

**CATHAY FINANCIAL HOLDING CO., LTD.
FINANCIAL STATEMENTS
TOGETHER WITH
REVIEW REPORT
AS OF SEPTEMBER 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

INDEX TO FINANCIAL STATEMENTS

| | <u>Page</u> |
|---|-------------|
| Review Report | 2 |
| Balance Sheet as of September 30, 2002 | 3 |
| Statement of Income for the nine months ended September 30, 2002 | 4 |
| Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2002 | 5 |
| Statement of Cash Flows for the nine months ended September 30, 2002 | 6 |
| Notes to Financial Statements | 7-32 |



BDO Taiwan Union & Co.
Certified Public Accountants

Headquarters:

10, 11th Fl., No. 72 Sec. 2, Nan Jing E. Road Taipei,
Taiwan, R.O.C.

Telephone: 886-2-2564-3000 Fax: 886-2-2542-1158

Taichung Branch:

6th Fl., No. 306 Wen Hsin Road, Sec. 1, Taichung,
Taiwan, R.O.C.

Telephone: 886-4-329-1290 Fax: 886-4-320-2524

Kaohsiung Branch:

15th Fl., No. 260 Chung Shang 2nd Road, Kaohsiung,
Taiwan, R.O.C.

Telephone: 886-7-537-2589 Fax: 886-7-537-3589

Review Report

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

We have reviewed the accompanying balance sheet of Cathay Financial Holding Co., Ltd. as of September 30, 2002 and 2001, and the related statement of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our review.

We conducted our reviews in accordance with generally accepted auditing standards in the Republic of China. A review of interim financial information consists principally for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

BDO TAIWAN UNION & CO.

Taipei, Taiwan

The Republic of China

October 23, 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 review 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 September 30, 2002

| | | 2002 | | |
|--|-----------|----------------------|--------------------|---------------|
| | | NT\$ | US\$ | % |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents (Notes 2, 5) | | \$12,291,504 | 351,990 | 11.59 |
| Short-term investments (Notes 2, 6) | | 1,219,034 | 34,909 | 1.15 |
| Interest receivable | | 108,475 | 3,107 | 0.10 |
| Prepayments | | 2,336 | 67 | 0.00 |
| | Sub-total | <u>13,621,349</u> | <u>390,073</u> | <u>12.84</u> |
| Funds, Long-term investments and Receivable | | | | |
| Long-term investments in stocks (Notes 2, 7) | | 92,041,884 | 2,635,792 | 86.75 |
| | Sub-total | <u>92,041,884</u> | <u>2,635,792</u> | <u>86.75</u> |
| Property and equipment (Note 2) | | | | |
| Other equipment | | 2,648 | 76 | 0.00 |
| Less: Accumulated depreciation | | (237) | (7) | 0.00 |
| | Sub-total | <u>2,411</u> | <u>69</u> | <u>0.00</u> |
| Other assets | | | | |
| Temporary payments and suspense accounts | | 321 | 9 | 0.00 |
| Deferred charges | | 435,919 | 12,484 | 0.41 |
| | Sub-total | <u>436,240</u> | <u>12,493</u> | <u>0.41</u> |
| Total assets | | <u>\$106,101,884</u> | <u>3,038,427</u> | <u>100.00</u> |
| Liabilities & Stockholders' Equity | | | | |
| Current liabilities | | | | |
| Collections for others | | \$773 | 22 | 0.00 |
| Accrued expense | | 148,028 | 4,239 | 0.14 |
| Dividends payable | | 990 | 29 | 0.01 |
| | Sub-total | <u>149,791</u> | <u>4,290</u> | <u>0.15</u> |
| Long-term liabilities | | | | |
| Bonds Payable (Notes 2, 8, 20) | | 24,805,324 | 710,347 | 23.38 |
| | Sub-total | <u>24,805,324</u> | <u>710,347</u> | <u>23.38</u> |
| Other liabilities | | | | |
| Temporary receipts and suspense accounts | | 116 | 3 | 0.00 |
| | Sub-total | <u>116</u> | <u>3</u> | <u>0.00</u> |
| Total liabilities | | <u>24,955,231</u> | <u>714,640</u> | <u>23.53</u> |
| Stockholders' equity | | | | |
| Capital stock: | | | | |
| Common stock (Note 9) | | 60,958,728 | 1,745,668 | 57.45 |
| Capital surplus (Note 10) | | | | |
| Net assets from merger | | 26,526,202 | 759,628 | 25.00 |
| Retained earnings (Note 11) | | | | |
| Legal reserve | | 13,714 | 393 | 0.01 |
| Unappropriated retained earnings | | 6,461,877 | 185,048 | 6.09 |
| Equity adjustments (Notes 2, 7) | | | | |
| Unrealized valuation losses on long-term equity investment | | (9,458) | (271) | (0.01) |
| Cumulative translation adjustments | | 10,023 | 287 | 0.01 |
| Treasury stock (Notes 2, 11, 12) | | (12,814,433) | (366,966) | (12.08) |
| | Sub-total | <u>81,146,653</u> | <u>2,323,787</u> | <u>76.47</u> |
| Total liabilities and stockholders' equity | | <u>\$106,101,884</u> | <u>\$3,038,427</u> | <u>100.00</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 were NT\$34.92 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.
STATEMENT OF INCOME
(Expressed in thousands of dollars, except earning per share)
For the nine months ended September 30, 2002

| | 2002 | | |
|--|--------------------|----------------|---------------|
| | NT\$ | US\$ | % |
| Operating revenues (Note 2) | | | |
| Interest income | \$292,725 | \$8,382 | 4.16 |
| Gain on disposal of investments | 100,881 | 2,889 | 1.43 |
| Gain on long-term investments | 6,646,538 | 190,336 | 94.41 |
| Sub-total | <u>7,040,144</u> | <u>201,607</u> | <u>100.00</u> |
| Operating costs (Note 2) | | | |
| Interest expenses | (305,324) | (8,743) | (4.34) |
| Loss on foreign exchange | (6,034) | (173) | (0.09) |
| Sub-total | <u>(311,358)</u> | <u>(8,916)</u> | <u>(4.43)</u> |
| Operation gross profit | <u>6,728,786</u> | <u>192,691</u> | <u>95.57</u> |
| Operation expenses | | | |
| Administrative and general expenses | (244,154) | (6,991) | (3.47) |
| Operating income | <u>6,484,632</u> | <u>185,700</u> | <u>92.10</u> |
| Non-operating revenues | | | |
| Miscellaneous income | 8,100 | 232 | 0.12 |
| Sub-total | <u>8,100</u> | <u>232</u> | <u>0.12</u> |
| Income from continuing operations before income taxes | 6,492,732 | 185,932 | 92.22 |
| Income taxes (Notes 2, 13) | (30,855) | (884) | (0.44) |
| Net income | <u>6,461,877</u> | <u>185,048</u> | <u>91.78</u> |
| Earnings per share (expressed in dollars) (Note 14) | | | |
| Before income tax earnings per share | <u>\$1.12</u> | <u>\$0.03</u> | |
| After income tax earnings per share | <u>\$1.11</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 | <u>\$6,294,267</u> | <u>180,248</u> | |
| Net income | <u>\$6,263,412</u> | <u>179,365</u> | |
| Earnings per share (expressed in dollars) (Note 14) | | | |
| Before income tax earnings per share | <u>\$1.08</u> | <u>\$0.03</u> | |
| After income tax earnings per share | <u>\$1.07</u> | <u>\$0.03</u> | |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 were NT\$34.92 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.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Expressed in thousands of dollars)
For the nine months ended September 30, 2002

| Summary | Capital Stock | | Retained Earnings | | | | Equity Adjustments | | | | Treasury Stock | | Total | | | |
|---|---------------------|--------------------|---------------------|------------------|-----------------|--------------|----------------------------------|------------------|------------------------------------|--------------|---|----------------|-----------------------|--------------------|---------------------|--------------------|
| | Common Stock | | Capital Surplus | | Legal Reserve | | Unappropriated Retained Earnings | | Cumulative translation adjustments | | Unrealized valuation losses on long-term equity investments | | Total | | | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | | |
| Balance on January 1, 2002 | \$58,386,158 | \$1,671,998 | \$23,650,414 | \$677,274 | \$0 | \$0 | \$137,135 | \$3,927 | \$6,657 | \$191 | \$0 | \$0 | (\$7,333,863) | (\$210,019) | \$74,846,501 | \$2,143,371 |
| Appropriations and distributions for 2001 | | | | | | | | | | | | | | | | |
| Legal reserve | | | | | 13,714 | 393 | (13,714) | (393) | | | | | | | 0 | 0 |
| Cash dividends | | | (8,789,810) | (251,713) | | | (118,609) | (3,397) | | | | | | | (8,908,419) | (255,110) |
| Remuneration paid to directors and supervisors | | | | | | | (4,800) | (137) | | | | | | | (4,800) | (137) |
| Bonus paid to employees | | | | | | | (12) | 0 | | | | | | | (12) | 0 |
| Shares converted for issuing new shares | 2,572,570 | 73,670 | | | | | | | | | | | | | 2,572,570 | 73,670 |
| Net assets from merger | | | 11,665,598 | 334,067 | | | | | | | | | | | 11,665,598 | 334,067 |
| Cumulative translation adjustments | | | | | | | | | 3,366 | 96 | | | | | 3,366 | 96 |
| Unrealized valuation losses on long-term equity investments | | | | | | | | | | | (9,458) | (271) | | | (9,458) | (271) |
| Treasury stock | | | | | | | | | | | | | (5,480,570) | (156,947) | (5,480,570) | (156,947) |
| Net income after tax for the nine months ended September 30, 2002 | | | | | | | 6,461,877 | 185,048 | | | | | | | 6,461,877 | 185,048 |
| Balance on September 30, 2002 | \$60,958,728 | \$1,745,668 | \$26,526,202 | \$759,628 | \$13,714 | \$393 | \$6,461,877 | \$185,048 | \$10,023 | \$287 | (\$9,458) | (\$271) | (\$12,814,433) | (\$366,966) | \$81,146,653 | \$2,323,787 |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 were NT\$34.92 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.
STATEMENT OF CASH FLOWS
(Expressed in thousands of dollars)
For the nine months ended September 30, 2002

| | 2002 | |
|---|---------------------|------------------|
| | NT\$ | US\$ |
| Cash flows from operating activities | | |
| Net income | \$6,461,877 | \$185,048 |
| Adjustments: | | |
| Amortizations | 81,378 | 2,330 |
| Depreciation | 237 | 7 |
| Cash dividends received in excess of unrealized gain on long-term investments | 3,930,866 | 112,568 |
| Decrease (increase) in short-term investments | (1,219,034) | (34,909) |
| Decrease (increase) in interest receivable | (108,475) | (3,106) |
| Decrease (increase) in prepayments | (2,336) | (67) |
| Decrease (increase) in temporary payments and suspense accounts | (321) | (9) |
| Increase (decrease) in bonds payable redemption premium | 305,324 | 8,744 |
| Increase (decrease) in collections for others | 773 | 22 |
| Increase (decrease) in dividends payable | 990 | 29 |
| Increase (decrease) in accrued expenses | 66,650 | 1,908 |
| Increase (decrease) in temporary receipts and suspense accounts | 116 | 3 |
| Net cash provided by (used in) operating activities | <u>9,518,045</u> | <u>272,567</u> |
| Cash flows from investing activities | | |
| Acquisition of long-term investments in stocks | (15,690,915) | (449,339) |
| Subsidiaries decrease capital | 7,700,000 | 220,504 |
| Acquisition of property and equipment | (2,648) | (76) |
| Decrease (increase) in deferred charges | (435,919) | (12,483) |
| Net cash provided by (used in) investing activities | <u>(8,429,482)</u> | <u>(241,394)</u> |
| Increase (decrease) in bonds payable | 24,500,000 | 701,603 |
| Cash dividends | (8,908,419) | (255,109) |
| Remuneration paid to directors and supervisors and bonus paid to employees | (4,812) | (138) |
| Acquisition of treasury stock | (4,383,828) | (125,539) |
| Net cash provided by (used in) financing activities | <u>11,202,941</u> | <u>320,817</u> |
| Increase (decrease) in cash and cash equivalents | <u>12,291,504</u> | <u>351,990</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>\$12,291,504</u> | <u>351,990</u> |
| Supplemental disclosure of cash flows information | | |
| Income tax paid | <u>\$30,855</u> | <u>\$884</u> |
| Acquisition of subsidiaries by stock conversion method | <u>\$14,238,168</u> | <u>\$407,737</u> |
| Shares of the holding company held by its subsidiaries are treated as treasury stocks | <u>\$1,096,742</u> | <u>\$31,407</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 were NT\$34.92 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)
As of September 30, 2002

1. Organization of Business Scope

Cathay Financial Holding Co., Ltd. (the "Company") was incorporated in Taiwan on December 31, 2001, 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 (Cathay Life) stock conversion method. On April 22, 2002, Cathay Century Insurance Co., Ltd. (Cathay Century) and Cathay United Bank Co., Ltd. (Cathay Bank) become two subsidiaries of the Company by stock conversion method. On September 26, 2002, the Company and the subsidiaries held stocks of United World Chinese Commercial Bank Co., Ltd. (UWCCB) which reached 25% stocks of the bank. According to the Financial Holding Company Law of the R.O.C., UWCCB is a subsidiary under the control of the Company. 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 a maturity of less than three months.

(2) Short-term Investments

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.

(3) 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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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.

(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) Deferred 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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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

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.

(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.

Premium for an options contract is recorded at cost. Premium for the purpose of hedging is accounted for as an asset and amortized over the contract period, and is adjusted by market value as of the balance sheet date. Any gain or loss from hedging the exposed asset or liability position is recognized as a current period gain or loss.

Gains or losses arising from hedging an identifiable commitment are deferred and recognized as an adjustment of the transaction price on the transaction date. Any gain or loss resulting from the premium for the purpose of speculation is included in the current

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

earnings.

(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.

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 the 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.

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

(10) 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.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

(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.

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.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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.

(12) Convenience Translation Into US Dollars

The financial statements are stated in New Taiwan dollars. Translation of the September 30, 2002 and 2001 New Taiwan dollar amounts into US dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001, of NT\$34.92 and NT\$34.56 to US\$1.00. 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.

3. Pro Forma Comparative Financial Statements:

The company was incorporated on December 31, 2001 transferring the shares of Cathay Life Insurance Co., Ltd. through conversion stock method. Cathay Century and Cathay Bank adopted the same conversion stock method to join the Company on April 22, 2002. On September 26, 2002, the Company and its subsidiary held stocks of UWCCB which reached the holding definition of the Financial Holding Company Law of the R.O.C. Therefore, according to R.O.C. Securities And Futures Commission (SFC) regulations, the company discloses its Pro Forma comparative financial statements starting from January 1, 2001 as follows:

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

CATHAY FINANCIAL HOLDING CO., LTD.

PRO FORMA BALANCE SHEETS

(Expressed in thousands of dollars)

As of September 30, 2002 and 2001

| | 2002 | | | 2001 | | |
|--|----------------------|--------------------|---------------|----------------------|--------------------|---------------|
| | NT\$ | US\$ | % | NT\$ | US\$ | % |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | \$12,291,504 | \$351,990 | 9.38 | \$0 | \$0 | 0.00 |
| Short-term investments | 1,219,034 | 34,909 | 0.93 | 0 | 0 | 0.00 |
| Interest receivable | 108,475 | 3,107 | 0.09 | 0 | 0 | 0.00 |
| Prepayments | 2,336 | 67 | 0.00 | 0 | 0 | 0.00 |
| Sub-total | 13,621,349 | 390,073 | 10.40 | 0 | 0 | 0.00 |
| Funds, Long-Term Investments and Receivable | | | | | | |
| Long-term investments in stocks | 116,949,984 | 3,349,083 | 89.27 | 148,725,857 | 4,303,410 | 100.00 |
| Sub-total | 116,949,984 | 3,349,083 | 89.27 | 148,725,857 | 4,303,410 | 100.00 |
| Property and equipment | | | | | | |
| Other equipment | 2,648 | 76 | 0.00 | 0 | 0 | 0.00 |
| Less: Accumulated depreciation | (237) | (7) | 0.00 | 0 | 0 | 0.00 |
| Sub-total | 2,411 | 69 | 0.00 | 0 | 0 | 0.00 |
| Other Assets | | | | | | |
| Temporary payments and suspense accounts | 321 | 9 | 0.00 | 0 | 0 | 0.00 |
| Deferred Charges | 435,919 | 12,484 | 0.33 | 0 | 0 | 0.00 |
| Sub-total | 436,240 | 12,493 | 0.33 | 0 | 0 | 0.00 |
| Total Assets | 131,009,984 | 3,751,718 | 100.00 | 148,725,857 | 4,303,410 | 100.00 |
| Liabilities & Stockholders' Equity | | | | | | |
| Current liabilities | | | | | | |
| Collections for others | \$773 | \$22 | 0.00 | \$0 | \$0 | 0.00 |
| Accrued expense | 148,028 | 4,239 | 0.11 | 0 | 0 | 0.00 |
| Dividends payable | 990 | 29 | 0.00 | 0 | 0 | 0.00 |
| Sub-total | 149,791 | 4,290 | 0.11 | 0 | 0 | 0.00 |
| Long-term liabilities | | | | | | |
| Bonds payable | 24,805,324 | 710,347 | 18.94 | 0 | 0 | 0.00 |
| Sub-total | 24,805,324 | 710,347 | 18.94 | 0 | 0 | 0.00 |
| Other liabilities | | | | | | |
| Temporary receipts and suspense accounts | 116 | 3 | 0.00 | 0 | 0 | 0.00 |
| Sub-total | 116 | 3 | 0.00 | 0 | 0 | 0.00 |
| Total liabilities | 24,955,231 | 714,640 | 19.05 | 0 | 0 | 0.00 |
| Stockholders' equity | | | | | | |
| Capital stocks | | | | | | |
| Common stock | 84,531,631 | 2,420,723 | 64.52 | 77,525,597 | 2,243,218 | 52.12 |
| Stock dividend to be distributed | 0 | 0 | 0.00 | 5,393,258 | 156,055 | 3.63 |
| Capital surplus | | | | | | |
| Net assets from merger | 50,143,523 | 1,435,954 | 38.28 | 63,771,615 | 1,845,243 | 42.88 |
| Retained earnings | | | | | | |
| Legal reserve | 13,714 | 393 | 0.01 | 0 | 0 | 0.00 |
| Unappropriated retained earnings | 11,962,562 | 342,571 | 9.13 | 3,549,073 | 102,693 | 2.39 |
| Equity adjustment | | | | | | |
| Unrealized valuation losses on long-term equity investment | (68,667) | (1,967) | (0.05) | (121,986) | (3,530) | (0.08) |
| Cumulative translation adjustments | 201,664 | 5,775 | 0.15 | 180,723 | 5,229 | 0.12 |
| Treasury stock | (40,729,674) | (1,166,371) | (31.09) | (1,572,423) | (45,498) | (1.06) |
| Total stockholders' equity | 106,054,753 | 3,037,078 | 80.95 | 148,725,857 | 4,303,410 | 100.00 |
| Total liabilities and stockholders' equity | \$131,009,984 | \$3,751,718 | 100.00 | \$148,725,857 | \$4,303,410 | 100.00 |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$34.92 and NT\$34.56 to US\$1.00)

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

CATHAY FINANCIAL HOLDING CO., LTD.

PRO FORMA STATEMENT OF INCOME

(Expressed in thousands of dollars)

For the nine months ended September 30, 2002 and 2001

| | 2002 | | 2,001 | |
|--|---------------|-------------|-------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Operating revenues | | | | |
| Interest income | \$292,725 | \$8,382 | \$0 | \$0 |
| Gain on disposal of investments | 100,881 | 2,889 | 0 | 0 |
| Investment income under the equity method-net | (3,650,594) | (104,541) | 3,549,073 | 102,693 |
| Sub-total | (3,256,988) | (93,270) | 3,549,073 | 102,693 |
| Operating Cost | | | | |
| Interest expenses | (305,324) | (8,744) | 0 | 0 |
| Loss on foreign exchange | (6,034) | (172) | 0 | 0 |
| Sub-total | (311,358) | (8,916) | 0 | 0 |
| Operation gross profit | (3,568,346) | (102,186) | 3,549,073 | 102,693 |
| Operation expenses | | | | |
| Administrative and general expenses | (244,154) | (6,992) | 0 | 0 |
| Operating income | (3,812,500) | (109,178) | 3,549,073 | 102,693 |
| Non-operating revenues | | | | |
| Miscellaneous income | 8,100 | 232 | 0 | 0 |
| Sub-total | 8,100 | 232 | 0 | 0 |
| Income from continuing operations before income taxes | (3,804,400) | (108,946) | 3,549,073 | 102,693 |
| Income taxes | (30,855) | (884) | 0 | 0 |
| Net income | (\$3,835,255) | (\$109,830) | \$3,549,073 | \$102,693 |

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$34.92 and NT\$34.56 to US\$1.00)

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

4. Changes in Accounting and Its Effects: None

5. Cash and Cash Equivalents

| | September 30, | |
|----------------------|---------------|------------|
| | 2002(NT\$) | 2002(US\$) |
| Petty cash | \$20 | \$1 |
| Cash in banks | 2,279 | 65 |
| Certificate deposits | 1,400,000 | 40,091 |
| Cash equivalents | 10,889,205 | 311,833 |
| Total | \$12,291,504 | \$351,990 |

6. Short-Term Investments

| | September 30, | |
|------------------|---------------|------------|
| | 2002(NT\$) | 2002(US\$) |
| Government bonds | \$1,219,034 | \$34,909 |

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

7. Long-Term Investments in stocks

| Name of Investee | September 30, | |
|---|--------------------------|--------------------------|
| | 2002(NT\$) Book Value | 2002(US\$) Book Value |
| Under the equity method: | | |
| Cathay Life Insurance Co., Ltd. | \$62,786,919 | \$1,798,022 |
| Cathay Century Insurance Co., Ltd. | 2,482,016 | 71,077 |
| Cathay United Bank Co., Ltd. | 11,394,448 | 326,301 |
| United World Chinese Commercial Bank Co., Ltd. | 15,377,936 | 440,376 |
| Sub-Total | 92,041,319 | 2,635,776 |
| Add (Less): Cumulative translation adjustments | 10,023 | 287 |
| Less: Unrealized valuation losses on long-term equity investments | (9,458) | (271) |
| Total | \$92,041,884 | \$2,635,792 |

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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

| | For the nine months ended September 30, | |
|--|---|-------------|
| | 2002(NT\$) | 2002(US\$) |
| Balance at the beginning of year | \$74,839,844 | \$2,143,180 |
| Add (Less): | | |
| Investment gains under equity method recognized | 6,646,538 | 190,336 |
| Add: Increment of investment by stock conversion method | 14,238,168 | 407,736 |
| Add: Increment of investment | 15,690,915 | 449,339 |
| Less: Holding company stocks that the subsidiaries held as investments were treated as treasury stocks | (1,096,742) | (31,407) |
| Less: Cash dividends received | (10,577,404) | (302,904) |
| Less: Disinvestments of the subsidiaries | (7,700,000) | (220,504) |
| Balance on September 30 | \$92,041,319 | \$2,635,776 |

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

| | September 30, | |
|--|---------------|------------|
| | 2002(NT\$) | 2002(US\$) |
| Cathay Life Insurance Co., Ltd. | \$6,422,202 | \$183,912 |
| Cathay Century Insurance Co., Ltd. | 118,293 | 3,388 |
| Cathay United Bank Co., Ltd. | 112,938 | 3,234 |
| United World Chinese Commercial Bank Co., Ltd. | (6,895) | (198) |
| Total | \$6,646,538 | \$190,336 |

A. The Company, in the third quarter of year 2002, issued the report of the subsidiary Cathay Life Insurance Co., Ltd. reviewed by CPA with qualified opinions due to the potential adjustments, except for the long-term investments in the amount of NT\$689,358(US\$19,741) under the equity method, cumulative translation adjustment in the amount of NT\$6,535(US\$182) and investment losses in the amount of 5,656(US\$162) which were in accordance with unreviewed report of its investee companies. However, as the Company considered there is no significant effect on the

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

potential adjustments, it recognized its income/ loss on investments in accordance with the financial statements of Cathay Life Insurance Co., Ltd. previously reviewed by CPA.

- B. Cathay Century Insurance Co., Ltd., the subsidiary of the Company, in the third quarter of year 2002, recognized its income/ loss on investments in accordance with the financial statement that previously reviewed by CPA.
- C. We did not audit the financial statements for nine months ended September 30, 2002 of Cathay United Bank Co., Ltd., a subsidiary of Cathay Financial Holding Co., Ltd. (holding company) were reviewed by other auditors with unreviewed report which complied with the R.O.C. 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\$54,256). According to Article 15 of the R.O.C. Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. As of September 30, 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$ 1,705,148 (US\$ 48,830) 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\$ 1,705,148 (US\$48,830), the income before tax of its subsidiary decreased by NT\$ 1,705,148 (US\$48,830), the income tax benefit from its subsidiary increased by NT\$ 426,287 (US\$ 12,208) and the net income after tax of the subsidiary decreased by NT\$ 1,278,861 (US\$36,623) for the nine months ended September 30, 2002. The investment losses of parent company accounted for under equity method recognized increased by NT\$ 451,016 (US\$ 12,916), the net asset from merger of additional paid-in capital decreased by NT\$ 827,845 (US\$ 23,707) for the nine months ended September 30, 2002.
- D. We did not audit the financial statements for the nine months ended September 30, 2002 of UWCCB, a subsidiary of Cathay Financial Holding Co., Ltd. reviewed by other CPAs with qualified opinions due to the potential adjustments, except for the long-term investments in the amount of NT\$6,260,563(US\$179,283) under the equity method, and investment losses in the amount of 146,383(US\$4,192) which

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

were in accordance with unreviewed report of its investee companies. However, as the Company evaluated there is no significant influence on the potential adjustments, it recognized its income/ loss on investments in accordance with the financial statements of UWCCB previously reviewed by CPAs.

8. Long-Term Liabilities

| | September 30, | |
|-------------------------------|---------------|------------|
| | 2002(NT\$) | 2002(US\$) |
| Zero Coupon Convertible Notes | \$24,500,000 | \$701,603 |
| Redemption premium payable | 305,324 | 8,744 |
| Total | \$24,805,324 | \$710,347 |

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

9. Common Stock

As of September 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\$3,927) in 2001 and capital surplus of NT\$11,324,764 (US\$324,306), 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\$759,628) in September 30, 2002. Before converting, there are NT\$2,534,954(US\$72,593) 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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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 R.O.C. 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

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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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 cannot be distributed as special reserve.
- (6) Dividends Policy
- (7) 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.

12. Treasury Stock

(Unit: in thousands of shares)

| Reason for Transfer | Jan. 1, 2002 | | | Sep. 30, 2002 | | | 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) | Market Value (in NT dollars) | Market Value (in US dollars) |
| Transferred it to employees | 0 | 4,758 | 0 | 4,758 | \$186,364 | \$5,337 | \$39.91 | \$1.14 | \$39.91 | \$1.14 | | |
| For the purpose to conserve the credit and stockholders' equity of Cathay Financial Holding Co., Ltd. | 0 | 95,674 | 0 | 95,674 | 4,197,464 | 120,203 | 43.87 | 1.26 | 39.91 | 1.14 | | |
| Subsidiaries translated it to employees | 156,927 | 0 | 0 | 156,927 | 7,333,863 | 210,019 | 46.73 | 1.34 | 39.91 | 1.14 | | |
| Parent's stock that the subsidiaries held were treated as treasury stock | 0 | 22,492 | 0 | 22,492 | 1,096,742 | 31,407 | 48.76 | 1.40 | 39.91 | 1.14 | | |
| Total | 156,927 | 122,924 | 0 | 279,851 | \$12,814,433 | \$366,966 | | | | | | |

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

13. Estimated Income Taxes

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

| | For the nine months ended September 30, | |
|--|---|------------|
| | 2002(NT\$) | 2002(US\$) |
| Income before taxes | \$6,492,732 | \$185,932 |
| Adjustments: | | |
| Exemption from income tax on securities trade gain | (100,881) | (2,889) |
| Interest income of tax on a separate basis | (154,276) | (4,418) |
| Investment gains recognized by equity method | (6,646,538) | (190,336) |
| Unrealized redemption premium | 305,324 | 8,743 |
| Taxable income | (103,639) | (2,968) |
| Times: Taxes rate; Less: Progressive difference | 25%-10 | 25% |
| Sub-Total | 0 | 0 |
| Add: Tax on a separate basis | 30,855 | 884 |
| Income taxes | \$30,855 | \$ 884 |

(2) Information related tax imputation:

| | September 30, | |
|--------------------------------------|---------------|------------|
| | 2002(NT\$) | 2002(US\$) |
| Balance of imputation credit account | \$541,034 | \$15,494 |
| Imputation credit account ratio | 30.60% | |

(3) Information relating of undistributed earnings:

| Year | September 30, | |
|------------|---------------|------------|
| | 2002(NT\$) | 2002(US\$) |
| After 1998 | \$0 | \$0 |

Net in come after tax for the nine months ended September 30, 2002 was not included in unappropriated earnings computed since 1998.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

14. Earnings Per Share

| | For the nine months ended September 30, | |
|---|---|---------------|
| | 2002(NT\$) | 2002(US\$) |
| Income before income taxes (a) | \$6,492,732 | \$185,932 |
| Net income after income taxes (b) | \$6,461,877 | \$185,048 |
| Year-end outstanding number of shares | 6,095,872,818 | 6,095,872,818 |
| Weighted average outstanding number of shares(c) | 5,810,440,042 | 5,810,440,042 |
| Before tax earnings per share (Dollars) (a) / (c) | \$1.12 | \$0.03 |
| After tax earnings per share (b)/(c) (Dollars) | \$1.11 | \$0.03 |

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

| (shares) | September 30, 2002 |
|--|-----------------------|
| Shares at the beginning of year | 5,838,615,765 |
| Add: Capital stock was issued by stock conversion method | 152,658,032 |
| Less: Treasury stock (Jan. 1, 2002~Sep. 30, 2002) | (171,857,038) |
| Treasury stock (Apr. 22, 2002~Sep. 30, 2002) | (8,976,717) |
| Total | 5,810,440,042 |

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

| | For the nine months ended September 30, | |
|---|---|------------|
| | 2002(NT\$) | 2002(US\$) |
| Income before income taxes | \$6,294,267 | \$180,248 |
| Net income after income taxes | \$6,263,412 | \$179,365 |
| Before income taxes earnings per share (expressed in dollars) | \$1.08 | \$0.03 |
| After income taxes earnings per shares (expressed in dollars) | \$1.07 | \$0.03 |

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

15. Related Party Transactions

(1) *Related parties*

| Name | Relationship |
|---------------------------------|---------------------------|
| Cathay Life Insurance Co., Ltd. | Subsidiary of the Company |
| Cathay United Bank Co., Ltd. | Subsidiary of the Company |

(2) *Significant transactions with related parties:*

A. Real-Estate Rental Expense

| Name | For the nine months ended September 30, | |
|---------------------------------|---|------------|
| | 2002(NT\$) | 2002(US\$) |
| Cathay Life Insurance Co., Ltd. | \$6,155 | \$176 |

According to the contracts, terms of lease from the third party generally expire in 1 year; rents are paid monthly.

B. Cash in Bank

| | | For the nine months ended September 30, 2002 | | | |
|--------------------|--------------|--|--------------------------|--------------|---------------------------|
| Name | Item | Maximum Amount (NT\$) | Ending Balance (NT\$) | Rate | Interest Income (NT\$) |
| Cathay United Bank | Certificate | | | | |
| | Deposits | \$1,400,000 | \$1,400,000 | 1.9% ~ 2.5% | \$18,798 |
| | Cash In Bank | 6,776,150 | 2,252 | 0.5% ~ 1.15% | - |
| | | | \$1,402,252 | | |

| | | For the nine months ended September 30, 2002 | | | |
|--------------------|--------------|--|--------------------------|--------------|---------------------------|
| Name | Item | Maximum Amount (US\$) | Ending Balance (US\$) | Rate | Interest Income (US\$) |
| Cathay United Bank | Certificate | | | | |
| | Deposits | \$40,092 | \$40,092 | 1.9% ~ 2.5% | \$538 |
| | Cash In Bank | 194,048 | 64 | 0.5% ~ 1.15% | - |
| | | | \$40,156 | | |

16. Pledged Assets: None.

17. Other Important Matters and Contingent Liabilities: None.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

18. Serious Damages: None

19. Subsequent Events

- (1) On Oct 14, 2002, the Company's shareholders meeting resolved to exchange the shares of UWCCB. The common stock exchange ratios between the Company and UWCCB were 1:1.6. On October 14, 2002, UWCCB issued new shares in the amount of 199,898,216. According to stock converted contracts, the common stock exchange ratios between the Company and UWCCB were 1:1.6848, after being calculated and adjusted.
- (2) On October 9, 2002, the Company's Board meeting resolved to employ Mr. Tung Cheng-Cheng as managing director. The resolution was not valid until deliberated by the department of the Treasury.

20. Other Significant Events

(1) Financial Instruments Related Information

(a) Derivative Financial Instruments:

1. Credit and Market Risk

The Company entered into forward contracts 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.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

- (2) As of September 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 September 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.

4. Foreign Currency Options

As of September 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 September 30, 2002, is the same as the estimated fair market value.

(2) Zero Coupon Convertible Notes Related Information:

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

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.

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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 aggregate principal amount of Notes, solely to cover over-allotments, if any, please refer to "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 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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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".

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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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:

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

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

substantially 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.

(3) Material Contract: None.

18. Information for Investment in Mainland China: None

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

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”.

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

As of September 30, 2002

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

(a) Concise balance sheets:

| Items/Period | CATHAY LIFE INSURANCE CO., LTD. | | | | CATHAY CENTURY INSURANCE CO., LTD. | | | | CATHAY UNITED BANK CO., LTD | | | | UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD. | | | |
|--|---------------------------------|-------------------|----------------------|-------------------|------------------------------------|----------------|--------------------|----------------|-----------------------------|------------------|--------------------|------------------|--|-------------------|--------------------|-------------------|
| | September 30, 2002 | | September 30, 2001 | | September 30, 2002 | | September 30, 2001 | | September 30, 2002 | | September 30, 2001 | | September 30, 2002 | | September 30, 2001 | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | \$481,364,565 | \$13,784,781 | \$456,861,581 | \$13,219,374 | \$7,283,027 | \$208,563 | \$6,517,603 | \$188,588 | \$47,796,244 | \$1,368,736 | \$32,856,473 | \$950,708 | \$225,816,706 | \$6,466,687 | \$201,127,375 | \$5,819,658 |
| Exchange bills | | | | | | | | | | | | | | | | |
| negotiated, discounted and loans | 492,170,967 | 14,094,243 | 481,117,621 | 13,921,228 | 1,046,561 | 29,970 | 1,148,770 | 33,240 | 106,637,105 | 3,053,754 | 102,134,336 | 2,955,276 | 393,778,417 | 11,276,587 | 415,789,460 | 12,030,945 |
| Funds and Long-term investments | 239,556,902 | 6,860,163 | 138,275,384 | 4,001,024 | 760,004 | 21,764 | 926,979 | 26,822 | 454,986 | 13,029 | 2,492,316 | 72,115 | 12,543,271 | 359,200 | 12,130,608 | 351,001 |
| Property and equipment | 15,723,313 | 450,267 | 14,137,840 | 409,081 | 39,419 | 1,129 | 38,533 | 1,115 | 1,351,541 | 38,704 | 1,197,434 | 34,648 | 23,034,407 | 659,634 | 22,904,350 | 662,742 |
| Other assets (Including intangible assets) | 8,575,358 | 245,572 | 8,876,887 | 256,854 | 94,526 | 2,707 | 81,951 | 2,371 | 11,626,261 | 332,940 | 9,182,615 | 265,701 | 4,886,790 | 139,942 | 3,831,845 | 110,875 |
| Current liabilities | 10,241,073 | 293,272 | 6,130,074 | 177,375 | 665,512 | 19,058 | 622,528 | 18,013 | 156,225,071 | 4,473,799 | 136,180,091 | 3,940,396 | 606,239,547 | 17,360,812 | 590,653,300 | 17,090,663 |
| Long-term liabilities | 3,726 | 107 | 3,726 | 108 | 2,126 | 61 | 1,443 | 42 | 0 | 0 | 0 | 0 | 34,119 | 977 | 0 | 0 |
| Other liabilities | 1,163,951,138 | 33,331,934 | 1,022,906,580 | 29,597,991 | 5,936,048 | 169,990 | 5,518,115 | 159,667 | 198,381 | 5,681 | 137,248 | 3,971 | 1,272,960 | 36,453 | 750,998 | 21,730 |
| Capital stocks | 50,686,158 | 1,451,494 | 58,986,158 | 1,706,775 | 2,317,006 | 66,352 | 2,317,006 | 67,043 | 12,346,083 | 353,553 | 12,346,083 | 357,236 | 37,716,644 | 1,080,087 | 37,716,644 | 1,091,338 |
| Common stock dividends to be distributed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,998,982 | 57,245 | 0 | 0 |
| Capital surplus | 3,048 | 87 | 129,078 | 3,735 | 0 | 0 | 724 | 21 | 0 | 0 | 88,315 | 2,556 | 5,102,231 | 146,112 | 5,871,526 | 169,894 |
| Retained earnings | 19,842,142 | 568,217 | 12,682,331 | 366,965 | 300,583 | 8,607 | 254,020 | 7,350 | (903,398) | 25,870 | (888,563) | (25,711) | 7,642,611 | 218,861 | 20,736,222 | 600,006 |
| Equity adjustments | (2,317) | (66) | 3,789 | 110 | 2,262 | 65 | 0 | 0 | 0 | 0 | 0 | 0 | 133,657 | 3,827 | 54,948 | 1,590 |
| Treasury stocks | (7,333,863) | (210,019) | (1,572,423) | (45,498) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (81,160) | (2,324) | 0 | 0 |
| Total assets | 1,237,391,105 | 35,435,026 | 1,099,269,313 | 31,807,561 | 9,223,537 | 264,133 | 8,713,836 | 252,136 | 167,866,137 | 4,807,163 | 147,863,174 | 4,278,448 | 660,059,591 | 18,902,050 | 655,783,638 | 18,975,221 |
| Total liabilities | 1,174,195,937 | 33,625,313 | 1,029,040,380 | 29,775,474 | 6,603,686 | 189,109 | 6,142,086 | 177,722 | 156,423,452 | 4,479,480 | 136,317,339 | 3,944,367 | 607,546,626 | 17,398,242 | 591,404,298 | 17,112,393 |
| Total stockholders' equity | 63,195,168 | 1,809,713 | 70,228,933 | 2,032,087 | 2,619,851 | 75,024 | 2,571,750 | 74,414 | 11,442,685 | 327,683 | 11,545,835 | 334,081 | 52,512,965 | 1,503,808 | 64,379,340 | 1,862,828 |

CATHAY FINANCIAL HOLDING CO., LTD.

NOTES TO FINANCIAL STATEMENTS

(Expressed in thousands of dollars unless otherwise stated)

As of September 30, 2002

(b) Concise statements of income:

| Items/Period | CATHAY LIFE INSURANCE CO., LTD. | | | | CATHAY CENTURY INSURANCE CO., LTD. | | | | CATHAY UNITED BANK CO., LTD. | | | | UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD. | | | |
|--------------------------------|---------------------------------|-------------|---------------------|-------------|------------------------------------|-----------|---------------------|-----------|------------------------------|-----------|---------------------|-----------|---|-------------|---------------------|-----------|
| | Jan.1~Sep. 30, 2002 | | Jan.1~Sep. 30, 2001 | | Jan.1~Sep. 30, 2002 | | Jan.1~Sep. 30, 2001 | | Jan.1~Sep. 30, 2002 | | Jan.1~Sep. 30, 2001 | | Jan.1~Sep. 30, 2002 | | Jan.1~Sep. 30, 2001 | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Operating revenues | \$315,348,275 | \$9,030,592 | \$266,370,838 | \$7,707,489 | \$8,108,382 | \$232,199 | \$8,203,655 | \$237,374 | \$7,563,820 | \$216,604 | \$7,622,733 | \$220,565 | \$25,719,751 | \$736,534 | \$31,999,024 | \$925,898 |
| Operating costs & expenses | (307,348,963) | (8,801,517) | (265,663,553) | (7,687,024) | (7,866,480) | (225,272) | (7,990,750) | (231,214) | (8,177,858) | (234,188) | (6,782,746) | (196,260) | (39,272,765) | (1,124,650) | (26,229,227) | (758,948) |
| Operating income | 7,999,312 | 229,075 | 707,285 | 20,465 | 241,902 | 6,927 | 212,905 | 6,160 | (614,038) | (17,584) | 839,987 | 24,305 | (13,553,014) | (388,116) | 5,769,797 | 166,950 |
| Non-operating revenues | 323,094 | 9,253 | 211,409 | 6,117 | 3,493 | 100 | 2,158 | 62 | 22,061 | 632 | 22,155 | 641 | 179,806 | 5,149 | 61,221 | 1,771 |
| Non-operating expenses | (38,169) | (1,093) | (62,706) | (1,814) | (1,119) | (32) | (843) | (24) | (3,808) | (109) | (3,452) | (100) | (565,612) | (16,197) | (224,317) | (6,490) |
| Operating income before taxes | 8,284,237 | 237,235 | 855,988 | 24,768 | 244,276 | 6,995 | 214,220 | 6,198 | (595,785) | (17,061) | 858,690 | 24,846 | (13,938,820) | (399,164) | 5,606,701 | 162,231 |
| Net income | 6,459,991 | 184,994 | (2,016,937) | (58,360) | 162,558 | 4,655 | 148,466 | 4,296 | (405,754) | (11,620) | 786,343 | 22,753 | (10,287,215) | (294,594) | 4,631,201 | 134,005 |
| Earning per share (in dollars) | \$1.17 | \$0.04 | (\$0.34) | (\$0.01) | \$0.70 | \$0.02 | \$0.64 | \$0.02 | (\$0.33) | (\$0.01) | \$0.64 | \$0.02 | (\$2.74) | (\$0.08) | \$1.23 | \$0.04 |