</u>	<u>100.00</u>
Liabilities & Stockholders' Equity			
Collections for others	\$558	17	0.00
Dividends payable	\$8,908,431	266,241	7.54
Other payable	4,800	143	0.00
Current liabilities			
Sub-total	<u>8,913,789</u>	<u>266,401</u>	<u>7.54</u>
Long-term liabilities			
Bonds Payable (Notes 2, 8, 20)	24,593,831	735,022	20.80
Sub-total	<u>24,593,831</u>	<u>735,022</u>	<u>20.80</u>
Other liabilities			
Temporary receipts and suspense accounts	108	3	0.00
Sub-total	<u>108</u>	<u>3</u>	<u>0.00</u>
Total liabilities	<u>33,507,728</u>	<u>1,001,426</u>	<u>28.34</u>
Capital stocks:			
Common stock (Note 9)	60,958,728	1,821,839	51.57
Capital surplus			
Stockholders' equity			
Net assets from merger	26,526,202	792,774	22.44
Retained earnings (Note 11)			
Legal reserve	13,714	410	0.01
Unappropriated retained earnings	5,333,533	159,400	4.51
Equity adjustments (Notes 2, 7)			
Unrealized valuation losses on long-term equity investment	(9,458)	(283)	(0.01)
Cumulative translation adjustments	6,686	200	0.01
Treasury stock (Notes 2, 11, 12)	(8,124,521)	(242,813)	(6.87)
Total stockholders' equity	<u>84,704,884</u>	<u>2,531,527</u>	<u>71.66</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)

Total liabilities and stockholders' equity	<u>\$118,212,612</u>	<u>\$3,532,953</u>	<u>100.00</u>
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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.
STATEMENT OF INCOME
(Expressed in thousands of dollars, except earning per share)
For the six months ended June 30, 2002

	2002		%
	NT\$	US\$	
Operating revenues (Note 2)			
Interest income	\$85,045	\$2,541	1.52
Gain on disposal of investments	100,881	3,015	1.81
Investment income under the equity method-net	5,399,700	161,378	96.67
Sub-total	<u>5,585,626</u>	<u>166,934</u>	<u>100.00</u>
Operating costs (Note 2)			
Interest expenses	(93,831)	(2,804)	1.68
Loss on foreign exchange	(1,508)	(45)	0.03
Sub-total	<u>(95,339)</u>	<u>(2,849)</u>	<u>1.71</u>
Operation gross profit	<u>5,490,287</u>	<u>164,085</u>	<u>98.29</u>
Operation expenses			
Administrative and general expenses	(157,388)	(4,704)	2.82
Operating income	<u>5,332,899</u>	<u>159,381</u>	<u>95.47</u>
Non-operating revenues			
Miscellaneous income	8,100	242	0.15
Sub-total	<u>8,100</u>	<u>242</u>	<u>0.15</u>
Income from continuing operations before income taxes	5,340,999	159,623	95.62
Income taxes (Notes 2, 13)	(7,466)	(223)	0.13
Net income	<u>5,333,533</u>	<u>159,400</u>	<u>95.49</u>
Earnings per share (expressed in dollars) (Note 14)			
Before income tax earnings per share	<u>\$0.92</u>	<u>\$0.03</u>	
After income tax earnings per share	<u>\$0.92</u>	<u>\$0.03</u>	
Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock :			
Income from continuing operations before income taxes	\$5,282,623	\$157,879	
Net income	<u>\$5,275,157</u>	<u>\$157,656</u>	
Earnings per share (expressed in dollars) (Note 14)			
Before income tax earnings per share	<u>\$0.91</u>	<u>\$0.03</u>	
After income tax earnings per share	<u>\$0.91</u>	<u>\$0.03</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)

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(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)

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

Summary	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					
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1,2002	\$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 investments											(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 June30 , 2002							5,333,533	\$159,400							\$5,333,533	\$159,400
Balance on June 30, 2002	\$60,958,728	\$1,821,839	\$26,526,202	\$792,774	\$13,714	\$410	\$5,333,533	\$159,400	\$6,686	\$200	(\$9,458)	(\$283)	(\$8,124,521)	(\$242,813)	\$84,704,884	\$2,531,527

(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.
STATEMENTS OF CASH FLOWS
(Expressed in thousands of dollars)
For the six months ended June 30, 2002

	2002	
	NT\$	US\$
Cash flows from operating activities		
Net income	\$5,333,533	\$159,400
Adjustments:		
Depreciation	132	4
Amortizations	81,378	2,432
Unrealized loss (gain) on long-term investments	5,177,704	154,743
Decrease (increase) in short-term investments	(13,405,187)	(400,633)
Decrease (increase) in interest receivable	(380,909)	(11,384)
Decrease (increase) in prepayments	(1,645)	(49)
Decrease (increase) in temporary payments and suspense accounts	(9,306)	(278)
Increase (decrease) in collections for others	558	17
Increase (decrease) in dividends payable	8,908,431	266,241
Increase (decrease) in accrued expenses	(81,378)	(2,432)
Increase (decrease) in other payable	4,800	143
Increase (decrease) in temporary receipts and suspense accounts	108	3
Net cash provided by (used in) operating activities	<u>5,628,219</u>	<u>168,207</u>
Cash flows from investing activities		
Acquisition of property and equipment	(2,440)	(73)
Decrease (increase) in deferred charges	(476,786)	(14,249)
Net cash provided by (used in) investing activities	<u>(479,226)</u>	<u>(14,322)</u>
Increase (decrease) in bonds payable	24,593,831	735,022
Cash dividends	(8,908,419)	(266,241)
Remuneration paid to directors and supervisors and bonus paid to employees	(4,812)	(144)
Net cash provided by (used in) financing activities	<u>15,680,600</u>	<u>468,637</u>
Increase (decrease) in cash and cash equivalents	<u>20,829,593</u>	<u>622,522</u>
Cash and cash equivalents at the beginning of period	<u>0</u>	<u>0</u>
Cash and cash equivalents at the end of period	<u>\$20,829,593</u>	<u>\$622,522</u>
Supplemental disclosure of cash flows information		
Interest paid during the year	93,831	2,804
Less: Capitalization of interest	0	0
Interest paid (excluding capitalized interest)	<u>\$93,831</u>	<u>\$2,804</u>
Income tax paid	<u>\$7,466</u>	<u>\$223</u>
Acquisition of subsidiaries by stock conversion method	<u>\$14,238,168</u>	<u>\$425,528</u>
Shares of the parent company held by its subsidiaries are treated as treasury stocks	<u>\$790,658</u>	<u>\$23,630</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 financial statements.
(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)

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

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. (Tong Tai) and Cathay United Bank Co., Ltd. (Cathay Bank) 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) Cash and Cash Equivalents

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

(2) 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. 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 companies stock 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.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

(3) 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 account.

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

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

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.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

(4) 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.

(5) Deffered Charges

The expense was occurred by issuing Zero Coupon Convertible Notes.

(6) 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.
- 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 the accounts of capital stock and capital surplus, accordingly, no gain or loss is recognized upon conversion.

(7) Foreign-currency Transactions

A. Translations of Foreign Currency Transactions

Foreign-currency transactions should be accounted for a 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 any gains or losses resulting from the transaction are credited or charged to current income.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

B. Translation of Foreign Subsidiaries' Statements

Financial statements of foreign subsidiaries accounted for by the equity method are translated into New Taiwan Dollars as follows: All assets and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rate 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 result 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.

(8) Derivative Financial Products Transaction

Transactions on forward exchange contracts are translated into New Taiwan Dollars based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At 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.

(9) Income Taxes

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 carry-forwards and investment tax credits. The realization of deferred income tax assets is further assessed and a valuation allowance, if needed, is provided accordingly. Adjustment of prior year's income tax expense is recorded as current period income tax expense in the year of adjustment.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

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

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.

(10)Capital Expenditure Expenses

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

(11)Treasury Stock

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

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

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

As per Article 31 of Financial Holding Company Law, as the financial institution transformed into the Financial Holding Company, the company will adopt Article 24 to 28 in dealing with the adjustment of the organization and shareholding of its original investment. In the preceding paragraph as referred, the shareholder of the Financial Holding Company can transfer its shares to the employees of Financial Holding Company or those of its subsidiaries within three years; or treat its shares as the equity transferred in accordance with Paragraph 1, Item 2 of Article 28-2 of Securities and Exchange Law hereof; or sell its shares in Security Market or Stock Exchange Market which excluded from the restriction of Article 38. The Shares that are not transferred or unsold will be treated as the unissued shares of the Financial Holding Company and report the changes to government.

Treasury stock of subsidiary was converted into common stock of the Company on December 31 2001, the basis of conservative principle and the R.O.C. GAAP No.30, par value of these converted stocks is equal to that of the issued common stocks of the Company. These common stocks are under the guidance of the “Financial Holding Company Law” of the R.O.C. article 31 and the “Securities and Exchange Law” of the R.O.C. Article 28-2 and Article 38.

Effective from January 1, 2002, 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”, and the authorities under the requirements, it is not necessary to retroactively adjusting the financial statements for the prior years.

3. Pro Forma Comparative Financial Statements:

The company was incorporated on December 31, 2001 because of Cathay Life Insurance Co., Ltd. by conversion stock method. Tong Tai Insurance Co., Ltd. and Cathay United Bank Co., Ltd. use the same conversion stock method to join on April 22, 2002. According to R.O.C. Securities And Futures Commission (SFC) regulations, the company discloses Pro Forma comparative financial statements from January 1, 2001 as follows:

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

CATHAY FINANCIAL HOLDING CO., LTD.
PRO FORMA BALANCE SHEET
(Expressed in thousands of dollars)
As of June 30, 2002

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current Assets						
Cash and cash equivalents	\$20,829,593	\$622,523	17.60	\$0	\$0	0.00
Short-term investments	13,405,186	400,633	11.33	0	0	0.00
Interest receivable	380,909	11,384	0.33	0	0	0.00
Prepayments	1,645	49	0.00	0	0	0.00
Sub-total	34,617,333	1,034,589	29.26	0	0	0.00
Funds, Long-Term Investments and Receivable						
Long-term investments in stocks	83,213,475	2,486,954	70.33	94,387,000	2,737,442	100.00
Sub-total	83,213,475	2,486,954	70.33	94,387,000	2,737,442	100.00
Property and equipment						
Other equipment	2,439	73	0.00	0	0	0.00
Less: Accumulated depreciation	(132)	(4)	0.00	0	0	0.00
Sub-total	2,307	69	0.00	0	0	0.00
Other Assets						
Temporary payments and suspense accounts	9,307	278	0.01	0	0	0.00
Deferred Charges	476,786	14,249	0.40	0	0	0.00
Sub-total	486,093	14,527	0.41	0	0	0.00
Total Assets	\$118,319,208	\$3,536,139	100.00	\$94,387,000	\$2,737,442	100.00
Liabilities & Stockholders' Equity						
Current liabilities						
Collections for others	\$558	\$17	0.00	\$0	\$0	0.00
Dividends payable	8,908,431	266,241	7.52	0	0	0.00
Other payable	4,800	143	0.01	0	0	0.00
Sub-total	8,913,789	266,401	7.53	0	0	0.00
Long-term liabilities						
Bonds payable	24,593,831	735,022	20.78	0	0	0.00
Sub-total	24,593,831	735,022	20.78	0	0	0.00
Other liabilities						
Temporary receipts and suspense accounts	108	3	0.00	0	0	0.00
Sub-total	108	3	0.00	0	0	0.00
Total liabilities	33,507,728	1,001,426	28.31	0	0	0.00
Stockholders' equity						
Capital stocks:						
Common stock	60,958,728	1,821,839	51.52	56,558,911	1,640,340	59.92
Stock dividend to be distributed	0	0	0.00	5,393,258	156,417	5.72
Capital surplus						
Net assets from merger	15,046,537	449,688	12.72	26,831,007	778,161	28.43
Retained earnings						
Legal reserve	13,714	410	0.01	0	0	0.00
Unappropriated retained earnings	16,998,654	508,029	14.37	7,703,676	223,425	8.16
Equity adjustment						
Unrealized valuation losses on long-term equity investment	(9,458)	(283)	(0.01)	0	0	0.00
Cumulative translation adjustments	6,686	200	0.01	3,527	102	0.00
Treasury stock	(8,203,381)	(245,170)	(6.93)	(2,103,379)	(61,003)	(2.23)
Total stockholders' equity	84,811,480	2,534,713	71.69	94,387,000	2,737,442	100.00
Total liabilities and stockholders' equity	\$118,319,208	\$3,536,139	100.00	\$94,387,000	\$2,737,442	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2002 and 2001 were NT\$33.46 and NT\$34.48 to US\$1.00)

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

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June 30, 2002

CATHAY FINANCIAL HOLDING CO., LTD.
 PRO FORMA STATEMENT OF INCOME
 (Expressed in thousands of dollars)
 For the six months ended June 30, 2002

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Operating revenues						
Interest income	\$85,045	\$2,542	1.58	\$0	\$0	0.00
Gain on disposal of investments	100,881	3,015	1.88	0	0	0.00
Investment income under the equity method-net	5,193,079	155,202	96.54	7,703,676	223,424	100.00
Sub-total	<u>5,379,005</u>	<u>160,759</u>	<u>100</u>	<u>7,703,676</u>	<u>223,424</u>	<u>100.00</u>
Operating Cost						
Interest expenses	(93,831)	(2,804)	(1.74)	0	0	0.00
Lose on foreign exchange	(1,508)	(45)	(0.03)	0	0	0.00
Sub-total	<u>(95,339)</u>	<u>(2,849)</u>	<u>(1.77)</u>	<u>0</u>	<u>0</u>	<u>0.00</u>
Operation gross profit	<u>5,283,666</u>	<u>157,910</u>	<u>98.23</u>	<u>7,703,676</u>	<u>223,424</u>	<u>100.00</u>
Operation expenses						
Administrative and general expenses	(157,388)	(4,704)	(2.93)	0	0	0.00
Operating income	<u>5,126,278</u>	<u>153,206</u>	<u>95.30</u>	<u>7,703,676</u>	<u>223,424</u>	<u>100.00</u>
Non-operating revenues						
Miscellaneous income	8,100	242	0.15	0	0	0.00
Sub-total	<u>8,100</u>	<u>242</u>	<u>0.15</u>	<u>0</u>	<u>0</u>	<u>0.00</u>
Income from continuing operations before income taxes	<u>5,134,378</u>	<u>153,448</u>	<u>95.45</u>	<u>7,703,676</u>	<u>223,424</u>	<u>100.00</u>
Income taxes	(7,466)	(223)	(0.14)	0	0	0.00
Net income	<u>\$5,126,912</u>	<u>\$153,225</u>	<u>95.31</u>	<u>\$7,703,676</u>	<u>\$223,424</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2002 and 2001 were NT\$33.46 and NT\$34.48 to US\$1.00)

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

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June 30, 2002

4. Changes in Accounting and Its Effects: None

5. Cash and Cash Equivalents

	June 30,	
	2002(NT\$)	2002(US\$)
Petty cash	\$22	\$1
Cash in banks	99,365	2,969
Certificate deposits	1,400,000	41,841
Cash equivalents	19,330,206	577,711
Total	\$20,829,593	\$622,522

6. Short-Term Investments

	June 30,	
	2002(NT\$)	2002(US\$)
Government bonds	\$13,405,187	\$400,633

As of June 30, 2002, the Company didn't provide collateral or guarantee of government bonds on short-term investments.

7. Long-Term Investments

Name of Investee	June 30,	
	2002(NT\$) Book Value	2002(US\$) Book Value
Under the equity method:		
Cathay Life Insurance Co., Ltd.	\$69,642,986	\$2,081,380
Tong-Tai Insurance Co., Ltd.	2,444,456	73,056
Cathay United Bank Co., Ltd.	11,022,208	329,414
Sub-Total	83,109,650	2,483,850
Add (Less): Cumulative translation adjustments	6,686	200
Less: Unrealized valuation losses on long-term equity investments	(9,458)	(282)
Total	\$83,106,878	\$2,483,768

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

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

	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Balance at the beginning of year	\$74,839,844	\$2,236,696
Add (Less):		
Investment gains under equity method recognized	5,399,700	161,378
Add: Increment of investment by stock conversion method	14,238,168	425,528
Less: Parent's stocks that the subsidiaries held as investments were treated as treasury stocks	(790,659)	(23,630)
Less: Cash dividends received	(10,577,403)	(316,120)
Balance on June 30	\$83,109,650	\$2,483,850

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

	June 30,	
	2002(NT\$)	2002(US\$)
Cathay Life Insurance Co., Ltd.	\$5,578,269	\$166,715
Tong-Tai Insurance Co., Ltd.	80,733	2,413
Cathay United Bank Co., Ltd.	(259,302)	(7,750)
Total	\$5,399,700	\$161,378

A. The investment gains (loss) which were recognized based on the audited financial statements of the investee companies in the same current periods for the six months ended June 30, 2002.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

B. We did not audit the financial statements for six months ended June 30, 2002 of Cathay United Bank Co., Ltd., a subsidiary of Cathay Financial Holding Co., Ltd. (parent company) were audited by other auditors with qualified opinion which complied with the ROC Financial Institution Merger Law amortizing the losses of disposing of delinquent assets. On April 11, 2002, Cathay United Bank Co., Ltd. had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$ 1,894,609 (US\$56,623) thousand dollars. According to Article 15 of the ROC Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. As of June 30, 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$ 1,799,879 (US\$ 53,792) thousand dollars and should be recognized as current expenses. The investment gains (losses) of parent company accounted for under equity method of the losses were recognized as current expenses, provision for credit losses of its subsidiary (Cathay United Bank Co., Ltd.) increased by NT\$ 1,799,879 (US\$53,792) thousand dollars, the income before tax of its subsidiary decreased by NT\$ 1,799,879 (US\$53,792) thousand dollars, the income tax benefit from its subsidiary increased by NT\$ 449,970 (US\$ 13,448) thousand dollars and the net income after tax of the subsidiary decreased by NT\$ 1,349,909 (US\$40,334) thousand dollars for the six months ended June 30, 2002. The investment losses of parent company accounted for under equity method recognized increased by NT\$ 522,064 (US\$ 15,603) thousand dollars, the net asset from merger of additional paid-in capital decreased by NT\$ 827,845 (US\$ 24,741) thousand dollars for the six months ended June 30, 2002.

C. As of June 30, 2002, the over 50% holding investee of Cathay Financial Holding Co., Ltd. is Cathay Life Insurance Co., Ltd., Tong Tai Insurance Co., Ltd. and Cathay United Bank Co., Ltd., and the consolidated financial statements should prepared by the SFC regulation.

(3) As of June 30, 2002, the Company didn't provide collateral or guarantee on long-term investments.

8. 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

CATHAY FINANCIAL HOLDING CO., LTD.
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(Expressed in thousands of dollars unless otherwise stated)
June 30, 2002

Please see note 20, "Zero Coupon Notes Related Information" for details.

9. Common Stock

As of June 30, 2002, the numbers of issued shares were 6,095,872,818, with par value of 10 dollars.

The stockholder's meeting of the company resolved on June 27, 2002 declared cash dividends NT\$1.5 dollars each stock and bonus. From retained earning of NT\$137,135(US\$4,098) thousand dollars in 2001 and capital surplus of NT\$11,324,764 (US\$338,457) thousand dollars, which belongs to the subsidiary before conversion. The date of issuing cash dividends was on July 26, 2002.

10. Capital Surplus

- (1) 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) thousand dollars in June 30, 2002. Before converting, there are NT\$2,534,954(US\$75,761) thousand dollars is belong to the subsidiaries retained earnings.
- (2) The additional paid-in capital of par value through exchange of shares was generated from the transfer of the shares of subsidiaries to the Company. In compliance with was Item 4 of Article 47 of the Financial Holding Company Law, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.
- (3) 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 per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

11. Retained Earnings

- (1) Legal Reserve

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

June 30, 2002

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve only can be used 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 its stockholders.

(2) Unappropriated Retained Earnings

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 deficits, 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.

After converting, the subsidiary's treasury stock had treat as the Company's treasury stock and it doesn't carry any stockholder 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.

(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 cost of these shares can not be distributed 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.

CATHAY FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS
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June 30, 2002

12. Treasury Stock

(Unit: in thousands of shares)

Reason for Transfer	Jan. 1,			Jun. 30,			Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	2002	Increase	Decrease	2002	thousands of dollars)	thousands of dollars)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)	(in NT dollars)	(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						

13. Estimated Income Taxes

(1) Income tax expenses for the six months ended June 30, 2002 is estimated as follows:

	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Income before taxes	\$5,340,999	\$159,623
Adjustments:		
Exemption from income tax on securities trade gain	(100,881)	(3,015)
Interest income of tax on a separate basis	(37,329)	(1,115)
Investment income	(5,399,700)	(161,378)
Unrealized redemption premium expense	93,831	2,804
Others	44	1
Taxable income	(103,036)	(3,080)
Times: Taxes rate; Less: Progressive difference	25%-10	25%
Sub-Total	0	0
Add: Tax on a separate basis	7,466	223
Income taxes	\$7,466	\$223

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NOTES TO FINANCIAL STATEMENTS
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(2) Tax imputation related information:

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

(3) The undistributed retained earnings:

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

Undistributed retained earnings after 1998, the amount hadn't consist of the six months ended June 30,2002.

14. Earnings Per Share

	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Income before income taxes (a)	\$5,340,999	\$159,623
Net income after income taxes (b)	\$5,333,533	\$159,400
Year-end outstanding number of shares	6,095,872,818	182,183,886
Weighted average outstanding number of shares(c)	5,775,420,766	5,775,420,766
Before tax earnings per share (Dollars) (a) / (c)	\$0.92	\$0.03
After tax earnings per share (b)/(c) (Dollars)	\$0.92	\$0.03

CATHAY FINANCIAL HOLDING CO., LTD.

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June 30, 2002

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

(shares)	<u>June 30,</u> <u>2002(NT\$)</u>
Shares at the beginning of year	5,838,615,765
Add: Capital stock was issued by stock conversion method	99,491,678
Less: Treasury stock (Jan. 1, 2002~Jun. 30, 2002)	(156,927,000)
Treasury stock (Apr. 22, 2002~Jun. 30, 2002)	<u>(5,759,677)</u>
Total	<u><u>5,775,420,766</u></u>

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

	<u>For the six months ended June 30,</u>	
	<u>2002(NT\$)</u>	<u>2002(US\$)</u>
Income before income taxes	<u>\$5,282,623</u>	<u>\$157,879</u>
Net income after income taxes	<u>\$5,275,157</u>	<u>\$157,656</u>
Before income taxes earnings per share (expressed in dollars)	<u>\$0.91</u>	<u>\$0.03</u>
After income taxes earnings per shares (expressed in dollars)	<u>\$0.91</u>	<u>\$0.03</u>

15. Related Party Transactions

(1) Related parties

<u>Name</u>	<u>Relationship</u>
Cathay Life Insurance Co., Ltd.	Subsidiary of the Company
Tong Tai Insurance Co., Ltd.	Subsidiary of the Company
Cathay United Bank Co., Ltd.	Subsidiary of the Company

(2) Significant transactions with related parties:

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June 30, 2002

A. Real-Estate Rental Expense

Name	For the six months ended June 30,	
	2002(NT\$)	2002(US\$)
Cathay Life Insurance Co., Ltd.	\$3,908	\$117

B. Cash in Bank

Name	Item	For the six months ended June 30, 2002			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Certificate				
	Deposits	\$1,400,000	\$1,400,000	2.1% ~ 2.5%	\$3,174
	Cash In Bank	99,354	99,354	0.6% ~ 1.15%	255
			<u>\$1,499,354</u>		

Name	Item	For the six months ended June 30, 2002			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Certificate				
	Deposits	\$41,841	\$41,841	2.1% ~ 2.5%	\$95
	Cash In Bank	2,969	2,969	0.6% ~ 1.15%	8
			<u>\$44,810</u>		

16. Pledged Assets: None.

17. Other Important Matters and Contingent Liabilities: None.

18. Serious Damages: None

19. 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 thousands dollars.

CATHAY FINANCIAL HOLDING CO., LTD.

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- (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.

20. 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:

1. Credit and Market Risk

The Company entered into forward contract with financial institution, with good credit. Losses incurred from exchange rate fluctuations can be offset by forward hedging contracts.

2. 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.

3. Forward Contract

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

(2) 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.

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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

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June 30, 2002

4. Foreign Currency Options

As of June 30, 2002:

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

(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) 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.

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.

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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 Depository (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 Depository, as the case may be.

Repurchase at the Option of the Holder:

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

CATHAY FINANCIAL HOLDING CO., LTD.

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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".

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.

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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:

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.

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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.

(4) Material Contract: None.

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
Total assets	1,209,899,721	36,159,585	1,090,231,057	31,619,230	9,220,136	275,559	8,664,586	251,293	164,014,664	4,901,812	135,568,400	3,931,799
Total liabilities	1,139,755,942	34,063,237	1,009,825,036	29,287,269	6,606,389	197,443	6,068,662	176,005	151,583,119	4,530,278	124,183,345	3,601,606
Total stockholders' equity	70,143,779	2,096,348	80,406,021	2,331,961	2,613,747	78,116	2,595,924	75,288	12,431,545	371,534	11,385,055	330,193

(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
Net income	5,711,319	170,691	6,905,473	200,275	156,454	4,676	172,640	5,007	583,107	17,429	625,563	18,141
Earning per share (in dollars)	1.01	0.03	1.17	0.03	0.68	0.02	0.75	0.02	0.47	0.01	0.51	0.02