

**CATHAY LIFE INSURANCE CO., LTD.  
FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AS OF DECEMBER 31, 2002 AND 2001**

**Name of the company: Cathay Life Insurance Co., Ltd.**

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## **Independent Auditors' Report**

To: Board of Directors  
Cathay Life Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. as of December 31, 2002 and 2001 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Life Insurance Co., Ltd. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.  
January 24, 2003

### 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 LIFE INSURANCE CO., LTD.**  
**BALANCE SHEETS**  
**(Expressed in thousands of dollars)**  
**As of December 31, 2002 and 2001**

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Notes 2, 4)	\$135,061,552	\$3,892,264	10.51	\$173,490,638	\$4,956,875	15.34
Short-term investments (Notes 2, 5)	282,304,744	8,135,583	21.96	215,705,693	6,163,020	19.07
Notes receivable	19,663,894	566,683	1.53	19,335,753	552,450	1.71
Notes receivable-related parties (Note 18)	36,111	1,041	0.00	23,607	674	0.00
Tax refund receivable	15,029	433	0.00	0	0	0.00
Interest receivable	11,059,648	318,722	0.86	10,700,400	305,726	0.95
Other accounts receivable	3,099,388	89,319	0.24	2,072,423	59,212	0.18
Prepayments	304,712	8,781	0.02	378,251	10,807	0.03
Premiums paid for others (Note 6)	13,582,195	391,418	1.06	13,117,896	374,797	1.16
Sub-total	<u>465,127,273</u>	<u>13,404,244</u>	<u>36.18</u>	<u>434,824,661</u>	<u>12,423,561</u>	<u>38.44</u>
<b>Exchange Bills Negotiated, Discounted and Loans (Notes 2, 7)</b>						
Policy loans for life insurers	170,839,738	4,923,336	13.29	173,451,836	4,955,767	15.33
Short-term secured loans	105,833	3,050	0.01	88,704	2,534	0.01
Medium-term secured loans	9,356,206	269,631	0.73	12,030,573	343,731	1.06
Long-term secured loans	307,811,516	8,870,649	23.94	295,735,633	8,449,590	26.15
Sub-total	<u>488,113,293</u>	<u>14,066,666</u>	<u>37.97</u>	<u>481,306,746</u>	<u>13,751,622</u>	<u>42.55</u>
<b>Funds, Long-Term Investments, and Receivable</b>						
Long-term investments in stocks (Notes 2, 8)	56,296,249	1,622,370	4.38	10,688,524	305,386	0.95
Long-term investments in bonds (Notes 2, 9)	157,399,734	4,536,016	12.24	91,497,578	2,614,217	8.09
Investments in real estate (Notes 2, 10)	94,151,308	2,713,294	7.33	88,142,927	2,518,369	7.79
Sub-total	<u>307,847,291</u>	<u>8,871,680</u>	<u>23.95</u>	<u>190,329,029</u>	<u>5,437,972</u>	<u>16.83</u>
<b>Property and Equipment (Notes 2,11)</b>						
Land	5,504,057	158,618	0.43	5,012,785	143,222	0.44
Buildings and structures	10,704,265	308,480	0.83	10,086,291	288,180	0.89
Communication and transportation equipment	139,050	4,007	0.01	135,846	3,881	0.01
Other equipment	3,955,648	113,996	0.31	3,356,997	95,914	0.30
Sub-total	<u>20,303,020</u>	<u>585,101</u>	<u>1.58</u>	<u>18,591,919</u>	<u>531,197</u>	<u>1.64</u>
Less: Accumulated depreciation	(5,003,380)	(144,190)	(0.39)	(4,373,984)	(124,971)	(0.38)
Construction in progress and prepayment for equipment	667,479	19,236	0.05	129,100	3,689	0.01
Sub-total	<u>15,967,119</u>	<u>460,147</u>	<u>1.24</u>	<u>14,347,035</u>	<u>409,915</u>	<u>1.27</u>
<b>Other Assets</b>						
Non-operating assets (Notes 2, 23)	3,437,401	99,060	0.27	2,438,193	69,662	0.22
Guarantee deposits paid (Notes 2, 19)	262,822	7,574	0.02	1,280,603	36,589	0.11
Overdue receivables (Notes 2, 12)	4,265,036	122,912	0.33	6,028,864	172,253	0.53
Temporary payments and suspense accounts	104,957	3,025	0.01	125,435	3,584	0.01
Deferred income tax assets (Notes 2, 16)	433,378	12,489	0.03	412,011	11,772	0.04
Sub-total	<u>8,503,594</u>	<u>245,060</u>	<u>0.66</u>	<u>10,285,106</u>	<u>293,860</u>	<u>0.91</u>
<b>Total Assets</b>	<u><u>\$1,285,558,570</u></u>	<u><u>\$37,047,797</u></u>	<u><u>100.00</u></u>	<u><u>\$1,131,092,577</u></u>	<u><u>\$32,316,930</u></u>	<u><u>100.00</u></u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**BALANCE SHEETS - (Continued)**  
**(Expressed in thousands of dollars)**  
**As of December 31, 2002 and 2001**

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Notes payable	\$2,677	\$77	0.00	\$1,674	\$48	0.00
Accounts payable-related parties (Note 18)	33,272	959	0.00	31,996	914	0.00
Collections for others	180,451	5,200	0.01	161,082	4,602	0.01
Accrued expenses	3,453,387	99,521	0.27	2,846,420	81,326	0.25
Income taxes payable	2,450,410	70,617	0.19	487,897	13,940	0.04
Commissions payable	1,389,907	40,055	0.11	750,131	21,432	0.07
Dividends payable	337,975	9,740	0.03	321,057	9,173	0.03
Life insurance proceeds payable	790	23	0.00	274	8	0.00
Other payable	1,423,775	41,031	0.11	907,023	25,915	0.08
Accounts collected in advance	1,418,344	40,875	0.11	1,336,885	38,197	0.12
Sub-total	<u>10,690,988</u>	<u>308,098</u>	<u>0.83</u>	<u>6,844,439</u>	<u>195,555</u>	<u>0.60</u>
<b>Long-term Liabilities</b>						
Reserve for land revaluation increment tax	3,726	107	0.00	3,726	106	0.00
Sub-total	<u>3,726</u>	<u>107</u>	<u>0.00</u>	<u>3,726</u>	<u>106</u>	<u>0.00</u>
<b>Other Liabilities</b>						
Unearned premium reserve (Note 2)	14,080,463	405,777	1.10	13,527,642	386,504	1.20
Reserve for life insurance (Note 2)	1,178,947,860	33,975,443	91.71	1,017,789,468	29,079,699	89.98
Special claim reserve (Note 2)	11,155,322	321,479	0.87	16,117,648	460,504	1.43
Claims reserve (Note 2)	278,080	8,014	0.02	266,322	7,609	0.02
Guarantee deposits received	1,294,401	37,302	0.10	1,282,097	36,631	0.11
Temporary receipts and suspense accounts	448,983	12,939	0.03	414,734	11,850	0.04
Sub-total	<u>1,206,205,109</u>	<u>34,760,954</u>	<u>93.83</u>	<u>1,049,397,911</u>	<u>29,982,797</u>	<u>92.78</u>
Total Liabilities	<u>1,216,899,823</u>	<u>35,069,159</u>	<u>94.66</u>	<u>1,056,246,076</u>	<u>30,178,458</u>	<u>93.38</u>
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock (Note 13)	50,686,158	1,460,696	3.94	58,386,158	1,668,176	5.16
Capital surplus	3,048	88	0.00	130,494	3,729	0.01
<b>Retained earnings (Note 14)</b>						
Legal reserve	13,254,705	381,980	1.03	12,195,156	348,433	1.08
Unappropriated retained earnings	12,973,603	373,879	1.01	11,461,899	327,483	1.02
<b>Equity adjustment (Notes 2, 8)</b>						
Unrealized valuation losses on long-term equity investment	(935,733)	(26,966)	(0.07)	0	0	0.00
Cumulative translation adjustments	10,829	312	0.00	6,657	190	0.00
Treasury stock (Notes 2, 15)	(7,333,863)	(211,351)	(0.57)	(7,333,863)	(209,539)	(0.65)
Total Stockholders' Equity	<u>68,658,747</u>	<u>1,978,638</u>	<u>5.34</u>	<u>74,846,501</u>	<u>2,138,472</u>	<u>6.62</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$1,285,558,570</u>	<u>\$37,047,797</u>	<u>100.00</u>	<u>\$1,131,092,577</u>	<u>\$32,316,930</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF INCOME**  
(Expressed in thousands of dollars, except earning per share)  
For the Years Ended December 31, 2002 and 2001

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues (Note 2)						
Premiums income	\$280,634,243	\$8,087,442	62.11	\$221,005,179	\$6,314,434	56.47
Reinsurance commission earned	130,526	3,762	0.03	181,908	5,197	0.05
Claims recovered from reinsures	632,365	18,224	0.14	278,913	7,969	0.07
Recovered premiums reserve	109,911,316	3,167,473	24.33	100,085,518	2,859,586	25.57
Recovered special claim reserve	4,962,327	143,006	1.10	0	0	0.00
Recovered claims reserve	266,322	7,675	0.06	229,805	6,566	0.06
Handling fee earned	10,209	294	0.00	9,279	265	0.00
Interest Income	43,939,665	1,266,273	9.72	46,578,346	1,330,810	11.90
Gain on disposal of investments	4,657,874	134,233	1.03	0	0	0.00
Gain on long-term investments	101,627	2,929	0.02	255,273	7,294	0.07
Gain on investments-real estate	4,484,010	129,222	0.99	5,249,807	149,994	1.34
Gain on foreign exchange	193,634	5,580	0.04	1,816,429	51,898	0.46
Other operating Income	1,934,216	55,741	0.43	15,670,907	447,740	4.01
Sub-total	<u>451,858,334</u>	<u>13,021,854</u>	<u>100.00</u>	<u>391,361,364</u>	<u>11,181,753</u>	<u>100.00</u>
Operating Costs (Note 2)						
Insurance expenses	(723,807)	(20,859)	(0.16)	(594,783)	(16,994)	(0.15)
Brokerage expenses	(21,218,707)	(611,490)	(4.70)	(22,775,442)	(650,727)	(5.82)
Commissions expenses	(275,438)	(7,938)	(0.06)	(48,674)	(1,391)	(0.01)
Insurance claims payment	(122,859,639)	(3,540,623)	(27.19)	(115,296,796)	(3,294,194)	(29.46)
Provision for premiums reserve	(271,622,530)	(7,827,739)	(60.11)	(201,023,285)	(5,743,522)	(51.36)
Provision for special claim reserve	0	0	0.00	(1,519,423)	(43,412)	(0.39)
Contribution to the stabilization funds	(280,404)	(8,081)	(0.06)	(220,848)	(6,310)	(0.06)
Provision for claims reserve	(278,080)	(8,014)	(0.06)	(266,322)	(7,609)	(0.07)
Handling fee paid	(2,163,984)	(62,363)	(0.48)	(1,572,218)	(44,921)	(0.40)
Interest expenses	(24,136)	(695)	0.00	(69,169)	(1,976)	(0.02)
Loss on disposal of investments	0	0	0.00	(16,512,600)	(471,789)	(4.22)
Provisions expenses	(2,608,957)	(75,186)	(0.58)	(2,019,870)	(57,711)	(0.52)
Sub-total	<u>(422,055,682)</u>	<u>(12,162,988)</u>	<u>(93.40)</u>	<u>(361,919,430)</u>	<u>(10,340,556)</u>	<u>(92.48)</u>
Operating Gross Profit	<u>29,802,652</u>	<u>858,866</u>	<u>6.60</u>	<u>29,441,934</u>	<u>841,197</u>	<u>7.52</u>
Operating Expenses (Note 2)						
Marketing expenses	(5,549,132)	(159,917)	(1.23)	(7,847,697)	(224,220)	(2.00)
Administrative and general expenses	(8,682,733)	(250,223)	(1.93)	(7,419,029)	(211,972)	(1.90)
Operating Income	<u>15,570,787</u>	<u>448,726</u>	<u>3.44</u>	<u>14,175,208</u>	<u>405,005</u>	<u>3.62</u>
Non-Operating Revenues						
Gain on disposal of property and equipment	3,404	98	0.00	5,299	151	0.00
Miscellaneous income	524,189	15,106	0.12	343,780	9,822	0.09
Sub-total	<u>527,593</u>	<u>15,204</u>	<u>0.12</u>	<u>349,079</u>	<u>9,973</u>	<u>0.09</u>
Non-Operating Expenses						
Loss on disposal of property and equipment	(6,075)	(175)	0.00	(2,661)	(76)	0.00
Miscellaneous expenses	(33,216)	(957)	(0.01)	(62,349)	(1,780)	(0.02)
Sub-total	<u>(39,291)</u>	<u>(1,132)</u>	<u>(0.01)</u>	<u>(65,010)</u>	<u>(1,856)</u>	<u>(0.02)</u>
Income from Continuing Operations before income taxes	<u>16,059,089</u>	<u>462,798</u>	<u>3.55</u>	<u>14,459,277</u>	<u>413,122</u>	<u>3.69</u>
Income Taxes (Notes 2, 16)	<u>(3,212,932)</u>	<u>(92,592)</u>	<u>(0.71)</u>	<u>(3,859,810)</u>	<u>(110,280)</u>	<u>(0.98)</u>
Net Income	<u>\$12,846,157</u>	<u>\$370,206</u>	<u>2.84</u>	<u>\$10,599,467</u>	<u>\$302,842</u>	<u>2.71</u>
Before income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$2.98</u>	<u>\$0.09</u>		<u>\$2.48</u>	<u>\$0.07</u>	
After income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$2.39</u>	<u>\$0.07</u>		<u>\$1.81</u>	<u>\$0.05</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Expressed in thousands of dollars)  
**For the Years Ended December 31, 2002 and 2001**

Summary	Capital Stock		Retained Earnings						Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Unappropriated Retained Earnings		Unrealized valuation losses on long-term equity investment		Cumulative translation adjustments		Treasury Stock		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2001	\$53,986,340	\$1,542,467	\$126,519	\$3,615	\$11,222,160	\$320,633	\$15,820,997	\$452,028	\$0	\$0	\$1,573	\$45	(\$317,483)	(\$9,071)	\$80,840,106	\$2,309,7
Appropriations and Distributions for 2000																
Legal reserve					972,996	27,800	(972,996)	(27,800)								
Cash dividends							(5,393,258)	(154,093)							(5,393,258)	(154,093)
Remuneration paid to directors and supervisors							(8,100)	(231)							(8,100)	(231)
Bonus paid to employees							(154,258)	(4,407)							(154,258)	(4,407)
Stock dividends	5,393,258	154,093					(5,393,258)	(154,093)							0	0
Treasury stock to write off	(993,440)	(28,384)					(2,994,662)	(85,562)					3,988,102	113,946	0	0
Change in the investment percentage							(38,058)	(1,087)							(38,058)	(1,087)
Cumulative translation adjustments											5,084	145			5,084	145
Treasury stock acquired													(11,004,482)	(314,414)	(11,004,482)	(314,414)
Net Income after tax for the year ended Dec. 31, 2001							10,599,467	302,842							10,599,467	302,842
Capital surplus from disposal of property and equipment			3,975	114			(3,975)	(114)							0	0
Balance on Dec. 31, 2001	\$58,386,158	\$1,668,176	\$130,494	\$3,729	\$12,195,156	\$348,433	\$11,461,899	\$327,483	\$0	\$0	\$6,657	\$190	(\$7,333,863)	(\$209,539)	\$74,846,501	\$2,138,4

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)**  
**(Expressed in thousands of dollars)**  
**For the nine Years Ended December 31, 2002 and 2001**

Summary	Capital Stock		Retained Earnings						Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Unappropriated Retained Earnings		Unrealized valuation losses on long-term equity investment		Cumulative translation adjustments		Treasury Stock			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2002	\$58,386,158	\$1,682,598	\$130,494	\$3,761	\$12,195,156	\$351,445	\$11,461,899	\$330,314	\$0	\$0	\$6,657	\$192	(\$7,333,863)	(\$211,351)	\$74,846,501	\$2,151
Appropriations and Distributions for 2001																
Legal reserve					1,059,549	30,535	(1,059,549)	(30,535)								0
Cash dividends							(10,254,383)	(295,515)							(10,254,383)	(295)
Remuneration paid to directors and supervisors							(8,100)	(233)							(8,100)	
Bonus paid to employees							(139,867)	(4,031)							(139,867)	(4)
Capital decrease	(7,700,000)	(221,902)													(7,700,000)	(221)
Cumulative translation adjustments											4,172	120				4,172
Unrealized valuation losses on long-term equity investment									(935,733)	(26,966)					(935,733)	(26)
Net Income after tax for the years ended December 31, 2002							12,846,157	370,206							12,846,157	371
Capital surplus from disposal of property and equipment turn into retained earnings			(127,446)	(3,673)			127,446	3,673								0
Balance on December 31, 2002	\$50,686,158	\$1,460,696	\$3,048	\$88	\$13,254,705	\$381,980	\$12,973,603	\$373,879	(\$935,733)	(\$26,966)	\$10,829	\$312	(\$7,333,863)	(\$211,351)	\$68,658,747	\$1,971

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$ 34.7 and NT\$35.00 to US\$1.00)

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



**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in thousands of dollars)**  
**For the Years Ended December 31, 2002 and 2001**

	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Year	\$12,846,157	\$370,206	\$10,599,467	\$302,842
Adjustments:				
Loss on bad debt	2,608,957	75,186	2,019,870	57,710
Depreciation	1,868,804	53,856	1,587,959	45,370
Provision for reserve for operations	271,900,610	7,835,753	202,809,030	5,794,544
Recovered unearned premium reserve	(13,535,315)	(390,067)	(12,082,673)	(345,219)
Recovered reserve for life insurance	(94,396,970)	(2,720,374)	(86,586,240)	(2,473,893)
Recovered special claim reserve	(4,962,327)	(143,006)	0	0
Recovered claims reserve	(266,322)	(7,675)	(229,805)	(6,566)
Applicant terminates the insurance contract income	(1,979,031)	(57,032)	(1,416,606)	(40,474)
Provision loss (gain) on short-term investments	(1,934,216)	(55,741)	(15,670,907)	(447,740)
Loss (gain) on disposal of property and equipment	2,672	77	(2,639)	(75)
Loss (gain) on disposal of investments	(42,281)	(1,218)	(2,598)	(74)
Loss (gain) on disposal of real estate	11,815	340	2,184	62
Amortization long-term investments in bonds	85,595	2,467	33,784	965
Unrealized loss (gain) on long-term investments	37,280	1,074	4,661	133
Effects of exchange rate changes	(494)	(14)	(50,038)	(1,430)
Decrease (increase) in short-term investments	(77,081,122)	(2,221,358)	(8,944,947)	(255,570)
Decrease (increase) in notes receivable	(328,141)	(9,458)	3,254,913	92,998
receivable-related parties	(12,504)	(360)	(23,388)	(668)
Decrease (increase) in prepayments	73,539	2,119	(163,288)	(4,665)
Decrease (increase) in prepaid pension	720,677	20,769	1,058,864	30,253
Decrease (increase) in other current assets	(1,835,919)	(52,908)	(2,628,490)	(75,100)
Decrease (increase) in temporary payments and suspense accounts	20,479	590	(15,796)	(451)
Decrease (increase) in deferred income tax assets	(21,367)	(616)	(412,011)	(11,772)
Increase (decrease) in notes payable	1,003	29	(83)	(2)
Increase (decrease) in accounts payable-related parties	1,276	37	(71,130)	(2,032)
Increase (decrease) in accrued expenses	3,209,772	92,501	(4,862,042)	(138,915)
Increase (decrease) in other accounts payable	533,669	15,379	179,461	5,127
Increase (decrease) in accounts collected in advance	(15,517)	(447)	(39,613)	(1,132)
Increase (decrease) in other current liabilities	19,369	558	(21,674)	(619)
Increase (decrease) in temporary receipts and suspense accounts	34,249	987	20,263	579
Increase (decrease) in deferred income tax liabilities	96,976	2,795	362,926	10,369
Net Cash Provided by (Used in) Operating Activities	<u>97,661,373</u>	<u>2,814,449</u>	<u>88,709,414</u>	<u>2,534,555</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivable	(29,622)	(854)	0	0
Decrease (increase) in forward exchange payable	0	0	527,080	15,059
Decrease (increase) in policy loans for life insurers	2,612,098	75,277	(12,154,585)	(347,274)
Decrease (increase) in secured loans	(9,513,782)	(274,172)	(19,853,729)	(567,249)
Acquisition of long-term investments in stocks	(100,326,230)	(2,891,246)	(83,538,523)	(2,386,815)
Proceeds from disposal of long-term investments in stocks	220,481	6,354	54,848	1,567
Disposal of investments in real estate	36,698	1,057	16,902	483
Acquisition of investments in real estate	(8,362,381)	(240,991)	(8,460,007)	(241,714)
Disposal of property and equipment	25,141	725	26,972	771
Acquisition of property and equipment	(1,211,214)	(34,905)	(950,566)	(27,159)
Decrease (increase) in non-operating assets	(1,719,885)	(49,564)	(718,673)	(20,534)
Decrease (increase) in guarantee deposits paid	1,017,781	29,331	(142,513)	(4,072)
Decrease (increase) in overdue receivables	(749,992)	(21,614)	(4,758,041)	(135,944)
Net Cash Provided by (Used in) Investing Activities	<u>(118,000,907)</u>	<u>(3,400,602)</u>	<u>(129,950,835)</u>	<u>(3,712,881)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CASH FLOWS-(Continued)**  
**(Expressed in thousands of dollars)**  
**For the Years Ended December 31, 2002 and 2001**

	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	12,304	355	(118,755)	(3,393)
Remuneration paid to directors and supervisors	(8,100)	(234)	(8,100)	(232)
Bonus to employees	(139,867)	(4,031)	(154,258)	(4,408)
Cash dividends	(10,254,383)	(295,515)	(5,393,258)	(154,093)
Treasury stock acquired	0	0	(11,004,482)	(314,414)
Increase (decrease) in capital stock	(7,700,000)	(221,902)	0	0
Net Cash Provided by (Used in) Financing Activities	<u>(18,090,046)</u>	<u>(521,327)</u>	<u>(16,678,853)</u>	<u>(476,540)</u>
Effects of Exchange Rate Changes	494	14	50,038	1,430
Increase (decrease) in Cash and Cash Equivalents	(38,429,086)	(1,107,466)	(57,870,236)	(1,653,436)
Cash and Cash Equivalents at the Beginning of Year	173,490,638	4,999,730	231,360,874	6,610,311
Cash and Cash Equivalents at the End of Year	<u>\$135,061,552</u>	<u>\$3,892,264</u>	<u>\$173,490,638</u>	<u>\$4,956,875</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the year	\$2,099	\$60	\$4,461	\$127
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	<u>\$2,099</u>	<u>\$60</u>	<u>\$4,461</u>	<u>\$127</u>
Income tax paid	<u>\$1,135,728</u>	<u>\$32,730</u>	<u>\$7,207,830</u>	<u>\$205,938</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of December 31, 2002 and 2001**

**1. Organization of Business Scope**

CATHAY LIFE INSURANCE CO., LTD. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“R.O.C.”). The Company mainly engaged in life insurance. On December 31, 2001, the Company became the subsidiary of CATHAY FINANCIAL HOLDING CO., LTD. by adopted the stock conversion method under the ”Financial Holding Company Law “and other pertinent laws of the R.O.C.

**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.

Short-term notes are recorded at cost when acquired and stated on the balance sheet date, if the market value is available. The cost of notes, interest income, and gain or loss, either due to maturity or resulting from the sale of notes is determined by the specific identification method.

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

(3) *Allowance for Bad and Doubtful Debts*

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
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(4) *Long - Term Investments*

A. Long-term Investments in Stocks

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

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and 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 stock, and the Company can no longer maintain its original shares of interest, adjustments will be dealt with in the capital surplus and long-term equity investment accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

An invested company ("investee") is considered to be the Company's subsidiary if the Company owns more than 50% of the investee's voting stock. Consolidated financial statements should include all subsidiaries; except for subsidiaries that have different business nature from that of the Company or when compared to the Company's, each account item in the total assets and operating income of these subsidiaries is less than 10% of it. If total assets or operating income of those unconsolidated subsidiaries are more than 30% of the corresponding amount of the Company's, these subsidiaries should be included in the Company's consolidated financial statements until the percentage mentioned above is reduced to 20% or less.

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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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The cost of the disposal of an investment is determined by the weighted-average method.

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

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

*(5) Investments in Real Estate*

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

Depreciation is calculated by the straight-line method based on the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the R.O.C. government (the "Government").

*(6) 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 Executive Yuan. When the economic useful lives have expired, property and equipment still in use are depreciated based on the residual value.

*(7) Deferred Charges*

According to the regulation set by the Ministry of Finance, the Company allocated a "Stabilization fund " and an offsetting account "Stabilization fund reserve". These two accounts should not be listed in the financial statements due to their offsetting nature.

From 1993 to December 31, 2002, the amount of NT\$1,745,340(US\$50,298) has been appropriated to this fund.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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(8) *Guaranteed Depository Insurance Payment*

According to Article 141 of the Insurance Law of the Republic of China, an amount equal to 15% of the Company's capital stock should be deposited in the Central Bank of China as the "Guaranteed Depository Insurance". The amount was deposited in the form of a bond.

(9) *Reserve for Operating*

Reserve for the operation is organized according to the insurance law provided by the Ministry of Finance. These include Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. The figures of the reserve are provided by actuary in the financial statements.

Ministry of Finance has passed a new regulation on December 24, 2002. Under the regulation, it states that when the accumulated gross amount of "Special Reserve for the Loss Movement" exceeds 30% of the gross amount of "Net Earned Premium," its surplus should be treated as income.

In addition, according to the regulation that was passed on December 30, 2001: It states that the surplus from the "Special Reserve for the Loss Movement should be placed as Special Reserve under Proprietary equity after the board of directors have approved the surplus appropriation act. This amount may not be allocated or used for other purposes unless approved by the board of directors.

The company has a surplus of NT \$6,249,135 thousand dollars from the "Special Reserve for the Loss Movement" in 2002.

(10) *Insurance Premiums Income and Expenses*

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

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

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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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*(11) Pension Plan*

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

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

*(12) Foreign-currency Transactions*

A. Translations of Foreign Currency Transactions

Foreign-currency transactions are recorded in New Taiwan Dollars at the rates of exchange date 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 year-end exchange rate, and exchange gains or losses are credited or charged to current income.

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. Statements of income items are translated by the weighted-average exchange rate for the year. Differences arising from above translations are reported as "Cumulative Translation Adjustments" under 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.

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*(13) Income Taxes*

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable (refund). Furthermore, it requires recognition of temporary differences on deferred income tax liabilities, and deferred income tax assets, as well as prior year's loss carry forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and estimate valuation allowance, if needed. Prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

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

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

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with the income tax credits. The income tax credits resulting from the expenditure on the purchase of equipment and technique, R&D, education training, and investment in equity shall be dealt by the flow-through method.

*(14) Capital Expenditure Expenses*

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

*(15) 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.



**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus-treasury stock. If the capital surplus-treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus-treasury stock.

*(16) Derivative Financial Products Transaction*

A. Forward Exchange Contract for Hedging

The purpose of the forward exchange contracts held by the Company is hedging the risks that may result from changes in currency rates. Transactions on forward exchange contracts are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are recognized to current income.

B. Currency Swap (CS)

The purpose of the CS held by the Company is hedging the risks that may result from changes in currency rates. Transactions on CS are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheets date are recognized to current income. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.

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

C. Cross Currency Swap (CCS)

The purpose of the CCS held by the Company is hedging the risks that may result from changes in currency rates and interest rates. Transactions on CCS are

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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recognized based on the spot rate at the contact date. Interests are calculated according to the agreed period, and interest rate. The difference is recognized to the current income.

**D. Interest Rate Swap Agreements (IRS)**

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

*(17) Convenience Translation Into US Dollars*

The financial statements are stated in New Taiwan dollars. Translation of the December 31, 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 December 31, 2002 and 2001, of NT\$34.7 and NT\$35 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. Changes in Accounting and its Effects: None**

**4. Cash and Cash Equivalents**

	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cash on hand	\$424,567	\$12,235	\$467,677	\$13,362
Cash in banks	6,455,415	186,035	8,396,040	239,887
Time deposits	105,978,512	3,054,136	146,286,296	4,179,608
Cash equivalents	22,203,058	639,858	18,340,625	524,018
Total	\$135,061,552	\$3,892,264	\$173,490,638	\$4,956,875

**5. Short-Term Investments**

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Parent stock	\$856,726	\$24,690	\$0	\$0
Less: Allowance for				
valuation loss	(486,176)	(14,011)	0	0
Sub-Total	370,550	10,679	0	0
Common stock and				
Beneficiary certificates	97,890,426	2,821,050	104,403,195	\$2,982,948
Oversea investments	77,554,706	2,235,006	52,038,412	1,486,812
Appoint purpose trust fund	42,520,064	1,225,362	47,860,377	1,367,439
Corporate bonds	12,908,702	372,009	12,176,568	347,902
Government bonds	13,798,947	397,664	3,797,971	108,514
Financial debentures	17,099,550	492,782	2,340,000	66,857
Short-term notes	46,950,946	1,353,053	18,436,276	526,751
Sub-Total	308,723,341	8,896,926	241,052,799	6,887,223
Less: Cash equivalents	(22,203,058)	(639,858)	(18,340,625)	(524,018)
Allowance for				
valuation loss	(4,586,089)	(132,164)	(7,006,481)	(200,185)
Sub-Total	281,934,194	8,124,904	215,705,693	6,163,020
Total	\$282,304,744	\$8,135,583	\$215,705,693	\$6,163,020

As of December 31, 2002, the short-term investments of the Company include a investment-linked contracts in the amount of NT\$ 254,540 thousand dollars.

## 6. Premiums Paid for Others

If insurance applicants are unable to meet their insurance installments after their second installment, the Ministry of Finance ruled that applicants can make written statements, requesting the Company to pay the premium and interests payable by using the Company's "policy value reserve" prior to the due date or before the insurance contract's termination date. However, applicants may also choose to inform the Company by written, instead of paying such installments.

## 7. Loans

### (1) Policy Loans for Life Insurers

Loans secured by policies issued by Cathay Life Insurance Co., Ltd.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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(2) *Secured Loans*

	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$106,902	\$3,081	\$ 89,600	\$2,560
Less: Allowance for bad debts	(1,069)	(31)	(896)	(26)
Sub-total	<u>105,833</u>	<u>3,050</u>	<u>88,704</u>	<u>2,534</u>
Medium-term secured loans	9,450,713	272,355	12,152,094	347,203
Less: Allowance for bad debts	(94,507)	(2,724)	(121,521)	(3,472)
Sub-total	<u>9,356,206</u>	<u>269,631</u>	<u>12,030,573</u>	<u>343,731</u>
Long-term secured loans	310,920,723	8,960,251	298,722,862	8,534,939
Less: Allowance for bad debts	(3,109,207)	(89,602)	(2,987,229)	(85,349)
Sub-total	<u>307,811,516</u>	<u>8,870,649</u>	<u>295,735,633</u>	<u>8,449,590</u>
Total	<u>\$317,273,555</u>	<u>\$9,143,330</u>	<u>\$307,854,910</u>	<u>\$8,795,855</u>

Secured loans are loans secured by government bonds, stocks, corporate bonds and real estate. Loans with terms less than one year are short-term loans; loans with terms more than one year but less than seven years are classified as medium-term loans ; loans with terms more than seven years are long-term loans.

**8. Long-Term Investments**

(A) Long -term Investments in Stocks

	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
<b>Investee</b>	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd	\$380,209	\$10,957	\$313,048	\$8,944
Cathay Insurance (Bermuda) Co., Ltd.	53,397	1,539	53,261	1,522
Cathay Venture Capital Corp.	142,294	4,101	150,976	4,314
Vista Technology Venture Capital Corp.	82,994	2,392	98,038	2,801
Omnitek Venture Capital Corp.	152,693	4,400	150,413	4,297
IBT Venture Capital Corp.	590,214	17,009	589,991	16,857
Wa Tech Venture Capital	176,034	5,073	184,098	5,260

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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Co., Ltd.				
Cathay Securities				
Investment Trust Co., Ltd.	198,726	5,727	188,903	5,397
Symphox Information Co., Ltd.	247,950	7,145	281,531	8,044
Lin Yuan Property Management Co., Ltd.	31,258	901	0	0
Cathay Securities Investment Co., Ltd.	9,427	272	0	0
Sub-total	<u>2,065,196</u>	<u>59,516</u>	<u>2,010,259</u>	<u>57,436</u>
B. Under the cost method:				
Cathay Financial Holding Co., Ltd.	12,399,063	357,322	0	0
WK Technology Fund Co., Ltd.	100,000	2,882	100,000	2,857
Taiwan Aerospace Company	260,000	7,493	260,000	7,429
Koo Group Telecommunications Co., Ltd.	749,998	21,614	749,998	21,428
Concord III Venture Capital Co., Ltd.	89,280	2,573	89,280	2,551
Taipei Financial Center Corp.	1,441,591	41,544	1,441,591	41,188
Chunghwa Telecom Co., Ltd.	32,995,861	950,889	0	0
China Power Venture Capital Co., Ltd.	190,000	5,475	0	0
Investar Dayspring V.C. Inc.	200,000	5,764	200,000	5,714
FAT Venture Capital Co., Ltd.	50,000	1,441	50,000	1,429
Concord IV Venture Capital Co., Ltd.	50,000	1,441	50,000	1,429
WK Technology Fund V Co., Ltd.	150,000	4,323	100,000	2,857
WK Technology Fund IV Co., Ltd.	127,200	3,666	127,200	3,634
Century Venture Capital Co., Ltd.	100,000	2,882	100,000	2,857
Super Tech Venture Capital Corp.	100,000	2,882	100,000	2,857
CDIB & Partners Investment Holding Corp.	500,000	14,409	500,000	14,286
Alex-Tech Machinery Industrial Co., Ltd.	21,000	605	21,000	600
Quanta Display Inc.	0	0	813,282	23,236
R.O.C. Venture Capital Co., Ltd.	151,970	4,379	151,970	4,342
National Venture Capital	100,000	2,882	100,000	2,857

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Co., Ltd.				
WK Technology Fund VII				
Co., Ltd.	200,000	5,764	200,000	5,714
Capital Venture Fund II				
Corp	50,000	1,441	50,000	1,429
Fu Yu Venture Capital				
Investment Corp.	200,000	5,764	200,000	5,714
Concord VII Venture				
Capital Co., Ltd.	100,000	2,882	100,000	2,857
Allied Material Technology				
Corp.	98,400	2,836	98,400	2,811
New Century InfoComm				
Tech Co., Ltd.	1,268,000	36,542	1,268,000	36,228
Deltamac (Taiwan) Co.,				
Ltd.	0	0	15,200	434
Srsuntour Co., Ltd.	62,000	1,787	62,000	1,771
Titan I Venture Capital				
Co., Ltd.	150,000	4,323	150,000	4,286
Harbinger Venture Capital				
Corp.	200,000	5,764	200,000	5,714
Prosperity Venture Capital				
Corp.	100,000	2,882	100,000	2,857
KGEx.com Co., Ltd.	175,000	5,043	175,000	5,000
United Venture Corp.	50,000	1,441	50,000	1,429
BioCare Corp.	12,000	346	12,000	343
Megic Corp.	18,000	518	18,000	514
WK Technology Fund VII				
Co., Ltd.	200,000	5,764	200,000	5,714
Hua Chih Venture Capital				
Corp.	60,000	1,729	60,000	1,714
Jih Sun Venture Capital				
Investment Co., Ltd.	80,000	2,305	80,000	2,286
Formosa Epitaxy Inc.	20,500	591	20,500	586
Win Semiconductors Corp.	50,949	1,468	47,600	1,360
Sintek Photronic Corp.	0	0	75,000	2,143
National Aerospace				
Fasteners Corp.	0	0	38,000	1,086
Kinik Precision Grinding				
Co., Ltd.	6,000	173	6,000	171
Vita Genomics Inc.	87,500	2,521	87,500	2,500
TurboComm Tech. Inc	0	0	50,000	1,429
Tong Hsing Electronic Inc.				
Co., Ltd.	27,144	782	27,144	776
China Technology Venture				
Capital Corp.	50,000	1,441	50,000	1,429
Daiwa Securities				
SMBC-Cathay Co., Ltd.	259,200	7,470	259,200	7,406
Applied Vacuum Coating				
Technologies Co., Ltd.	6,661	192	6,150	176
TaiGen Biotechnology Co.,				
Ltd.	16,500	475	8,250	236

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Darly 3 Venture Co., Ltd.	20,000	576	10,000	286
Cdid BioScience venture I Inc.	285,000	8,213	0	0
Maxima Venture I, Inc, Taiwan	126,630	3,649	0	0
Parawin Venture Capital Co., Ltd.	50,000	1,441	0	0
Top Taiwan IV Venture Capital Co., Ltd.	50,000	1,441	0	0
Cash Box Audio and Video Co., Ltd.	50,000	1,441	0	0
Richtech Technology Co., Ltd.	28,806	830	0	0
Hua VI Venture Capital Corp.	50,000	1,441	0	0
Shin Sheng Venture Capital Investment Corp.	50,000	1,441	0	0
Centillion III Venture Capital Corp.	50,000	1,441	0	0
Harbinger III Venture Capital Corp.	100,000	2,882	0	0
Unitive Semiconductor Taiwan Corp.	46,800	1,348	0	0
Sub-total	54,231,053	1,562,854	8,678,265	247,950
Total	\$56,296,249	\$1,622,370	\$10,688,524	\$305,386

1. Changes in long-term investments in stocks under the equity method are summarized in the following:

	December 31,			
	<u>2002</u> NT\$	<u>2002</u> US\$	<u>2001</u> NT\$	<u>2001</u> US\$
Balance at January 1	\$2,010,259	\$57,932	\$1,287,336	\$36,781
Add: Investment gains (losses) by equity method recognized	(30,755)	(886)	(44,982)	(1,285)
Cumulative translation adjustments	(466)	(13)	5,084	145
Increment of investments	112,000	3,228	762,821	21,795
Unrealized valuation losses on long-term equity investment	(9,458)	(273)	0	0
Less: Cash dividends	(16,384)	(472)	0	0
Balance of December 31,	\$2,065,196	\$59,516	\$2,010,259	\$57,436

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2. The investment gains (losses) recognized by the equity method for the years ended December 31, 2002 and 2001 are listed below:

<u>Investee</u>	For the years ended December 31,			
	<u>2002</u> NT\$	<u>2002</u> US\$	<u>2001</u> NT\$	<u>2001</u> US\$
WK Technology Fund VI Co., Ltd.	\$1,807	\$52	\$8,298	\$237
Cathay Insurance (Bermuda) Co., Ltd.	512	15	7,853	224
Symphox Information Co., Ltd.	(33,581)	(968)	(18,469)	(527)
Cathay Venture Capital Corp.	(8,592)	(248)	(1,286)	(37)
Visa Technology Venture Capital Corp.	(15,044)	(434)	(1,962)	(56)
Omnitek Venture Capital Corp.	2,280	66	413	12
IBT Venture Capital Corp	5,237	151	(9)	0
Wa Tech Venture Capital Corp.	3,118	90	0	0
Cathay Securities Investment Trust Co., Ltd.	9,823	283	(39,820)	(1,138)
Cathay Securities Investment Co., Ltd.	(573)	(16)	0	0
Lin Yuan Property Management Co., Ltd.	4,258	123	0	0
Total	<u>(\$30,755)</u>	<u>(\$ 886)</u>	<u>(\$44,982)</u>	<u>(\$1,285)</u>

(1) It is not practicable for some investee companies under the equity method to provide timely audited financial statements. If the Company owns less than 50% interest of such investees, the recognition investment gains or losses for those investees shall be deferred to next year. That is, the Company will recognize its investment gains or losses in proportion to its equivalent stock ownership in the following year.

The Company owns less than 50% voting share of the following investees: The WK Technology Fund VI Co., Ltd. Visa Technology Venture Capital Corp. Omnitek Venture Capital Corp. Wa Tech Venture Capital Corp. and IBT Venture Capital Corp for the years ended December 31, 2002 and 2001.

(2) The Company holds over 50% of Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Cathay Securities Investment and Lin Yuan Property Management Co., Ltd. However, these four subsidiaries' financial reports were not consolidated because each account items in their total assets and operation revenues contributed less than 10% to the Company's.



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- (3) The investment income (losses) were recognized based current year's audited financial statements of Cathay Insurance (Bermuda) Co., Ltd. Lin Yuan Property Management Co., Ltd. Cathay Securities Investment Trust Co., Ltd. Cathay Securities Investment Co., Ltd. Cathay Venture Capital Corp. and Symphox Information Co., Ltd.
- (4) The Company held totally 579,953,945 shares of UWCCB from September 26, 2002 to December 18, 2002. We did not audit the financial statement for the years ended December 31, 2002 of UWCCB, and UWCCB audited by other CPAs with unqualified opinions with modification due to the potential adjustment, except for the long-term investments in the amount of NT\$ 12,888,129 thousand dollars under the equity method and investment losses in the amount of NT\$9,859 thousand dollars and cumulative translation adjustments in the amount of NT\$ 4,638 thousand dollars and unrealized valuation losses on long-term equity investment in the amount of NT\$ 2,960 thousand dollars which were in accordance with unaudited 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 audited by other CPAs. In addition, the Company merged UWCCB on December 18, 2002. And all the investee shares transferred into the shares of the CATHAY FINANCIAL HOLDING CO., LTD. are totally 344,277,175 shares.

### 9. Long-Term Investments in Bonds

Long-term investments in bonds consist mainly of government bonds as of December 31, 2002 and 2001. Partitive Bonds are deposited in The Central Bank of China as Capital Guarantee Deposits.

### 10. Investments in Real Estate

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,078,903	\$2,711,207	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$83,703,729	\$2,412,211
Construction	10,447,165	301,071	0	0	0	0	10,447,165	301,071
Prepayments for buildings and land	414	12	0	0	0	0	414	12
<b>Total</b>	<b>\$104,526,482</b>	<b>\$3,012,290</b>	<b>\$5,131</b>	<b>\$148</b>	<b>(\$10,380,305)</b>	<b>(\$299,144)</b>	<b>\$94,151,308</b>	<b>\$2,713,294</b>

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Item	December 31, 2001							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$80,122,298	\$2,289,209	\$5,264	\$150	(\$9,181,685)	(\$262,334)	\$70,945,877	\$2,027,025
Construction	17,197,050	491,344	0	0	0	0	17,197,050	491,344
Total	\$97,319,348	\$2,780,553	\$5,264	\$150	(\$9,181,685)	(\$262,334)	\$88,142,927	\$2,518,369

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) As of December 31, 2002 and 2001, investments in real estate were pledged. Please See note 19, "Pledged Assets" for details.

## 11. Property and Equipment

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,502,414	\$158,571	\$1,643	\$47	\$0	\$0	\$5,504,057	\$158,618
Buildings and structures	10,704,265	308,480	0	0	(2,899,319)	(83,554)	7,804,946	224,926
Communication and transportation equipment	139,050	4,007	0	0	(52,382)	(1,510)	86,668	2,497
Other equipment	3,955,648	113,996	0	0	(2,051,679)	(59,126)	1,903,969	54,870
Sub-total	20,301,377	585,054	1,643	47	(5,003,380)	(144,190)	15,299,640	440,911
Construction in progress	502,989	14,496	0	0	0	0	502,989	14,496
Prepayment for equipment	164,490	4,740	0	0	0	0	164,490	4,740
Total	\$20,968,856	\$604,290	\$1,643	\$47	(\$5,003,380)	(\$144,190)	\$15,967,119	\$460,147

Item	December 31, 2001							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,011,275	\$143,179	\$1,510	\$43	\$0	\$0	\$5,012,785	\$143,222
Buildings and structures	10,086,291	288,180	0	0	(2,634,436)	(75,270)	7,451,855	212,910
Communication and transportation equipment	135,846	3,881	0	0	(47,878)	(1,368)	87,968	2,513
Other equipment	3,356,997	95,914	0	0	(1,691,670)	(48,333)	1,665,327	47,581
Sub-total	18,590,409	531,154	1,510	43	(4,373,984)	(124,971)	14,217,935	406,226
Construction in progress	128,500	3,672	0	0	0	0	128,500	3,672
Prepayment for equipment	600	17	0	0	0	0	600	17
Total	\$18,719,509	\$534,843	\$1,510	\$43	(\$4,373,984)	(\$124,971)	\$14,347,035	\$409,915

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No property and equipment was pledged as collateral. The insurance coverage on property and equipment and real estate investments are stated at book value.

**12. Overdue Receivables**

	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$6,103,371	\$175,890	\$8,491,358	\$242,610
Less: Allowance for bad and doubtful debts	(1,838,335)	(52,978)	(2,462,494)	(70,357)
Total	\$4,265,036	\$122,912	\$6,028,864	\$172,253

**13. Capital Stock and Capital Increment**

- (1) As of December 31, 2002 and 2001, the total authorized shares were 5,068,615,765, 5,838,615,765, respectively, with par value of NT\$10 dollars each.
- (2) On May 22, 2001, the Company declared NT\$5,393,258 stock dividend. Consequently, the R.O.C SFC approved the appropriation and issuance of shares on July 11, 2001.
- (3) The Company reported to repurchase 39,344,000 shares of common stocks as treasury stocks for employee stock options. However, Company's Board of Directors decided to write off the 39,344,000 shares of treasury stocks on August 8, 2001.
- (4) On Oct. 29, 2001, the Board of Directors voted unanimously to write off 60,000,000 shares of treasury stocks. Its basis date is on Nov. 15, 2001. The paid-in capital after decreasing capital amounted to NT\$ 58,386,158 thousand dollars.
- (5) On July 26, 2002, the Board of Directors' Meeting resolved to decrease its capital in the amount of NT\$ 7,700,000 thousand dollars. Its basis date is on August 13, 2002. The paid-in capital after decreasing capital amounted to NT\$ 50,686,158 thousand dollars.

**14. Retained Earnings**

- (1) Legal Reserve

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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 can be used to offset deficits but 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 it's the board of directors.

(2) Unappropriated Retained Earnings

A. According to the Company Law of the Republic of China and the Company's Articles of Incorporations, 10 % of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be distributed as legal reserve. In addition to distributing stock interest and 2% as bonus for employees, the remainder shall be allocated in accordance with the resolution in the directors' meeting.

B. 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.

C. According to the revised tax law of 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer standing.

D. According to the regulations issued by Securities and Futures Commission, the Company should assume that dividends of year 2001 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

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	For the years ended December 31,	
	2001(NT\$)	2001(US\$)
A. Distribution		
Bonus paid to employees-Cash	\$139,867	\$4,031
Bonus paid to employees-Stock	0	0
Remuneration paid to directors and supervisors	8,100	233
B. After income tax earnings per share (expressed in dollars)	\$1.81	\$0.05
Pro forma earnings per share (expressed in dollars)	\$1.79	\$0.05

$$\text{Pro forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

The surplus appropriation act of 2002 has not yet passed by the board of directors of the Company as the date of this audit report is issued.

## 15. Treasury Stock

(Unit: thousand shares)

Reason for transfer	Jan. 1, 2002	Increase	Decrease	Dec. 31, 2002
Transferred it to employees	156,927	0	0	156,927
Total	156,927	0	0	156,927

- (1) Pursuant to the Securities and Exchange Law of the R.O.C., the outstanding issued shares, which a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 31 2002, the Company had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$211,351).
- (2) Treasury stock of the Company was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. Meanwhile, the status of the Company was going unlisted company, and Cathay Financial Holding Co., Ltd. became the parent company with 100% shareholding on the basis of MOF.

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**16. Estimated Income Taxes**

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

	For the years ended December 31,			
	<u>2002</u> NT\$	<u>2002</u> US\$	<u>2001</u> NT\$	<u>2001</u> US\$
Income before Taxes	\$16,059,089	\$462,798	\$14,459,277	\$413,122
Adjustments				
Interest income of tax on a separate basis	(948,741)	(27,341)	(4,226,339)	(120,753)
Loss (gain) on disposal of investments	(207,335)	(5,975)	19,356,685	553,048
Loss (gain) on disposal of land	(11,110)	(320)	(2,440)	(70)
Loss (gain) on market price loss (recovery) of short-term investments	(1,934,216)	(55,741)	(15,670,907)	(447,740)
Bad debts exceeding legal limit	(603,685)	(17,397)	910,411	26,012
Unrealized exchange loss (gain)	(193,140)	(5,566)	(1,766,391)	(50,468)
Cash Dividend	(1,133,458)	(32,665)	(1,513,649)	(43,247)
Decrease in payment pension expense	720,677	20,769	1,058,864	30,253
Others	833	24	37,479	1,071
Taxable Income	<u>11,748,914</u>	<u>338,586</u>	<u>12,642,990</u>	<u>361,228</u>
Times; Taxes Rate; Less:				
Progressive difference	25% – 10	25%	25% – 10	25%
Add: Extra 10% Income Tax on Undistributed Retained Earnings	136,605	3,937	0	0
Underestimation (overestimation) of prior year income tax	0	0	(15,304)	(437)
Sub-Total	<u>3,073,823</u>	<u>88,583</u>	<u>3,145,433</u>	<u>89,870</u>
Add: Tax on a separate basis	189,748	5,468	845,268	24,151
Beginning deferred income tax assets	892,355	25,716	614,840	17,567
Ending deferred income tax liabilities	1,432,194	41,274	1,599,375	45,696
Less: Income tax credit	(126,248)	(3,638)	(81,806)	(2,338)
Beginning deferred income tax liabilities	(1,599,375)	(46,092)	(1,370,945)	(39,170)
Ending deferred income tax assets	<u>(649,565)</u>	<u>(18,719)</u>	<u>(892,355)</u>	<u>(25,496)</u>
Total Income Tax expenses	<u><u>\$3,212,932</u></u>	<u><u>\$92,592</u></u>	<u><u>\$3,859,810</u></u>	<u><u>\$110,280</u></u>

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

	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
A. Total deferred tax liabilities	\$1,432,194	\$41,274	\$1,599,375	\$45,696
Total deferred tax assets	\$649,565	\$18,719	\$892,355	25,496
B. Temporary differences:				
Employee benefits	\$68,071	\$1,962	\$116,972	\$3,342
Unrealized exchange gains				
(Losses)	(4,734,168)	(136,431)	(4,541,028)	(129,744)
Bad debts exceeding limit	1,580,302	45,542	2,377,580	67,931
Taxable temporary difference from recognition of pension expense	(76,930)	(2,217)	(797,607)	(22,789)
Other	32,211	928	16,004	457
C. Deferred tax assets-current	\$16,785	\$483	\$16,226	\$464
Deferred tax liabilities-current	(1,232,792)	(35,527)	(1,135,257)	(32,436)
Net offset balance of deferred tax assets (liabilities)-current	<u>(\$1,216,007)</u>	<u>(\$35,044)</u>	<u>(\$1,119,031)</u>	<u>(\$31,972)</u>
D. Deferred tax assets-noncurrent	\$632,780	\$18,236	\$876,129	\$25,032
Deferred tax Liabilities-noncurrent	(199,402)	(5,747)	(464,118)	(13,260)
Net offset balance of deferred income tax assets (liabilities) - noncurrent	<u>\$433,378</u>	<u>\$12,489</u>	<u>\$412,011</u>	<u>\$11,772</u>

(3) The Company's income tax returns, up until 2000, have been reviewed and approved by the tax authorities.

(4) Information related to tax imputation

	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$3,809,304	\$109,778	\$3,655,177	\$104,434

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	December 31,	
	2002	2001
Imputation credit account ratio ( stock dividends ) - Actual June 13, 2001	—	34.56%
Imputation credit account ratio ( stock dividends ) - Actual September 3, 2001	—	36.44%
Imputation credit account ratio ( stock dividends ) - Actual February 4, 2002	33.33%	—
Imputation credit account ratio ( stock dividends ) - Estimate	29.64%	—

(5) Related Information on Undistributed Earnings

Year	December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$105,651	\$3,045	\$ 866,407	\$24,755
After 1998	12,867,952	370,834	10,595,492	302,728
Total	\$12,973,603	\$373,879	\$11,461,899	\$327,483

Net income after tax for the years ended December 31, 2002 and 2001 were not induced in unappropriated earnings computation since 1998.

(6) The details of the tax credit for the Company meets the requirements of “Statute for Upgrading Industries”, are as follows:

Law of income tax deduction	The deductible items	The amount of deductible income tax	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	NT\$18,769(US\$541)	\$0	2006



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**17. Earning Per Share**

	For the years ended December 31,			
	<u>2002</u> NT\$	<u>2002</u> US\$	<u>2001</u> NT\$	<u>2001</u> US\$
Income from continuing operations before income taxes (a)	\$16,059,089	\$462,798	\$14,459,277	\$413,122
Net income (b)	<u>\$12,846,157</u>	<u>\$370,206</u>	<u>\$10,599,467</u>	<u>\$302,842</u>
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,838,615,765	5,838,615,765
Weighted average outstanding number of shares (c)	5,384,236,710	5,384,236,710	5,831,579,447	5,831,579,447
Adjusted weighted average outstanding number of shares (d)	5,384,236,710	5,384,236,710	5,831,579,447	5,831,579,447
Before income taxes				
Earnings per share (a) / (c) (dollars)	<u>\$2.98</u>	<u>\$0.09</u>	<u>\$2.48</u>	<u>\$0.07</u>
After income taxes				
Earnings per share (b) / (c) (dollars)	<u>\$2.39</u>	<u>\$0.07</u>	<u>\$1.81</u>	<u>\$0.05</u>
Before income taxes				
Adjusted earnings per share (a) / (d) (dollars)	<u>\$2.98</u>	<u>\$0.09</u>	<u>\$2.48</u>	<u>\$0.07</u>
After income taxes				
Adjusted earnings per share (b) / (d) (dollars)	<u>\$2.39</u>	<u>\$0.07</u>	<u>\$1.81</u>	<u>\$0.05</u>

The following table summarizes the changes in weighted-average of the outstanding number of shares:

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(Shares)	For the years ended December 31,	
	2002	2001
Shares at the beginning of year	5,838,615,765	5,398,633,969
Stock Dividends, 2001		539,325,796
Less: The treasury stock in		
4/30, 2001~ 6/13, 2001	0	(23,365,638)
The treasury stock in		
6/14, 2001 ~ 9/28,		
2001	0	(22,442,622)
The treasury stock in		
8/30, 2001 ~ 10/8, 2001	0	(15,618,666)
The treasury stock in		
10/2, 2001 ~ 2/18,		
2001	0	(39,577,392)
The treasury stock in		
10/25, 2000 ~ 11/16,		
2000	0	(5,376,000)
Treasury stock	(156,927,000)	0
Capital decrease	(297,452,055)	0
Total	5,384,236,710	5,831,579,447

For details related to the increase and decrease of capital, please refer to note 13.

**18. Related Party Transactions**

*(1) Related parties*

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Subsidiary of the company
Lin Yuan Investment Co., Ltd.	Their chairman is an second immediate family member of the Company's chairman
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
Cathay Life Charity Foundation	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an second immediate family member of the Company's chairman
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the company

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Symphox Information Co., Ltd.	Subsidiary of the company
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Cathay Life Insurance Agent Co., Ltd.	Affiliate
United World Chinese Commercial Bank	Affiliate
Seaward Insurance agent Corp.	The investee of United World Chinese Commercial Bank
Grand Pacific Petrochemical Corporation	The president of United World Chinese Commercial Bank acts as the vice president of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company

(2) *Significant Transactions with Related Parties*

A. Property Transactions (From related parties):

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

Name	Item	For the years ended December 31, 2002	
		NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Tainan Shopping Center	\$2,184,921	\$62,966
	Cathay General Hospital of Hsinchu	664,310	19,144
	Taitung Building	211,819	6,104
	Lin Yuan Financial building	1,608,917	46,367
	Hsinyi District Base	681,876	19,651
	Other	187,968	5,417
	Sub-total	5,539,811	159,649
Cathay Real Estate Development Co., Ltd.	Other	4,897	141
	Total	\$5,544,708	\$159,790

Name	Item	For the years ended December 31, 2001	
		NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Kaohsing International Business Building	\$118,856	\$3,396
	Lin Yuan Financ building	1,282,609	36,646
	Banchian Lin Yuan General Hospital	100,686	2,877
	Tainan Shopping Center	3,226,802	92,194
	Cathay General Hospital of Hsinchu	290,231	8,292
	Taitung Building	116,048	3,316
	Other	198,175	5,662
	Total	\$5,333,407	\$152,383

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1. The total amount of construction contracts for real estate on December 31, 2002 and 2001 between the Company and San Ching Engineering Co., Ltd. are \$19,940,725 (US\$574,661) and \$16,867,961 (US\$481,942) respectively. Up to December 31 in 2002 and 2001, \$9,274,524 (US\$267,277) and \$10,589,904 (US\$302,569) had been paid according to the schedule of construction contracts.
2. For the years ended December 31, 2002 and 2001, the Company purchased property and investments in real estate without selling them in previous years.
- b. The Company did not sell any real estate to its related parties during the years of 2002 and 2001.
- c. Real-Estate Rental Income (From related parties)

Name	Rental income			
	For the years ended December 31,			
	2002 NT\$	2002 US\$	2001 NT\$	2001 US\$
Cathay Real Estate Development Co., Ltd.	\$30,944	\$892	\$32,941	\$941
San Ching Engineering Co., Ltd.	19,962	575	21,018	600
Cathay Century Insurance Co., Ltd.	49,274	1,420	44,404	1,269
Cathay United Bank	135,933	3,917	145,408	4,155
Cathay Securities Investment Trust Co., Ltd.	9,131	263	8,217	235
Cathay Financial Holding Co., Ltd.	7,816	225	0	0
Cathay General Hospital	156,235	4,502	156,481	4,471
Symphox Information Co., Ltd.	30,735	886	31,947	913
Grand Pacific Petrochemical Corporation	1,121	32	0	0
Lin Yuan Property Management Co., Ltd.	62	2	0	0
Lin Ynan Investment Co., Ltd.	104	3	118	3
Total	<u>\$441,317</u>	<u>\$12,717</u>	<u>\$440,534</u>	<u>\$12,587</u>

Name	Guarantee deposits received			
	Dec. 31, 2002 NT\$	Dec. 31, 2002 US\$	Dec. 31, 2001 NT\$	Dec. 31, 2001 US\$
	Cathay Real Estate Development Co., Ltd.	\$12,386	\$357	\$12,386
San Ching Engineering Co., Ltd.	7,079	204	6,828	195
Cathay Century Insurance Co., Ltd.	12,730	367	10,589	302
Cathay United Bank	38,629	1,113	34,195	977
Cathay General Hospital	1,983	57	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	62	2,060	59
Grand Pacific Petrochemical Corporation	143	4	0	0
Lin Yuan Property Management Co., Ltd.	49	1	0	0
Symphox Information Co., Ltd.	1,421	41	70	2
Lin Ynan Investment Co., Ltd.	16	1	16	1
Total	<u>\$76,580</u>	<u>\$2,207</u>	<u>\$68,127</u>	<u>\$1,947</u>

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

d. Real-Estate Rental Expense (From related parties)

Name	Rental Expense			
	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
NT\$	US\$	NT\$	US\$	
Cathay Real Estate Development Co., Ltd.	\$27,098	\$781	\$28,548	\$816

Name	Guarantee Deposits paid			
	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2001
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,352	\$270	\$402,362	\$11,496

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

e. Disposal of Property and Equipment information:

Name	Item	2002			
		Amount		(Loss) Gain	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation Equipment	\$698	\$20	(\$12)	(\$0)

f. Acquisition of other Equipment

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$39,787	\$1,147	\$63,931	\$1,827

B. Cash In Bank

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December 31, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
Cathay United Bank	Time Deposit	\$15,002,350	\$7,650,350	1.85%~5.20%	\$205,674
	Cash In Bank	27,471,073	5,134,720	0%~2.4%	22,414
Total			<u>\$12,785,070</u>		<u>\$228,088</u>

December 31, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
United World Chinese Commercial Bank	Time Deposit	\$23,500,000	\$21,700,000	1.65%~4.60%	\$112,241
	Cash In Bank	262,250	158,486	0%~1.75%	240
Total			<u>\$21,858,486</u>		<u>\$112,481</u>

December 31, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
Cathay United Bank	Time Deposit	\$432,344	\$220,471	1.85%~5.20%	\$5,927
	Cash In Bank	791,674	147,975	0%~2.4%	646
Total			<u>\$368,446</u>		<u>\$6,573</u>

December 31, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
United World Chinese Commercial Bank	Time Deposit	\$677,233	\$625,360	1.65%~4.60%	\$3,235
	Cash In Bank	7,558	4,568	0%~1.75%	7
Total			<u>\$629,928</u>		<u>\$3,242</u>

December 31, 2001					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		(NT\$)	(NT\$)		
Cathay United Bank	Time Deposit	\$12,189,050	\$7,757,750	2.40% ~ 5.25%	\$277,407
	Cash In Bank	17,468,701	6,072,759	0% ~ 2.00%	40,690
Total			<u>\$13,830,509</u>		<u>\$318,097</u>

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Name	Item	December 31, 2001			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time Deposit	\$348,259	\$221,650	2.40% ~ 5.25%	\$7,926
	Cash In Bank	499,106	173,507	1.15% ~ 2.00%	1,163
Total			\$395,157		\$9,089

**C. Regular Secured Loans**

Name	December 31, 2002			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	\$1,174,594	\$1,173,912	5.21% ~ 4.44%	\$54,685

Name	December 31, 2002			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	\$33,850	\$33,830	5.21% ~ 4.44%	\$1,576

Name	December 31, 2001			
	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	\$1,175,179	\$1,174,594	7.575% ~ 5.21%	\$84,370

Name	December 31, 2001			
	Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay General Hospital	\$33,577	\$33,560	7.575% ~ 5.21%	\$2,411

**D. Marketable Securities-Stock**

Name	Item	December 31, 2002		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,700	\$27,000	\$778

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Name	Item	December 31, 2001		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Taipei Financial Center Corp.	61,724	\$729,573	\$20,845
	SMBC-Cathay Co., Ltd.	20,000	259,200	7,406

**E. Beneficiary Certificates:**

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$3,589,039	\$103,431	\$1,838,609	\$52,532

**F. Temporary Payments and Suspense**

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$0	\$0	\$81,378	\$2,325

**G. Notes Receivable**

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$35,332	\$1,018	\$23,607	\$674
Symphox Information Co., Ltd.	721	21	0	0
Cathay Century Insurance Co., Ltd.	58	2	0	-
Total	\$36,111	\$1,041	\$23,607	\$674

**H. Accounts Payable-Related Parties**



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Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$0	\$0	\$4,983	\$142
Cathay Real Estate Development Co., Ltd.	0	0	320	9
Cathay Century Insurance Co., Ltd.	4,353	126	24,253	693
Lin Yuan Property Management Co., Ltd.	491	14	1,018	29
Symphox Information Co., Ltd.	28,428	819	1,422	41
Total	<u>\$33,272</u>	<u>\$959</u>	<u>\$31,996</u>	<u>\$914</u>

**I. Accounts Collected in Advance**

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century insurance Co., Ltd.	\$2,217	\$64	\$1,905	\$54
Other	468	13	712	20
Total	<u>\$2,685</u>	<u>\$77</u>	<u>\$2,617</u>	<u>\$74</u>

**J. Prepayment**

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$159,382</u>	<u>\$4,593</u>	<u>\$0</u>	<u>\$0</u>

**K. Insurance Expense**

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$131,432</u>	<u>\$3,788</u>	<u>\$110,851</u>	<u>\$3,167</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
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Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on December 31, 2002 and 2001 amounts of \$12,281 (US\$354) and \$14,373 (US\$411) were paid for employees' fidelity guarantee insurance.

L. Indemnity Income

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$17,700	\$510	\$13,102	\$374

Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received in December 31, 2002 and 2001, \$10,316 (US\$297) and \$10,122 (US\$289), represented claims for employees' fidelity guarantee insurance.

M. Reinsurance Income

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$136,408	\$3,931	\$21,727	\$621

N. Reinsurance Expense

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$81,414	\$2,346	\$12,813	\$366

O. Commissions Income

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Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,738	\$79	\$0	\$0

**P. Commissions Expense**

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$27,531	\$793	\$0	\$0
Seaward Insurance agent Corp.	63,449	1,829	0	0
Total	<u>\$90,980</u>	<u>\$2,622</u>	<u>\$0</u>	<u>\$0</u>

**Q. Guarantee Deposit Paid**

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Wan Pao Development Co., Ltd.	\$0	\$0	\$600,000	\$17,143

Guarantee deposit paid is deposited to Wan Pao Development Co., Ltd. This amount will be paid back without interest when the buildings constructed by the Company receive the “user license”.

**R. Donations**

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$350,000	\$10,086	\$0	\$0
Cathay Life Charity Foundation	-	-	20,000	571
	<u>\$350,000</u>	<u>\$10,086</u>	<u>\$20,000</u>	<u>\$571</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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S. Other Expense (Marketing Expense)

	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$239,738	\$6,909	\$142,633	\$4,075

T. Repairs And Maintenance (Administrative and general expense)

	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$961,687	\$27,714	\$840,969	\$24,028
Cathay Real Estate Development Co., Ltd.	4,286	124	263	7
Total	\$965,973	\$27,838	\$841,232	\$24,035

**19. Pledged Assets**

Item	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,730,262	\$222,774	\$9,045,139	\$258,432
Time Deposits	711,550	20,506	739,850	21,139
Total	\$8,441,812	\$243,280	\$9,784,989	\$279,571

As of December 31, 2002 and 2001, the Company pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, we agree to purchase the time certificates by the security deposit received as a guarantee. In addition, they also served the deposits as a guarantee for the Law court. According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guaranteed deposits.

**CATHAY LIFE INSURANCE CO., LTD.**  
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**20. Other Important Matters and Contingent Liabilities**

Up to the date of December 31, 2002 signed sales contracts and construction contracts of approximately \$ 2,056 million (US\$59 million) dollars, respectively, are still in progress and remain open projects. About \$1,468 million (US\$42 million) dollars had been paid as of December 31,2002.

**21.Serious Damages: None**

**22.Subsequent Events: None**

**23.Other Important Events**

**(1) Pension Related Information**

1. Pension funded status:

	Year Ended December 31,			
	2002	2002	2001	2001
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Vested benefit obligation	(\$4,719,843)	(\$136,019)	(\$4,275,960)	(\$122,170)
(2) Non-vested benefit obligation	(3,246,744)	(93,566)	(2,770,200)	(79,149)
(3) Accumulated benefit obligation	(7,966,587)	(229,585)	(7,046,160)	(201,319)
(4) Additional benefits based on future salaries	(1,872,973)	(53,976)	(1,723,336)	(49,238)
(5) Projected benefit obligation	(9,839,560)	(283,561)	(8,769,496)	(250,557)
(6) Vested benefit	(7,266,281)	(209,403)	(6,885,074)	(196,716)
(7) Fair value of plan assets	8,171,944	235,503	8,607,006	245,915
(8) Funded status = (5) + (7)	(1,667,616)	(48,058)	(162,490)	(4,642)
(9) Unrecognized transitional net benefit obligation (net assets)	(3,029,591)	(87,308)	(3,408,290)	(97,380)
(10) Unrecognized prior service cost	465,601	13,418	517,334	14,781
(11) Unrecognized pension gain and loss	4,308,536	124,165	3,851,053	110,030
(12) Additional accrued pension liability	0	0	0	0
(13) Accrued pension liability /prepaid pension cost				
=(8)+(9)+(10)+(11)+(12)	<u>\$76,930</u>	<u>\$2,217</u>	<u>\$797,607</u>	<u>\$22,789</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
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2. Actuarial assumptions

	Year Ended December 31,	
	2002	2001
(1) Discount rate	4.00%	4.50%
(2) Rate of increase in future salaries	3.00%	3.00%
(3) Expected return on pension plan Assets	4.00%	4.50%

**(2) Financial Instruments Related Information**

(a) Derivative Financial Instruments related information

1. Credit and Market Risk

The Company entered into forward contracts with financial institutions, with good credit. In addition, the Company entered into contracts with many financial institutions to hedge risk. Losses incurred from exchange rate fluctuation can be offset by forward hedging contracts.

2. Cash Flow and Demand

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

3. Futures

All futures transaction had offset on December 31, 2002.

4. Forward Contract

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

(2) As of December 31, 2002 and 2001, the Company has forward exchange contracts of approximately US\$3,790,000 and US\$1,069,000 respectively in notional value.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
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5. Interest Rate Swap Agreement (IRS)

The IRS agreement is applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of December 31, 2002. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRS	NT	2002.05.02~2009.12.16	\$24,200,000

(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 December 31, 2002 and 2001, is the same as the estimated fair market value:

Item	December 31,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$282,304,744	\$282,304,744	\$8,135,583	\$8,135,583

Item	December 31,			
	<u>2001</u>		<u>2001</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$215,705,693	\$215,705,693	\$6,163,020	\$6,163,020

(3) **Discretionary Account Management**

Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,000,211	\$28,824	\$936,044	\$26,975
Repurchase bonds	5,077,614	146,329	5,077,614	146,329
Short-term securities	216,680	6,244	216,680	6,244
Bonds	907,013	26,139	975,373	28,109
Cash in bank	297,639	8,578	297,639	8,578
Net other assets less liabilities	(10,009)	(288)	(10,009)	(288)
Total	<u>\$7,489,148</u>	<u>\$215,826</u>	<u>\$7,493,341</u>	<u>\$215,947</u>

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Item	December 31, 2001			
	Book Value		Fair Value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Stocks	\$1,818,459	\$51,956	\$1,915,431	\$54,727
Short-term securities	675,434	19,298	675,434	19,298
Time deposit	100,000	2,857	100,000	2,857
Cash in bank	564,218	16,121	564,218	16,120
Net other assets less liabilities	3,046	87	3,046	87
Total	\$3,161,157	\$90,319	\$3,258,129	\$93,089

**(4) Material Contract:** None

**(5) Other:**

On December 25, 2002, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 thousand dollars as the capital of investment in order to found a new company called Guangzhou Cathay life insurance Co., Ltd. However, we are only in the preparatory stage and have not yet invested substantially.

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

**19. Segment Information:** None