

**CATHAY FINANCIAL HOLDING CO., LTD.  
FINANCIAL STATEMENTS  
TOGETHER WITH  
REVIEW REPORT  
AS OF MARCH 31, 2003 AND 2002**

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

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## **Review Report**

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

We have reviewed the accompanying balance sheets of Cathay Financial Holding Co., Ltd. as of March 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the three-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 did not review the financial statements for the three months ended March 31, 2003 of Cathay United Bank Co., Ltd., and United World Chinese Commercial Bank Co., Ltd., a wholly owned subsidiaries. The total investment for the subsidiaries is NT\$67,715 millions (US\$1,949 millions) which represent 47.07% of total assets as of March 31, 2003. Related investment gain is NT\$2,300 millions (US\$66 millions) which represent 31.94% of income before taxes for the three months ended March 31, 2003. The statements were reviewed by other auditors whose report have been furnished to us, insofar as it relates to the amounts, is based solely on the report of the other auditors.

We conducted our reviews in accordance with generally accepted auditing standards in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquires to persons responsible 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 and the report of other auditors, 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

April 18, 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 review such financial statements are those generally accepted and applied in the Republic of China.

**CATHAY FINANCIAL HOLDING CO.,LTD.**  
**BALANCE SHEETS**  
(Expressed in thousands of dollars)  
As of March 31, 2003 and 2002

Assets	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Current assets:</b>						
Cash and cash equivalents(Notes 2,4)	\$10,650,457	\$306,488	7.40	\$598,948	\$17,113	0.75
Short-term investments(Notes 2,5)	123,864	3,564	0.09	9,570,000	273,429	12.01
Tax refund receivable	0	0	0.00	37	1	0.00
Interest receivable	121,858	3,507	0.08	1,371	39	0.00
Other receivable	108,424	3,120	0.08	8,100	231	0.01
Deferred income tax assets-current	4,069	117	0.00	0	0	0.00
Prepayments	6	0	0.00	0	0	0.00
Sub-total	11,008,678	316,796	7.65	10,178,456	290,813	12.77
<b>Funds, Long-term investments and Receivable</b>						
Long-term investments in stocks(Notes 2,6)						
Long-term investments under equity method	131,687,502	3,789,569	91.55	69,522,967	1,986,370	87.22
Prepayments for long-term investments in stocks	600,000	17,266	0.42	0	0	0.00
Sub-total	132,287,502	3,806,835	91.97	69,522,967	1,986,370	87.22
<b>Property and equipment(Note 2)</b>						
Transportation and communication equipment	2,499	72	0.00	0	0	0.00
Other equipment	2,668	77	0.00	2,327	67	0.00
Sub-total	5,167	149	0.00	2,327	67	0.00
Less: Accumulated depreciation	(527)	(15)	0.00	(46)	(1)	0.00
Sub-total	4,640	134	0.00	2,281	66	0.00
<b>Other assets</b>						
Temporary payments and suspense accounts	2,275	65	0.00	4,417	126	0.01
Deferred income tax assets -noncurrent	192,985	5,554	0.13	0	0	0.00
Deferred charges	354,184	10,192	0.25	0	0	0.00
Sub-total	549,444	15,811	0.38	4,417	126	0.01
<b>Total assets</b>	<b>\$143,850,264</b>	<b>\$4,139,576</b>	<b>100.00</b>	<b>\$79,708,121</b>	<b>\$2,277,375</b>	<b>100.00</b>
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current liabilities</b>						
Collections for others	\$515	\$15	0.00	\$0	\$0	0.00
Accrued expenses	2,429	70	0.00	5,521	158	0.00
Income taxes payable	380	11	0.00	0	0	0.00
Dividends payable	922	27	0.00	0	0	0.00
Other payables	0	0	0.00	8,100	231	0.01
Sub-total	4,246	123	0.00	13,621	389	0.01
<b>Long-term liabilities</b>						
Bonds payable(Notes 2,7,20)	25,227,181	725,962	17.53	0	0	0.00
Sub-total	25,227,181	725,962	17.53	0	0	0.00
<b>Other liabilities</b>						
Temporary receipts and suspense accounts	849	24	0.00	0	0	0.00
Sub-total	849	24	0.00	0	0	0.00
<b>Total liabilities</b>	<b>25,232,276</b>	<b>726,109</b>	<b>17.53</b>	<b>13,621</b>	<b>389</b>	<b>0.01</b>
<b>Stockholders' Equity</b>						
Capital stock						
Common stock(Note 8)	83,074,891	2,390,644	57.75	58,386,158	1,668,176	73.25
Capital surplus(Note 9)	55,839,804	1,606,901	38.82	23,646,439	675,613	29.67
Retained earnings(Note 10)						
Legal reserve	13,713	395	0.01	0	0	0.00
Unappropriated retained earnings	16,642,940	478,933	11.57	4,989,107	142,546	6.26
Equity adjustments(Notes 2,6)						
Unrealized valuation losses on long-term equity investments	(592,256)	(17,043)	(0.41)	0	0	0.00
Cumulative translation adjustments	183,374	5,277	0.13	6,659	190	0.01
Treasury stock(Notes 2,10,11)	(36,544,478)	(1,051,640)	(25.40)	(7,333,863)	(209,539)	(9.20)
<b>Total stockholders' equity</b>	<b>118,617,988</b>	<b>3,413,467</b>	<b>82.47</b>	<b>79,694,500</b>	<b>2,276,986</b>	<b>99.99</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$143,850,264</b>	<b>\$4,139,576</b>	<b>100.00</b>	<b>\$79,708,121</b>	<b>\$2,277,375</b>	<b>100.00</b>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 to US\$1.00)

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

**CATHAY FINANCIAL HOLDING CO.,LTD.**  
**STATEMENTS OF INCOME**  
(Expressed in thousands of dollars,except earning per share)  
**For The Three Months Ended March 31, 2003 and 2002**

	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Operating revenues(Note 2)</b>						
Interest income	\$123,210	\$3,546	1.64	\$9,933	\$284	0.20
Gain on long-term equity investments	7,374,157	212,206	98.36	4,930,847	140,881	99.80
Sub-total	<u>7,497,367</u>	<u>215,752</u>	<u>100.00</u>	<u>4,940,780</u>	<u>141,165</u>	<u>100.00</u>
<b>Operating costs(Note 2)</b>						
Interest expenses	(210,702)	(6,064)	(2.81)	0	0	0.00
Loss on foreign exchange	(4,526)	(130)	(0.06)	0	0	0.00
Sub-total	<u>(215,228)</u>	<u>(6,194)</u>	<u>(2.87)</u>	<u>0</u>	<u>0</u>	<u>0.00</u>
<b>Operating gross profit</b>	<u>7,282,139</u>	<u>209,558</u>	<u>97.13</u>	<u>4,940,780</u>	<u>141,165</u>	<u>100.00</u>
<b>Operating expenses</b>						
Administrative and general expenses	(80,196)	(2,308)	(1.07)	(98,970)	(2,828)	(2.00)
<b>Operating income</b>	<u>7,201,943</u>	<u>207,250</u>	<u>96.06</u>	<u>4,841,810</u>	<u>138,337</u>	<u>98.00</u>
<b>Non-operating revenues</b>						
Miscellaneous income	0	0	0.00	8,100	232	0.16
Sub-total	<u>0</u>	<u>0</u>	<u>0.00</u>	<u>8,100</u>	<u>232</u>	<u>0.16</u>
<b>Income from continuing operations before income taxes</b>	<u>7,201,943</u>	<u>207,250</u>	<u>96.06</u>	<u>4,849,910</u>	<u>138,569</u>	<u>98.16</u>
Income taxes(Notes 2, 13)	43,826	1,261	0.58	(1,913)	(55)	(0.04)
<b>Net income</b>	<u><u>\$7,245,769</u></u>	<u><u>\$208,511</u></u>	<u><u>96.64</u></u>	<u><u>\$4,847,997</u></u>	<u><u>\$138,514</u></u>	<u><u>98.12</u></u>
<b>Earnings per share(expressed in dollars)</b>						
Primary earnings per share:						
Before income tax earnings per share	<u>\$0.97</u>	<u>\$0.03</u>		<u>\$0.85</u>	<u>\$0.02</u>	
After income tax earnings per share	<u>\$0.97</u>	<u>\$0.03</u>		<u>\$0.85</u>	<u>\$0.02</u>	
Fully-diluted earnings per share:						
Before income tax earnings per share	<u>\$0.94</u>	<u>\$0.03</u>				
After income tax earnings per share	<u>\$0.94</u>	<u>\$0.03</u>				
<b>Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock:</b>						
Income from continuing operations before income taxes	\$7,250,825	\$208,657				
<b>Net income</b>	<u>\$7,294,650</u>	<u>\$209,918</u>				
<b>Earnings per share(expressed in dollars) (Note14)</b>						
Primary earnings per share:						
Before income tax earnings per share	<u>\$0.93</u>	<u>\$0.03</u>				
After income tax earnings per share	<u>\$0.94</u>	<u>\$0.03</u>				
Fully-diluted earnings per share:						
Before income tax earnings per share	<u>\$0.91</u>	<u>\$0.03</u>				
After income tax earnings per share	<u>\$0.91</u>	<u>\$0.03</u>				

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 to US\$1.00)

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

**CATHAY FINANCIAL HOLDING CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Expressed in thousands of dollars)  
**For The Three Months Ended March 31, 2003 and 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		Treasury Stock		Total	
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
<b>Balance on January 1, 2002</b>	\$58,386,158	\$1,668,176	\$23,650,414	\$675,726	\$0	\$0	\$137,135	\$3,919	\$6,657	\$190	\$0	\$0	(\$7,333,863)	(\$209,539)	\$74,846,501	\$2,138,472
Cumulative translation adjustments									2	0					2	0
Net income after tax for the three months ended March 31, 2002							4,847,997	138,514							4,847,997	138,514
Capital surplus-return from disposal of property and equipment			(3,975)	(113)			3,975	113							0	0
<b>Balance on March 31, 2002</b>	<u>\$58,386,158</u>	<u>\$1,668,176</u>	<u>\$23,646,439</u>	<u>\$675,613</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,989,107</u>	<u>\$142,546</u>	<u>\$6,659</u>	<u>\$190</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$7,333,863)</u>	<u>(\$209,539)</u>	<u>\$79,694,500</u>	<u>\$2,276,986</u>
<b>Balance on January 1, 2003</b>	\$84,531,631	2,432,565	\$56,807,974	\$1,634,762	\$13,713	\$395	\$13,085,153	\$376,551	\$199,570	\$5,743	(\$1,032,426)	(\$29,710)	(\$42,706,265)	(\$1,228,958)	\$110,899,350	\$3,191,348
Retired treasury stock	(1,456,740)	(41,921)	(978,976)	(28,172)			(3,687,982)	(106,129)					6,123,698	176,222	0	0
Treasury stock transactions			10,806	311											10,806	311
Cumulative translation adjustments									(16,196)	(466)					(16,196)	(466)
Unrealized valuation losses on long-term equity investments											440,170	12,667			440,170	12,667
Treasury stock													38,089	1,096	38,089	1,096
Net income after tax for the three months ended March 31, 2003							7,245,769	208,511							7,245,769	208,511
<b>Balance on March 31, 2003</b>	<u>\$83,074,891</u>	<u>\$2,390,644</u>	<u>\$55,839,804</u>	<u>\$1,606,901</u>	<u>\$13,713</u>	<u>\$395</u>	<u>\$16,642,940</u>	<u>\$478,933</u>	<u>\$183,374</u>	<u>\$5,277</u>	<u>(\$592,256)</u>	<u>(\$17,043)</u>	<u>(\$36,544,478)</u>	<u>(\$1,051,640)</u>	<u>\$118,617,988</u>	<u>\$3,413,467</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 to US\$1.00)

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

**CATHAY FINANCIAL HOLDING CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in thousands of dollars)**  
**For the Three Months Ended March 31, 2003 and 2002**

	2003		2002	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$7,245,769	\$208,511	\$4,847,997	\$138,514
Adjustments:				
Amortizations	36,341	1,046	81,378	2,325
Depreciation	180	5	46	1
Cash dividends received in excess of unrealized gain on long-term investments	(7,374,157)	(212,206)	5,323,536	152,101
Increase(decrease) in bonds payable redemption premium	210,702	6,064	0	0
Decrease (increase) in short-term investments	326,391	9,393	(9,570,000)	(273,429)
Decrease (increase) in tax refund receivable	0	0	(37)	(1)
Decrease (increase) in interest receivable	(77,652)	(2,235)	(1,371)	(39)
Decrease (increase) in other receivable	0	0	(8,100)	(232)
Decrease (increase) in deferred income tax assets-noncurrent	(51,658)	(1,487)	0	0
Decrease (increase) in temporary payments and suspense accounts	(1,647)	(47)	(4,417)	(126)
Increase (decrease) in collections for others	10	0	0	0
Increase (decrease) in accrued expenses	(402,621)	(11,586)	(75,857)	(2,167)
Increase (decrease) in tax payable	380	11	0	0
Increase (decrease) in dividends payable	(41)	(1)	0	0
Increase (decrease) in other payable	0	0	8,100	232
Increase (decrease) in temporary receipts and suspense accounts	141	4	0	0
<b>Net cash provided by (used in) operating activities</b>	<u>(87,862)</u>	<u>(2,528)</u>	<u>601,275</u>	<u>17,179</u>
<b>Cash flows from investing activities</b>				
Acquisition of long-term investments in stocks	(600,000)	(17,266)	0	0
Acquisition of property and equipment	(2,519)	(73)	(2,327)	(66)
Decrease (increase) in deferred charges	4,526	130	0	0
<b>Net cash provided by (used in) investing activities</b>	<u>(597,993)</u>	<u>(17,209)</u>	<u>(2,327)</u>	<u>(66)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(685,855)</u>	<u>(19,737)</u>	<u>598,948</u>	<u>17,113</u>
<b>Cash and cash equivalents at the beginning of period</b>	<u>11,336,312</u>	<u>326,225</u>	<u>0</u>	<u>0</u>
<b>Cash and cash equivalents at the end of period</b>	<u>\$10,650,457</u>	<u>\$306,488</u>	<u>\$598,948</u>	<u>\$17,113</u>
<b>Supplemental disclosure of cash flows information</b>				
Income tax paid	<u>\$7,453</u>	<u>\$214</u>	<u>\$1,913</u>	<u>\$55</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 to US\$1.00)

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



**CATHAY FINANCIAL HOLDING CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of March 31, 2003 and 2002**

**1. Organization of Business Scope**

Cathay Financial Holding Co., Ltd. (the “Company”) was incorporated in Taiwan on December 31, 2001 from Cathay Life Insurance Co., Ltd. (Cathay Life) by stock conversion method. Pursuant to the provisions of the Financial Holding Company Law of the Republic of China (“R.O.C.”). On April 22, 2002, Cathay Century Insurance Co., Ltd. (Cathay Century) and Cathay United Bank Co., Ltd. (Cathay Bank) joined Cathay Financial Holding Co. as two subsidiaries of the Company by stock conversion method. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (UWCCB) also merged into the Company by stock conversion method. The Company mainly engages in the financial holding business activities.

**2. Summary of Significant Accounting Policies**

We performed the financial statement, in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Financial Holding Company. Summary of significant accounting policies as follows:

*(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

**CATHAY FINANCIAL HOLDING CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of March 31, 2003 and 2002**

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

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

If changes occur in the capital structure of the invested companies causing an increase or decrease of the value of the 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 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.

**CATHAY FINANCIAL HOLDING CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of March 31, 2003 and 2002**

*(5) Deferred Charges*

Deferred Charges are amortized over the economic useful life by straight-line method.

*(6) Convertible Bonds Payable*

- A. The difference between the redemption price and face value of a convertible bond is amortized by the effective interest method and is credited to the reserve for bonds redemption accounts. In addition, this amortization is treated as interest expense.
- B. The book value approach is adopted when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible bonds payable and reserve for bonds redemption are transferred to the accounts of capital stock and capital surplus, accordingly, no gain or loss is recognized upon conversion.

*(7) Foreign-currency Transactions*

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

**CATHAY FINANCIAL HOLDING CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**(Expressed in thousands of dollars unless otherwise stated)**

**As of March 31, 2003 and 2002**

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 earnings.

*(9) 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 expense adjustment should be 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 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 future periods. Otherwise, it is expensed in the year of expenditure.

**CATHAY FINANCIAL HOLDING CO., LTD.**

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*(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.

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.

**CATHAY FINANCIAL HOLDING CO., LTD.**

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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 March 31, 2003 and 2002 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 March 31, 2003 and 2002, of NT\$34.75 and NT\$35.00 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**

	March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Petty cash	\$20	\$1	\$22	\$1
Cash in banks	678	20	71,099	2,031
Time deposits	2,163,130	62,248	100,000	2,857
Cash equivalents	8,486,629	244,219	427,827	12,224
Total	\$10,650,457	\$306,488	\$598,948	\$17,113

**5. Short-Term Investments**

	March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Beneficiary Certificates	\$0	\$0	\$9,570,000	\$273,429
Government bonds	123,864	3,564	0	0
Total	\$123,864	\$3,564	\$9,570,000	\$273,429

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As of March 31, 2003 and 2002, the Company didn't provide collateral or guarantee of government bonds on short-term investments.

**6. Long-Term Investments in stocks**

Name of Investee	March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
	Book Value	Book Value	Book Value	Book Value
Under the equity method:				
Cathay Life Insurance Co., Ltd.	\$61,274,307	\$1,763,289	\$69,522,967	\$1,986,370
Cathay Century Insurance Co., Ltd.	2,698,291	77,649	—	—
Cathay United Bank Co., Ltd.	12,168,880	350,184	—	—
United World Chinese Commercial Bank Co., Ltd.	55,546,024	1,598,447	—	—
Sub-Total	131,687,502	3,789,569	69,522,967	1,986,370
Prepayments for long-term investments in stocks				
Cathay Venture Capital Corp.	600,000	17,266	—	—
Total	<u>\$132,287,502</u>	<u>\$3,806,835</u>	<u>\$69,522,967</u>	<u>\$1,986,370</u>

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

	For the three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance at the beginning of year	\$123,840,475	\$3,563,755	\$74,839,844	\$2,138,281
Add (Less):				
Investment gains under equity method recognized	7,374,157	212,206	4,930,847	140,881
Add: Cumulative translation adjustments under equity method recognized	(16,195)	(466)	6,659	190
Add: Reversal unrealized valuation loss on long-term equity investments under equity method recognized	440,170	12,667	—	—

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Add: Disposal of holding company stocks that the subsidiaries held as investments were treated as treasury stocks	53,970	1,553	—	—
Less: Holding company stocks that the subsidiaries held as investments were treated as treasury stocks	(5,075)	(146)	—	—
Less: Cash dividends received	—	—	(10,254,383)	(292,982)
Balance on March 31	<u>\$131,687,502</u>	<u>\$3,789,569</u>	<u>\$69,522,967</u>	<u>\$1,986,370</u>

(2) The investment gains (losses) recognized by the equity method for the three months ended March 31, 2003 and 2002 are listed below:

	For the three month ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Life Insurance Co., Ltd.	\$4,945,007	\$142,302	\$4,930,847	\$140,881
Cathay Century Insurance Co., Ltd.	128,951	3,711	—	—
Cathay United Bank Co., Ltd.	459,232	13,215	—	—
United World Chinese Commercial Bank Co., Ltd.	1,840,967	52,978	—	—
Total	<u>\$7,374,157</u>	<u>\$212,206</u>	<u>\$4,930,847</u>	<u>\$140,881</u>

A. The Company, in the first quarter of year 2003 and 2002, issued its subsidiary Cathay Life Insurance Co., Ltd. reviewed by CPA with qualified opinions due to potential adjustments, except for the long-term investments under the equity method in parts of subsidiaries financial statements, which were in accordance with unreviewed report of its investee companies. The related amount (thousands of dollars) of long-term investments for these companies under the equity method were NT\$693,020 (US\$19,943) and NT\$671,380 (US\$19,182) as of March 31, 2003 and 2002, respectively. The related amount of investment gain (loss) were NT\$9,972(US\$287) and NT\$(3,294) (US\$94) for the periods ended March 31, 2003 and 2002. However, as no significant effects on the potential adjustments, the Company recognized its gain/ loss on investments in accordance with the financial statements of Cathay Life Insurance Co., Ltd. previously reviewed by CPA.



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- B. The Company, in the first quarter of year 2003, issued its the subsidiary Cathay Century Insurance Co., Ltd.'s review report with qualified opinions due to potential adjustments, except for the long-term investments in the amount of NT\$159,776(US\$4,598) under the equity method, and investment losses in the amount of NT\$883 (US\$25) which were in accordance with unreviewed report of its investee companies. However, as no significant effects on the potential adjustments, the Company recognized its gain/ loss on investments in accordance with the financial statements of Cathay Century Insurance Co., Ltd. previously reviewed by CPA.
- C. We did not review the financial statements for the three months ended March 31, 2003 of Cathay United Bank Co., Ltd., a subsidiary of Cathay Financial Holding Co., Ltd. (holding company). Cathay United Bank Co. were reviewed by other auditors with unreviewed report, which complied with the R.O.C. Financial Institution Merger Law amortizing the losses of disposition 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\$54,132). 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 March 31, 2003, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,515,412 (US\$43,609) 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.) decreased by NT\$94,725 (US\$2,726), the income before tax of its subsidiary increased by NT\$94,725 (US\$2,726), the income tax expenses from its subsidiary increased by NT\$23,681 (US\$ 681) and the net income after tax of the subsidiary increased by NT\$71,044 (US\$2,045) for the three months ended March 31, 2003. The investment gains of parent company accounted for under equity method recognized increased by NT\$71,044 (US\$2,045).
- D. We did not review the financial statements for the three months ended March 31, 2003 of UWCCB, other CPAs with unqualified opinions reviewed a subsidiary of Cathay Financial Holding Co., UWCCB. The Company recognized its gain/ loss on investments in accordance with the financial statements of UWCCB previously reviewed by CPAs.

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E. The company was established the subsidiary Cathay Pacific Venture Capital Corp. on the first quarter of year 2003. Cathay Venture Capital Corp. was incorporated in Taiwan on April 11, 2003, was not formally operation and admitted the investment statement of gain and loss by the first quarter of 2003.

F. The consolidated financial statements include the Company and its subsidiaries : Cathay Life Insurance Co., Ltd, Cathay Century Insurance Co., Ltd., Cathay United Bank Co., Ltd. and United World Chinese Commercial Bank for the three months ended March 31, 2003.

**7. Long-Term Liabilities**

	March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Zero Coupon Convertible Notes	\$24,500,000	\$705,036	\$0	\$0
Redemption premium payable	727,181	20,926	0	0
Total	<u>\$25,227,181</u>	<u>\$725,962</u>	<u>\$0</u>	<u>\$0</u>

Please see note 19, “Zero Coupon Notes Related Information” for details.

**8. Common Stock**

As of March 31, 2003 and 2002, the numbers of issued common shares were 8,307,489,100 and 5,838,615,765, respectively, with par value of 10 dollars.

**9. 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\$55,839,804(US\$1,606,901) and NT\$23,646,439 (US\$675,613) in March 31, 2003 and 2002. Before converting, there are NT\$1,882,294 (US\$54,167) and NT\$10,278,928 (US\$293,684) is belong to the subsidiaries retained earnings.

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- (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 Item 4 of Article 47 of the Financial Holding Company Law, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.
- (3) Beside the above-mentioned, pursuant to the 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.

**10. 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) The Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer in effect.

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- (4) According to related regulations if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.
- (5) In accordance with SFC regulations, subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock as of January 1, 2002. And the cost of these shares cannot be distributed as special reserve.
- (6) Dividends Policy

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

**11. Treasury Stock**

A. The following is a summary of the movement of treasury stock.

(Unit: in thousands of shares)

Reason for Transfer	Jan. 1,		March 31,		Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	2003	Increase	Decrease	2003	(in NT thousands of dollars)	(in US thousands of dollars)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
For the purpose to conserve the credit and stockholders' equity of Cathay Financial Holding Co., Ltd.	145,674	0	145,674	0	\$0	\$0	\$0	\$0	—	—
Subsidiaries translated it to employees	156,927	0	0	156,927	7,333,863	211,046	46.73	1.34	38.01	1.09
Parent's stock that the subsidiaries held were treated as treasury stock	369,490	101	1,200	368,391	13,538,025	389,584	36.75	1.06	38.01	1.09
Holding subsidiaries stocks by conversion were treated as treasury stock	348,897	0	0	348,897	15,672,590	451,010	44.92	1.29	38.01	1.09
Total	<u>1,020,988</u>	<u>101</u>	<u>146,874</u>	<u>874,215</u>	<u>\$36,544,478</u>	<u>\$1,051,640</u>				

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B. The Companies' stocks held by subsidiaries are illustrated as follows:

Name	Holding share	Amount (in NT thousands of dollars)	Amount (in US thousands of dollars)	Cause	About retained earnings limit	Legal time limit	Pro forma way by the board of directors determine
Cathay Life Insurance Co., Ltd.	156,927	\$7,333,863	\$211,046	Subsidiaries purchased share were translated	Treasury stock doesn't carry any stockholder rights	Within three years	None
Cathay Life Insurance Co., Ltd.	354,514	13,279,150	382,134	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay Century Insurance Co., Ltd.	3,397	129,131	3,716	None	None	Within three years	None
Cathay United Bank Co., Ltd.	1,310	49,926	1,437	None	None	Within three years	None
United World Chinese Commercial Bank Co., Ltd.	7,099	269,851	7,766	None	None	Within three years	None
Seaward Leasing Ltd.	2,071	78,603	2,262	None	None	Within three years	None
Total	525,318	\$21,140,524	\$608,361				

**12. Personnel 、 Depreciation 、 Depletion and Amortizations**

Item	For the three months ended March 31,2003 (NT\$)			For the three months ended March 31,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses	\$0	\$20,341	\$20,341	\$0	\$1,080	\$1,080
Salary and wages	0	12,530	12,530	0	1,080	1,080
Labor & health Insurance expenses	0	164	164	0	0	0
Pension expenses	0	0	0	0	0	0
Other expenses	0	7,647	7,647	0	0	0
Depreciation	0	180	180	0	46	46
Depletion	0	0	0	0	0	0
Amortizations	0	36,341	36,341	0	81,378	81,378

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Item	For the three months ended March 31,2003			For the three months ended March 31,2002		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses	\$0	\$585	\$585	\$0	\$31	\$31
Salary and wages	0	361	361	0	31	31
Labor & health Insurance expenses	0	5	5	0	0	0
Pension expenses	0	0	0	0	0	0
Other expenses	0	220	220	0	0	0
Depreciation	0	5	5	0	1	1
Depletion	0	0	0	0	0	0
Amortizations	0	1,046	1,046	0	2,325	2,325

The total number of employees is 35 on March 31, 2003.

**13. Estimated Income Taxes**

(1) Income tax expenses for the three months ended March 31, 2003 and 2002 is estimated as follows:

	For the three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Income before taxes	\$7,201,943	\$207,250	\$4,849,910	\$138,569
Adjustments:				
Interest income of tax on a separate basis	(30,473)	(877)	(9,565)	(273)
Investment gains recognized by equity method	(7,374,157)	(212,206)	(4,930,847)	(140,881)
Unrealized bonds payable redemption premium	210,702	6,064	0	0
Others	(4,069)	(117)	0	0
Taxable income	3,946	114	(90,502)	(2,585)
Times: Taxes rate	25%-10	—	25%-10	—
Sub-Total	976	28	0	0
Add: Tax on a separate basis	6,856	197	1,913	55
Deferred income tax expense (benefit)	(51,658)	(1,486)	0	0
Income taxes expense (benefit)	<u>(\$43,826)</u>	<u>(\$1,261)</u>	<u>\$1,913</u>	<u>\$55</u>

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

	For the three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
A. Total deferred income tax liabilities	\$0	\$0	\$0	\$0
B. Total deferred income tax assets	\$197,054	\$5,671	\$0	\$0
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from unrealized bonds payable redemption premium	\$727,181	\$20,926	\$0	\$0
b. Deductible temporary difference from organization costs amortization into 5 years	61,033	1,756	0	0
Sub-total	\$788,214	\$22,682	\$0	\$0
D. Deferred income tax assets-current	\$4,069	\$117	\$0	\$0
Deferred income tax liabilities-Current	0	0	0	0
Net offset balance of deferred income tax assets (liabilities)-current	\$4,069	\$117	\$0	\$0
E. Deferred income tax assets-noncurrent	\$192,985	\$5,554	\$0	\$0
Deferred income tax Liabilities- noncurrent	0	0	0	0
Net offset balance of deferred income tax assets (liabilities) - noncurrent	\$192,985	\$5,554	\$0	\$0

(3) The Company's income tax returns have been unapproved by the Tax Authorities.

(4) As per Article 49 of Financial Holding Company Law, the Company selected as the taxpayer as the shareholding is over 12 months within a taxable year of native subsidiaries and files the income tax returns with 10% tax of undistributed retained earnings to the Tax Authority under the Income Tax Law.

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(5) Information related tax imputation:

	March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance of imputation credit account	\$1,958,610	\$56,363	\$3,419,491	\$97,700
Imputation credit account ratio	28.31%		30.71%	

(6) Information relating of undistributed earnings:

Year	March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Prior to 1997	\$853,049	\$24,548	\$866,406	\$24,755
After 1998	14,114,398	406,170	9,549,657	272,847
Total	\$14,967,447	\$430,718	\$10,416,063	\$297,602

Undistributed retained earnings after 1998, the amount hadn't yet included the amount of the three months ended March 31, 2003 and 2002.

The undistributed earnings includes additional paid-in capital from the stock conversion which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.

The undistributed retained earnings before year 1997 were belonging to previous subsidiary stock conversion.



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**14. Earnings Per Share**

	For the three months ended March 31, 2003								
	Before income taxes		After income taxes		Shares	Before income tax EPS		After income tax EPS	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Net Income	\$7,201,943	\$207,250	\$7,245,769	\$208,511					
<b>Primary earnings per share</b>									
Net income for common stock holder	\$7,201,943	\$207,250	\$7,245,769	\$208,511	7,433,031,035	\$0.97	\$0.03	\$0.97	\$0.03
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	\$210,702	\$6,064	\$158,026	\$4,548	418,890,994				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	\$7,412,645	\$213,314	\$7,403,795	\$213,059	7,851,922,029	\$0.94	\$0.03	\$0.94	\$0.03
	For the three months ended March 31, 2002								
	Before income taxes		After income taxes		Shares	Before income tax EPS		After income tax EPS	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
	Net Income	\$4,849,910	\$138,569	\$4,847,997	\$138,514				
<b>Primary earnings per share</b>									
Net income for common stock holder	\$4,849,910	\$138,569	\$4,847,997	\$138,514	5,681,688,765	\$0.85	\$0.02	\$0.85	\$0.02
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	-	-	-	-	-	-	-	-	-
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	-	-	-	-	-	-	-	-	-

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

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(Shares)	March 31,	
	2003	2002
Shares at the beginning of year	8,453,163,100	5,838,615,765
Less: Treasury stock	(505,823,901)	(156,927,000)
The Company that the subsidiaries held were treated as treasury stock	(368,634,164)	0
Retired treasury stock	(145,674,000)	0
Total	<u>7,433,031,035</u>	<u>5,681,688,765</u>

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 three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Income before income taxes	\$7,250,825	\$208,657	\$4,849,910	\$138,569
Net income after income taxes	<u>\$7,294,650</u>	<u>\$209,918</u>	<u>\$4,847,997</u>	<u>\$138,514</u>
Before income taxes primary earnings per share (expressed in dollars)	<u>\$0.93</u>	<u>\$0.03</u>	<u>—</u>	<u>—</u>
After income taxes primary earnings per share (expressed in dollars)	<u>\$0.94</u>	<u>\$0.03</u>	<u>—</u>	<u>—</u>
Before income taxes fully – diluted earnings per share (expressed in dollars)	<u>\$0.91</u>	<u>\$0.03</u>	<u>—</u>	<u>—</u>
After income taxes fully – diluted earnings per shares (expressed in dollars)	<u>\$0.91</u>	<u>\$0.03</u>	<u>—</u>	<u>—</u>

Shares of the holding company were not held by its subsidiaries for the year ended March 31, 2002.

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**15. Related Party Transactions**

*(1) Related parties*

Name	Relationship
Cathay Life Insurance Co., Ltd.	Subsidiary of the Company
Cathay Century Insurance Co., Ltd.	Subsidiary of the Company
Cathay United Bank Co., Ltd.	Subsidiary of the Company
United World Chinese Commercial Bank Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Affiliate

*(2) Significant transactions with related parties:*

**A. Real-Estate Rental Expense**

Name	For the three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Life Insurance Co., Ltd.	\$2,052	\$59	\$0	\$0

**B. Cash in Bank**

Name	Item	For the three months ended March 31, 2003			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposits	\$1,817,571	\$1,400,000	1.2% ~ 2.5%	\$5,828
	Cash in Bank	5,120	651	0.5% ~ 1.0%	0
			<u>\$1,400,651</u>		

Name	Item	For the three months ended March 31, 2003			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time Deposits	\$52,304	\$40,288	1.2% ~ 2.5%	\$168
	Cash in Bank	147	19	0.5% ~ 1.0%	0
			<u>\$40,307</u>		

2002: None

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C. Interest Receivable

Name	For the three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay United Bank	\$293	\$8	\$0	\$0

D. Temporary Payments and Suspense accounts

Name	For the three months ended March 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Securities Investment Co., Ltd.	\$2,263	\$65	\$0	\$0

**16. Pledged Assets:** None.

**17. Other Important Matters and Contingent Liabilities:** None.

**18. Serious Damages:** None.

**19. Subsequent Events :** None.

**20. Other Important Events**

(1) Pension Related 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. 18 "Accounting for Pensions".

(2) Financial Instruments Related Information

(a) Derivative Financial Instruments:

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1. Credit and Market Risk

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

2. Cash Flow and Demand

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

3. Forward Contract

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

(2) As of March 31, 2003, the Company has forward exchange contract (the contract) of approximately US\$700,000. And the forward exchange contract period is from May 20, 2003 to May 20, 2007.

4. Foreign Currency Options

As of March 31, 2003:

Counterpart	Effective Date	Put Date	Amount (in thousands of dollars)
Goldman Sachs International	2003.5.20	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 March 31, 2003, is the same as the estimated fair market value.

(3) Zero Coupon Convertible Notes Related Information:

Issuer: Cathay Financial Holding Co., Ltd., a financial holding company organized under the 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.

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Offering: The Purchaser outside the United States is offering The International Notes in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). Goldman Sachs International is offering the Rule 144A Notes concurrently in the United States 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.

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 Holding 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 Holder or the Depository, as the case may be.

Repurchase at the Option of the Holder:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's Notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium. "Redemption Premium"

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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 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

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

**Redemption Amount at Maturity:**

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

**Negative Pledge:**

Subject to certain exceptions, Cathay Financial Holdings will not, and will procure that none of its Principal Subsidiaries (as defined herein) will, create or permit to subsist any Lien (as defined herein) to secure for the benefit of the holders of any International Investment Securities (as defined herein) any sum owing in respect thereof or any guarantee or indemnity thereof without making effective provision to secure the Notes (a) equally and ratably with such International Investment Securities with a similar Lien or (b) with such other security as shall be approved by Holders of not less than a majority in aggregate principal amount of the outstanding Notes. See "Description of the Notes-Certain Covenants-Negative Pledge".



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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 March 31, 2003.

(4) Material Contract: None.

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

**22. Segment Information:** None.

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**23. 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			
	March 31, 2003		March 31, 2002		March 31, 2003		March 31, 2002		March 31, 2003		March 31, 2002		March 31, 2003		March 31, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$505,328,184	\$14,541,818	\$433,183,490	\$12,376,671	\$7,542,385	\$217,047	\$7,163,633	\$204,675	\$46,235,567	\$1,330,520	\$41,314,582	\$1,180,417	\$229,536,972	\$6,605,380	\$262,484,460	\$7,499,556
Exchange bills negotiated, discounted, and loans	486,522,982	14,000,662	482,491,751	13,785,479	934,135	26,882	1,062,705	30,363	114,008,828	3,280,830	104,519,899	2,986,283	386,177,770	11,113,029	415,645,492	11,875,586
Funds and long-term investments	293,706,842	8,451,995	201,236,355	5,749,610	786,221	22,625	601,623	17,189	5,849,432	168,329	3,564,552	101,844	12,217,344	351,579	12,344,549	352,701
Fixed assets	16,133,473	464,273	14,818,403	423,383	64,751	1,863	42,935	1,227	1,657,218	47,690	1,260,872	36,025	23,150,647	666,206	22,955,482	655,871
Other assets (including intangible assets)	15,218,351	437,938	19,562,279	558,922	457,897	13,177	458,212	13,092	11,648,452	335,206	6,580,695	188,020	8,905,507	256,273	4,842,558	138,359
Current liabilities	8,833,778	254,209	7,801,305	222,895	864,945	24,890	671,857	19,196	166,912,846	4,803,247	145,003,713	4,142,963	603,350,046	17,362,592	650,891,057	18,596,888
Long-term liabilities	125,681	3,617	3,726	106	8,067	232	2,126	61	0	0	0	0	34,119	982	34,119	975
Other liabilities	1,233,399,876	35,493,522	1,073,964,280	30,684,693	6,084,954	175,107	5,770,218	164,863	267,638	7,702	144,655	4,134	709,713	20,422	954,719	27,277
Capital stocks	50,686,158	1,458,594	58,386,158	1,668,176	2,317,006	66,676	2,317,006	66,200	12,346,083	355,283	12,346,083	352,745	39,715,627	1,142,895	37,716,644	1,077,619
Capital surplus	3,048	88	126,519	3,615	0	0	724	21	0	0	88,315	2,523	5,095,598	146,636	5,870,989	167,743
Retained earnings	31,193,786	897,662	18,337,494	523,929	508,245	14,626	564,915	16,140	(127,070)	(3,657)	(342,166)	(9,776)	10,992,241	316,324	22,889,177	653,976
Equity adjustments	1,368	40	6,659	190	2,172	63	2,262	65	0	0	0	0	90,896	2,616	201,013	5,743
Treasury stocks	(7,333,863)	(211,046)	(7,333,863)	(209,539)	0	0	0	0	0	0	0	0	0	0	(285,177)	(8,148)
Total assets	\$1,316,909,832	\$37,896,686	\$1,151,292,278	\$32,894,065	\$9,785,389	\$281,594	\$9,329,108	\$266,546	\$179,399,497	\$5,162,575	\$157,240,600	\$4,492,589	\$659,988,240	\$18,992,467	\$718,272,541	\$20,522,073
Total liabilities	\$1,242,359,335	\$35,751,348	\$1,081,769,311	\$30,907,694	\$6,957,966	\$200,229	\$6,444,201	\$184,120	\$167,180,484	\$4,810,949	\$145,148,368	\$4,147,097	\$604,093,878	\$17,383,996	\$651,879,895	\$18,625,140
Total stockholders' equity	\$74,550,497	\$2,145,338	\$69,522,967	\$1,986,371	\$2,827,423	\$81,365	\$2,884,907	\$82,426	\$12,219,013	\$351,626	\$12,092,232	\$345,492	\$55,894,362	\$1,608,471	\$66,392,646	\$1,896,933

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**(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			
	The three months ended March 31,2003		The three months ended March 31,2002		The three months ended March 31,2003		The three months ended March 31,2002		The three months ended March 31,2003		The three months ended March 31,2002		The three months ended March 31,2003		The three months ended March 31,2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$98,001,044	\$2,820,174	\$86,110,014	\$2,460,286	\$5,778,816	\$166,297	\$2,666,148	\$76,176	\$2,873,322	\$82,685	\$2,486,698	\$71,049	\$7,158,625	\$206,003	\$8,918,217	\$254,806
Operating costs & expenses	(91,978,357)	(2,646,860)	(81,057,232)	(\$2,315,921)	(5,601,267)	(\$161,187)	(2,531,056)	(\$72,316)	(2,343,100)	(67,427)	(2,126,275)	(60,751)	(4,543,813)	(130,757)	(7,073,045)	(202,087)
Operating income	6,022,687	173,315	5,052,782	144,365	177,549	5,110	135,092	3,860	530,222	15,258	360,423	10,298	2,614,812	75,246	1,845,172	52,719
Non-operating revenues	229,690	6,610	78,504	2,243	342	10	2,080	59	23,309	671	8,932	255	50,242	1,446	41,811	1,195
Non-operating expenses	(6,998)	(201)	(566)	(16)	(693)	(20)	(84)	(2)	(3,274)	(94)	(2,543)	(73)	(245,330)	(7,060)	(86,236)	(2,464)
Operating income before taxes	6,245,379	179,723	5,130,720	146,592	177,198	5,100	137,088	3,917	550,257	15,835	366,812	10,480	2,419,724	69,632	1,800,747	51,450
Net income	4,965,478	142,891	5,078,814	145,109	135,718	3,906	100,837	2,881	460,545	13,254	243,794	6,965	1,869,724	53,805	1,525,247	43,579
Earning per share before taxes (in dollars)	\$1.27	\$0.04	\$0.90	\$0.03	\$0.76	\$0.02	\$0.59	\$0.02	\$0.45	\$0.01	\$0.30	\$0.01	\$0.61	\$0.02	\$0.48	\$0.01
Earning per share (in dollars)	\$1.01	\$0.03	\$0.89	\$0.03	\$0.59	\$0.02	\$0.44	\$0.01	\$0.37	\$0.01	\$0.20	\$0.01	\$0.47	\$0.01	\$0.41	\$0.01

Annotation: 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\$54,132). 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. The amortized loss amounted to NT\$94,725 (US\$2,726) for the first quarter in 2003. As of March 31, 2003, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,515,412(US\$43,609) and according to general accepted accounting principles, should be recognized as current expenses, other assets of its subsidiary decreased by NT\$1,136,559 (US\$32,707), retained earnings of its subsidiary decrease by NT\$1,136,559 (US\$32,707), provision for credit losses of its subsidiary (Cathay United Bank Co., Ltd.) decreased by NT\$94,725 (US\$2,726), the net income before tax of its subsidiary increased by NT\$94,725 (US\$2,726), the income tax expenses of its subsidiary increased by NT\$23,681 (US\$681) and the net income after tax of its subsidiary increased by NT\$71,044 (US\$2,045) for the year ended March 31, 2003.