

Cathay Financial Holding Co., Ltd. And Subsidiaries
Consolidated financial statements
Together with
Independent auditors' report
As of June 30, 2003 and 2002

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

Address: No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, ROC

Telephone: 886-2-2708-7698

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' report	2-3
Consolidated balance sheets as of June 30, 2003 and 2002	4
Consolidated statements of income for the six-month periods ended June 30, 2003 and 2002	5
Consolidated statements of changes in stockholders' equity for the six-month periods ended June 30, 2003 and 2002	6
Consolidated statements of cash flows for the six-month periods ended June 30, 2003 and 2002	7-8
Notes to financial statements	9-87



BDO Taiwan Union & Co.
Certified Public Accountants

Headquarters:
10, 11th Fl., No. 72 Sec. 2, Nan Jing E. Road Taipei,
Taiwan, ROC

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

Taichung Branch:

6th Fl., No. 306 Wen Hsin Road, Sec. 1, Taichung,
Taiwan, ROC

Telephone: 886-4-2329-1290 Fax: 886-4-2320-2524

Kaohsiung Branch:

15th Fl., No. 260 Chung Shang 2nd Road, Kaohsiung,
Taiwan, ROC

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

Independent auditors' report

To: Board of Directors

Cathay Financial Holding Co., Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Cathay United Bank Co., Ltd., and United World Chinese Commercial Bank Co., Ltd., wholly-owned subsidiaries of the Company. Total assets of such subsidiaries are NT\$863,384 million (US\$24,946 million) and NT\$842,101 million (US\$25,167 million), respectively, constituting 39.00% and 40.90%, respectively, of the total consolidated assets of the Company and its subsidiaries as of June 30, 2003 and 2002, and total revenues of such subsidiaries are NT\$20,178 million (US\$583 million) and NT\$22,491 million (US\$672 million), respectively, constituting 8.14% and 9.38%, respectively, of total consolidated revenues of the Company and its subsidiaries for the six-month periods ended June 30, 2003 and 2002. We did not audit financial statements of Cathay Pacific Venture capital Co., Ltd. a wholly-owned subsidiary of the Company. Total investment for the subsidiary is NT\$597 million (US\$17 million) as of June 30, 2003, and investment loss is NT\$3 million (US\$0.09 million) for the six-month periods ended June 30, 2003. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts, is based solely on the report of the other auditors.



BDO Taiwan Union & Co.
Certified Public Accountants

Headquarters:

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

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

Taichung Branch:

6th Fl., No. 306 Wen Hsin Road, Sec. 1, Taichung,
Taiwan, ROC

Telephone: 886-4-2329-1290 Fax: 886-4-2320-2524

Kaohsiung Branch:

15th Fl., No. 260 Chung Shang 2nd Road, Kaohsiung,
Taiwan, ROC

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

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

In our opinion, based upon our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. and its subsidiaries as of June 30, 2003 and 2002 and the results of their operations and their cash flows for the six-month periods ended June 30, 2003 and 2002 in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies", and the generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China

July 22, 2003

Notice to Readers

The accompanying consolidated 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 jurisdiction. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated balance sheets
(Expressed in thousands of dollars)
As of June 30, 2003 and 2002

Assets	2003			2002(Restated)		
	NT \$	US \$	%	NT \$	US \$	%
Current assets						
Cash and cash equivalents (Notes 2,4)	\$89,104,548	\$2,574,532	4.02	\$176,530,006	\$5,275,852	8.57
Due from banks	47,835,397	1,382,127	2.16	42,213,090	1,261,598	2.05
Due from Central Bank (Note 2)	39,950,195	1,154,296	1.81	34,178,567	1,021,475	1.66
Short-term investments (Notes 2,5)	465,721,129	13,456,259	21.03	432,825,267	12,935,603	21.02
Receivables (Note 2)	78,379,165	2,264,639	3.54	75,295,062	2,250,301	3.66
Deferred income tax assets-current (Note 2)	50,786	1,467	0.00	3,873,143	115,754	0.19
Prepayments	1,255,057	36,263	0.06	2,358,923	70,500	0.11
Premiums paid for others	13,623,162	393,619	0.62	13,391,286	400,218	0.65
Subtotal	735,919,439	21,263,202	33.24	780,665,344	23,331,301	37.91
Exchange bills negotiated discounted and loans (Notes 2,6)	986,912,602	28,515,244	44.58	971,746,018	29,042,021	47.20
Long-term investments in stock, bonds and real estate						
Long-term investments in stocks (Notes 2,7)	59,704,245	1,725,058	2.70	24,304,254	726,367	1.18
Long-term investments in bonds (Notes 2,8)	244,566,878	7,066,364	11.05	102,574,723	3,065,592	4.98
Investments in real estate (Notes 2,9)	93,958,349	2,714,775	4.24	91,552,803	2,736,187	4.45
Subtotal	398,229,472	11,506,197	17.99	218,431,780	6,528,146	10.61
Property and equipment						
Land	20,194,167	583,478	0.91	20,288,487	606,350	0.99
Buildings and structures	20,239,822	584,797	0.91	20,370,614	608,805	0.99
Furniture and fixtures	2,729,512	78,865	0.12	2,460,895	73,547	0.12
Transportation and communication equipment	234,081	6,764	0.01	230,643	6,893	0.01
Other equipment	7,823,855	226,058	0.35	6,973,383	208,410	0.34
Subtotal	51,221,437	1,479,962	2.30	50,324,022	1,504,005	2.45
Less: Accumulated depreciation	(11,794,935)	(340,796)	(0.53)	(10,700,406)	(319,797)	(0.52)
Unfinished construction	1,629,282	47,075	0.07	971,772	29,043	0.05
Subtotal	41,055,784	1,186,241	1.84	40,595,388	1,213,251	1.98
Intangible assets	7,107	205	0.00	6,118	183	0.00
Other assets						
Net non-operating assets	3,757,422	108,565	0.17	4,808,628	143,713	0.23
Miscellaneous assets	36,705,005	1,060,532	1.66	40,094,370	1,198,278	1.95
Deferred charges	3,505,788	101,294	0.16	2,419,830	72,320	0.12
Investment-linked products assets	7,952,269	229,768	0.36	52,060	1,556	0.00
Subtotal	51,920,484	1,500,159	2.35	47,374,888	1,415,867	2.30
Total assets	<u>\$2,214,044,888</u>	<u>\$63,971,248</u>	<u>100.00</u>	<u>\$2,058,819,536</u>	<u>\$61,530,769</u>	<u>100.00</u>
Liabilities & stockholders' equity						
Current liabilities						
Due to Central Bank	\$288,333	\$8,331	0.01	\$183,148	\$5,473	0.01
Due to banks	55,956,833	1,616,782	2.53	43,732,782	1,307,017	2.12
Payables	49,787,152	1,438,519	2.25	52,878,806	1,580,359	2.57
Deferred income tax liabilities-current (Note 2)	1,277,192	36,903	0.06	1,050,609	31,399	0.05
Accounts collected in advance	1,357,156	39,213	0.06	1,146,068	34,252	0.06
Subtotal	108,666,666	3,139,748	4.91	98,991,413	2,958,500	4.81
Deposits and remittances payables (Note 10)	684,350,538	19,773,202	30.91	657,012,152	19,635,749	31.91
Bankers acceptances and funds borrowed	1,810,412	52,309	0.08	1,804,271	53,923	0.09
Long-term liabilities						
Bonds payable (Note 11)	25,436,263	734,940	1.15	24,593,831	735,022	1.19
Reserve for land revaluation increment tax	37,845	1,093	0.00	37,846	1,131	0.00
Accrued pension liabilities	335,756	9,701	0.02	2,126	63	0.00
Subtotal	25,809,864	745,734	1.17	24,633,803	736,216	1.19
Other liabilities						
Reserve for operations and liabilities (Notes 2,12)	1,269,535,558	36,681,177	57.34	1,136,103,353	33,954,075	55.18
Guarantee deposits received	2,546,903	73,589	0.11	2,719,339	81,271	0.13
Minority interest	0	0	0.00	52,798,262	1,577,952	2.57
Investment-linked products liabilities	7,952,269	229,768	0.36	52,060	1,556	0.00
Subtotal	1,280,034,730	36,984,534	57.81	1,191,673,014	35,614,854	57.88
Total liabilities	<u>2,100,672,210</u>	<u>60,695,527</u>	<u>94.88</u>	<u>1,974,114,653</u>	<u>58,999,242</u>	<u>95.88</u>
Stockholders' equity						
Capital stock						
Common stock (Note 13)	83,074,891	2,400,315	3.75	60,958,728	1,821,839	2.96
Capital surplus (Note 14)	54,072,271	1,562,331	2.44	26,526,202	792,774	1.29
Retained earnings (Note 15)						
Legal reserve	1,335,046	38,574	0.06	13,713	410	0.00
Special reserve	1,833,255	52,969	0.08	0	0	0.00
Unappropriated retained earnings	10,084,130	291,365	0.46	5,333,533	159,400	0.26
Equity adjustments						
Unrealized valuation losses on long-term equity investments	(704,667)	(20,360)	(0.03)	(9,458)	(283)	0.00
Cumulative conversion adjustments	173,919	5,025	0.01	6,686	200	0.00
Treasury stock (Notes 2,16)	(36,496,167)	(1,054,498)	(1.65)	(8,124,521)	(242,813)	(0.39)
Total stockholders' equity	<u>113,372,678</u>	<u>3,275,721</u>	<u>5.12</u>	<u>84,704,883</u>	<u>2,531,527</u>	<u>4.12</u>
Total liabilities and stockholders' equity	<u>\$2,214,044,888</u>	<u>\$63,971,248</u>	<u>100.00</u>	<u>\$2,058,819,536</u>	<u>\$61,530,769</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of income
(Expressed in thousands of dollars, except earning per share)
For the six-month periods ended June 30, 2003 and 2002

	2003			2002(Restated)		
	NT \$	US \$	%	NT \$	US \$	%
Operating revenues (Note2)						
Interest income	\$39,205,621	\$1,132,783	15.82	\$41,423,900	\$1,238,013	17.27
Premiums income	123,274,399	3,561,814	49.75	141,563,399	4,230,825	59.01
Reinsurance commission earned	228,012	6,588	0.09	291,675	8,717	0.12
Claims recovered from reinsures	527,150	15,231	0.21	718,682	21,479	0.30
Recovered premiums reserve	62,310,841	1,800,371	25.15	46,018,177	1,375,319	19.18
Recovered special reserves	201,250	5,815	0.08	67,793	2,026	0.03
Recovered claims reserve	18,391	531	0.01	21,557	644	0.01
Commission and handling fee earned	2,331,142	67,354	0.94	1,332,251	39,816	0.56
Investment-linked products revenues	8,088,133	233,694	3.26	55,316	1,653	0.02
Commission income of stock brokerage	50,556	1,461	0.02	51,997	1,554	0.02
Gain on disposal of investments	3,383,191	97,752	1.37	3,854,464	115,196	1.61
Gain on long-term investments	519,212	15,002	0.21	19,580	585	0.01
Gain on investments-real estate	2,297,051	66,370	0.93	2,136,477	63,852	0.89
Gain on foreign exchange	365,971	10,574	0.15	0	0	0.00
Other operating income	4,971,330	143,639	2.01	2,329,731	69,627	0.97
subtotal	<u>247,772,250</u>	<u>7,158,979</u>	<u>100.00</u>	<u>239,884,999</u>	<u>7,169,306</u>	<u>100.00</u>
Operating costs (Note 2)						
Interest expenses	(5,290,546)	(152,862)	(2.14)	(8,508,329)	(254,284)	(3.55)
Insurance expenses	(1,248,051)	(36,060)	(0.50)	(1,396,723)	(41,743)	(0.58)
Brokerage expenses	(10,777,550)	(311,400)	(4.35)	(11,472,827)	(342,882)	(4.78)
Commissions expenses	(219,555)	(6,344)	(0.09)	(138,854)	(4,150)	(0.06)
Insurance claims payment	(66,768,820)	(1,929,177)	(26.95)	(59,254,177)	(1,770,896)	(24.70)
Provision for premiums reserve	(120,400,217)	(3,478,770)	(48.59)	(127,655,029)	(3,815,153)	(53.22)
Provision for special reserve	(1,259,667)	(36,396)	(0.51)	(1,166,664)	(34,867)	(0.50)
Contribution to the stabilization funds	(126,651)	(3,659)	(0.05)	(144,443)	(4,317)	(0.06)
Provision for claims reserve	(64,397)	(1,861)	(0.03)	(24,928)	(745)	(0.01)
Handling fee paid	(1,404,443)	(40,579)	(0.57)	(1,266,768)	(37,859)	(0.53)
Investment-linked products expenses	(8,088,133)	(233,693)	(3.26)	(55,317)	(1,653)	(0.02)
Commission charges of stock brokerage	(3,177)	(92)	0.00	(2,899)	(87)	0.00
Loss on foreign exchange	0	0	0.00	(385,578)	(11,524)	(0.16)
Provision for possible losses	(4,285,077)	(123,810)	(1.73)	(24,986,837)	(746,767)	(10.42)
Agency expenses	(1,166)	(34)	0.00	(451)	(13)	0.00
Other operating cost	(326,536)	(9,435)	(0.13)	(206,140)	(6,161)	(0.09)
subtotal	<u>(220,263,986)</u>	<u>(6,364,172)</u>	<u>(88.90)</u>	<u>(236,665,964)</u>	<u>(7,073,101)</u>	<u>(98.68)</u>
Operating gross profit	<u>27,508,264</u>	<u>794,807</u>	<u>11.10</u>	<u>3,219,035</u>	<u>96,205</u>	<u>1.32</u>
Operating expenses	<u>(11,307,912)</u>	<u>(326,724)</u>	<u>(4.56)</u>	<u>(11,181,852)</u>	<u>(334,185)</u>	<u>(4.66)</u>
Operating income	<u>16,200,352</u>	<u>468,083</u>	<u>6.54</u>	<u>(7,962,817)</u>	<u>(237,980)</u>	<u>(3.34)</u>
Non-operating revenues	<u>593,021</u>	<u>17,134</u>	<u>0.24</u>	<u>354,872</u>	<u>10,606</u>	<u>0.15</u>
Non-operating expenses	<u>(493,836)</u>	<u>(14,268)</u>	<u>(0.20)</u>	<u>(258,608)</u>	<u>(7,729)</u>	<u>(0.11)</u>
Income from continuing operations before income taxes	<u>16,299,537</u>	<u>470,949</u>	<u>6.58</u>	<u>(7,866,553)</u>	<u>(235,103)</u>	<u>(3.30)</u>
Income taxes (Notes 2, 18)	(2,527,425)	(73,026)	(1.02)	2,976,778	88,965	1.24
Minority interest income	<u>0</u>	<u>0</u>	<u>0.00</u>	<u>9,831,231</u>	<u>293,820</u>	<u>4.10</u>
Net loss (income) before acquisitions of the subsidiaries	<u>0</u>	<u>0</u>	<u>0.00</u>	<u>392,077</u>	<u>11,718</u>	<u>0.16</u>
Net income	<u>\$13,772,112</u>	<u>\$397,923</u>	<u>5.56</u>	<u>\$5,333,533</u>	<u>\$159,400</u>	<u>2.20</u>
Earnings per share(expressed in dollars) (Note19)						
Primary earnings per share:						
Income from continuing operations before income taxes	\$2.19	\$0.06		(\$1.36)	(\$0.04)	
Net income	<u>\$1.85</u>	<u>\$0.05</u>		<u>\$0.92</u>	<u>\$0.03</u>	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	\$2.13	\$0.06				
Net income	<u>\$1.79</u>	<u>\$0.05</u>				

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the six-month periods ended June 30, 2003 and 2002

	Capital stock		Retained earnings				Equity adjustments				Treasury stock	Total						
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative conversion adjustments	Unrealized valuation losses on long-term equity investments			NT \$		US \$						
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$		
Summary																		
Balance on January 1, 2002	\$58,386,158	\$1,744,954	\$23,650,414	\$706,827	\$0	\$0	\$0	\$0	\$137,135	\$4,098	\$6,657	\$199	\$0	\$0	(\$7,333,863)	(\$219,183)	\$74,846,501	\$2,236,895
Appropriations and distributions for 2001																		
Legal reserve					13,713	410			(13,713)	(410)							0	0
Cash dividends			(8,789,810)	(262,696)					(118,609)	(3,545)							(8,908,419)	(266,241)
Remuneration paid to directors and supervisors									(4,800)	(143)							(4,800)	(143)
Bonus paid to employees									(13)	0							(13)	0
Shares converted for issuing new shares	2,572,570	76,885															2,572,570	76,885
Net assets from merger			11,665,598	348,643													11,665,598	348,643
Cumulative conversion adjustments											29	1					29	1
Unrealized valuation losses on long-term equity investments													(9,458)	(283)			(9,458)	(283)
Treasury stock															(790,658)	(23,630)	(790,658)	(23,630)
Net income for the six-month period ended June 30, 2002									5,333,533	159,400							5,333,533	159,400
Balance on June 30, 2002	\$60,958,728	\$1,821,839	\$26,526,202	\$792,774	\$13,713	\$410	\$0	\$0	\$5,333,533	\$159,400	\$6,686	\$200	(\$9,458)	(\$283)	(\$8,124,521)	(\$242,813)	\$84,704,883	\$2,531,527
Balance on January 1, 2003	\$84,531,631	2,442,405	\$56,807,974	\$1,641,375	\$13,713	\$396	\$0	\$0	\$13,085,153	\$378,075	\$199,570	\$5,766	(\$1,032,426)	(\$29,830)	(\$42,706,265)	(\$1,233,929)	\$110,899,350	\$3,204,258
Disposal of fixed assets retransfer unappropriated retained earnings			(128,170)	(3,703)					128,170	3,703							0	0
Appropriations and distributions for 2002																		
Legal reserve					1,321,332	38,178			(1,321,332)	(38,178)							0	0
Special reserve							1,833,255	52,969	(1,833,255)	(52,969)							0	0
Cash dividends			(1,649,408)	(47,657)					(10,053,091)	(290,468)							(11,702,499)	(338,125)
Remuneration paid to directors and supervisors			(761)	(22)					(4,639)	(134)							(5,400)	(156)
Bonus paid to employees			(165)	(5)					(1,006)	(29)							(1,171)	(34)
Retired treasury stock	(1,456,740)	(42,090)	(978,976)	(28,286)					(3,687,982)	(106,558)					6,123,698	176,934	0	0
Capital surplus			3,013	87													3,013	87
Cumulative conversion adjustments											(25,651)	(741)					(25,651)	(741)
Unrealized valuation losses on long-term equity investments													327,759	9,470			327,759	9,470
Treasury stock			18,764	542											86,400	2,497	105,164	3,039
Net income for the six-month period ended June 30, 2003									13,772,112	397,923							13,772,112	397,923
Rounding					1	0											1	0
Balance on June 30, 2003	\$83,074,891	\$2,400,315	\$54,072,271	\$1,562,331	\$1,335,046	\$38,574	\$1,833,255	\$52,969	\$10,084,130	\$291,365	\$173,919	\$5,025	(\$704,667)	(\$20,360)	(\$36,496,167)	(\$1,054,498)	\$113,372,678	\$3,275,721

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)
The accompanying notes are an integral part of these consolidated financial statements.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Cathay Financial Holding Co., Ltd. And Subsidiaries
Consolidated statements of cash flows
(Expressed in thousands of dollars)
For the six-month periods ended June 30, 2003 and 2002

	2003		2002(Restated)	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$13,772,112	\$397,923	\$5,333,533	\$159,400
Adjustments:				
Income (loss) for minority interest	0	0	(9,831,231)	(293,820)
Net income (loss) before acquisitions of the subsidiaries	0	0	(392,077)	(11,718)
Loss (gain) on bad debt	2,018,561	58,323	2,654,084	79,321
Amortizations and depreciation expenses	1,623,061	46,896	3,498,459	104,556
Provision for reserve for operations	123,982,141	3,582,263	149,323,974	4,462,761
Recovered reserve for operations	(61,139,955)	(1,766,540)	(45,224,167)	(1,351,589)
Valuation loss on short-term investment	(4,500,773)	(130,043)	(2,303,261)	(68,836)
Applicant terminates the insurance contract income	(1,390,525)	(40,177)	(884,328)	(26,429)
Loss(gain) on disposal of other real estate owned	47,970	1,386	0	0
Loss (gain) on disposal of property and equipment	(66,079)	(1,909)	15,894	475
Valuation loss on other real estate owned	100,000	2,889	0	0
Increase (decrease) in bonds payable redemption	419,784	12,129	93,831	2,804
Loss (gain) on disposal of investments	(2,434,333)	(70,336)	(13,330)	(398)
Amortization long-term investments in bonds	24,618	711	7,941	237
Unrealized loss (gain) on long-term equity investments	(400,235)	(11,564)	10,621,372	317,435
Effects of exchange rate changes	(2,430)	(70)	5,418	162
Decrease (increase) in short-term investments	(67,427,317)	(1,948,203)	(126,683,131)	(3,786,107)
Decrease (increase) in receivables	(320,620)	(9,264)	(7,793,878)	(232,931)
Decrease (increase) in prepayments	538,981	15,573	(4,457,450)	(133,217)
Decrease (increase) in prepaid pension	76,930	2,223	360,809	10,783
Decrease (increase) in other current assets	369,921	10,688	(606,348)	(18,122)
Decrease (increase) in overdue receivables	2,811	81	(53,484)	(1,598)
Decrease (increase) in temporary payments and suspense accounts	(18,788)	(543)	(207,205)	(6,193)
Decrease (increase) in deferred income tax assets	(98,745)	(2,853)	(458,547)	(13,704)
Increase (decrease) in payables	(2,472,892)	(71,450)	10,881,628	325,213
Increase (decrease) in accounts collected in advance	4,690	135	153,724	4,594
Increase (decrease) in temporary receipts and suspense accounts	69,455	2,007	20,079	600
Increase (decrease) in claims reserve	48,327	1,396	28,159	842
Increase (decrease) in other current payable	(22,228)	(642)	27,844	832
Increase (decrease) in other assets	59,143	1,709	150,771	4,506
Increase (decrease) in other liabilities	95,994	2,774	241,704	7,224
Net cash provided by (used in) operating activities	2,959,579	85,512	(15,489,213)	(462,917)
Cash flows from investing activities				
Increase (decrease) in forward exchange payable	(793,471)	(22,926)	(2,873,642)	(85,883)
Decrease (increase) in exchange bills negotiated, discounted and loans	(3,238,784)	(93,579)	11,360,406	339,522
Acquisition of long-term investments in stocks	(103,664,247)	(2,995,211)	(16,290,877)	(486,876)
Disposal of long-term investments in stocks	15,305,624	442,231	116,530	3,483
Decrease (increase) in long-term investments in bonds	(1,092,216)	(31,558)	(1,510,431)	(45,141)

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated statements of cash flows (continued)
(Expressed in thousands of dollars)
For the six-month periods ended June 30, 2003 and 2002

	2003		2002(Restated)	
	NT \$	US \$	NT \$	US \$
Deposal of investment in real estate	122,599	3,542	27,313	816
Acquisition of investment in real estate	(609,496)	(17,610)	(5,911,275)	(176,667)
Disposal of property and equipment	36,535	1,056	16,013	479
Acquisition of property and equipment	(1,145,900)	(33,109)	(1,071,363)	(32,019)
Disposal (acquisition) of intangible assets	(2,954)	(85)	(852)	(26)
Decrease (increase) in non-operation assets	306,395	8,853	(1,958,875)	(58,544)
Decrease (increase) in due form banks	(16,739,384)	(483,658)	(21,064,258)	(629,536)
Decrease (increase) in due form central banks	860,313	24,857	11,639,696	347,869
Decrease (increase) in deferred charges	(1,060,905)	(30,653)	(5,536,457)	(165,465)
Net cash provided by (used in) investing activities	(111,715,891)	(3,227,850)	(33,058,072)	(987,988)
Cash flows from financing activities				
Increase (decrease) in bonds payable	0	0	24,500,000	732,218
Paid other payable for acquisition of property and equipment in prior period	0	0	(1,777)	(53)
Increase (decrease) in funds held for reinsurance	(528)	(15)	(802)	(24)
Increase (decrease) in guarantee deposits received	21,940	634	(56,332)	(1,683)
Remuneration paid to directors and supervisors	(13,500)	(390)	(347,550)	(10,387)
Bonus paid to employees	(3,755)	(108)	(141,522)	(4,230)
Cash dividends	0	0	(12,463,237)	(372,482)
Increase (decrease) in due to banks	7,732,719	223,425	7,888,225	235,751
Increase (decrease) in deposits and remittances	33,430,526	965,921	(43,141,340)	(1,289,341)
Increase (decrease) in due to central bank	104,883	3,030	(176,631)	(5,279)
Increase (decrease) in banker's acceptance and funds borrowed	(548,933)	(15,861)	(1,595,538)	(47,685)
Increase (decrease) in bank's debenture	7,350,000	212,366	5,000,000	149,432
Net cash provided by (used in) financing activities	48,073,352	1,389,002	(20,536,504)	(613,763)
Effects of exchange rate changes	(21,636)	(625)	(74,670)	(2,232)
Increase (decrease) in cash and cash equivalents	(60,704,596)	(1,753,961)	(69,158,459)	(2,066,900)
Cash and cash equivalents at the beginning of period	149,809,144	4,328,493	245,688,465	7,342,752
Cash and cash equivalents at the end of period	\$89,104,548	\$2,574,532	\$176,530,006	\$5,275,852
Supplemental disclosure of cash flows information				
Interest paid during the period	\$5,396,904	\$155,935	\$9,586,273	\$286,499
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$5,396,904	\$155,935	\$9,586,273	\$286,499
Income tax paid	\$2,756,907	\$79,656	\$567,716	\$16,967

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

1. Organization of business scope

(1) Cathay Financial Holding Co., Ltd.

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”). On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) joined the Company, as two subsidiaries of the Company by stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. The Company mainly engages in financial holding business activities.

(2) Subsidiaries

- A. Cathay Life was incorporated in Taiwan on October 23, 1962, under the provisions of the ROC Company Law (the “Company Law”). Cathay Life mainly engages in the business of life insurance. The Company’s ownership interest is 100% of the common stock.
- B. Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law. Cathay Century mainly engages in the business of property and casualty insurance. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on June 28, 2002. The Company’s ownership interest is 100% of the common stock.
- C. The predecessor of Cathay United Bank was Taiwan First Investment & Trust Co., which was incorporated in June 1971 and transformed into a commercial bank on November 16, 1998, and renamed Cathay United Bank Co., Ltd. Cathay United Bank is permitted under the ROC Banking Law (“Banking Law”) to engage in:
- (a) All commercial banking operations allowed by the provisions of the Banking Law;
 - (b) Trust operations;
 - (c) Short-term bill agency services and trading securities;
 - (d) Offshore banking operations; and
 - (e) Other related operations as authorized by the central government authorities.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

The Company's ownership interest is 100% of the common stock.

D. UWCCB was enfranchised by the ROC government on January 1975, and started its operations on May 20, 1975. It engages in the following operations:

- (a) All commercial banking operations authorized by the Banking Law;
- (b) International banking business and related operations;
- (c) Trust and stockbrokerage business;
- (d) Off-shore banking business; and
- (e) Other financial operations related to the promotion of investments of Overseas Chinese.

E. Cathay Pacific Venture Capital Co., Ltd. ("Cathay Pacific Venture Capital") was incorporated in Taiwan on April 10, 2003, under the provisions of the Company Law. Cathay Venture Capital mainly engages in the business of investment. The Company's ownership interest is 100% of the common stock.

2. Summary of significant accounting policies

We prepared the financial statements 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 Companies." Summary of significant accounting policies is as follows:

(1) Principles of consolidation

According to the rules and regulations stated in the Financial Holding Company Act, a financial holding company should include consolidated financial statements along with the annual and interim reports. When compiling the consolidated financial statements, the financial results of bank, insurance and securities subsidiaries must be included in the consolidated financial statements, and all other subsidiaries should be reported in accordance with Statement of Financial Accounting Standards ("SFAS") No. 7. In addition, as stated by the ROC Securities and Futures Commission (the "SFC"), stocks that can be traded publicly should be compiled within the annual and interim financial statements, and subsidiary companies that are controlled by the parent company have to

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

be compiled in the financial statements in accordance with SFAS No. 7. According to Article 4 of the Financial Holding Company Act, a financial holding company has to meet either one of the following criteria: the Company has to hold more than twenty-five percent of the voting stock or total capital of a bank, insurance or securities company, or it has to directly or indirectly appoint or elect more than half of the directors on the board of a bank, insurance or securities company.

The consolidated financial statements of the Company as of and for the six-month periods June 30, 2003 and 2002 include the Company, and its subsidiaries, which include Cathay Life, Cathay Century, Cathay United Bank and UWCCB. In 2002, the consolidated financial statements contained only four entities as the Company, Cathay Life, Cathay Century and Cathay United Bank. However, due to more enterprises joined the holding company in the year of 2003, we are required to restate the consolidated financial statements as of and for the six-month period June 30, 2002. The consolidated financial statements of the Company as of June 30, 2003 exclude Cathay Venture Capital, because its total assets and operating revenues are not up to 10% of the Company.

The consolidated financial statements important inter-company transactions have been eliminated.

(2) Distinguish assets and liabilities, current and non-current

Current assets are assets that can be liquidated or disposed within one year. Assets that do not belong to current assets are called non-current assets. Current liabilities are debts, which will be paid-off within one year. Debts, which do not belong to current liabilities, are called non-current liabilities.

(3) Basis for preparation of financial statements

The UWCCB financial statements include the accounts of the main office and all of the domestic and foreign branches. All inter-branch account balances and transactions among the main office and the branches have been eliminated.

Cathay United Bank conducted separate accounting for its Banking and Trust Departments. The financial statements of the Banking and Trust Departments were consolidated.

(4) Cash and cash equivalents

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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

(5) Due from central bank of China

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

(6) Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.

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

When market value is available, short-term notes are stated at the lower of cost or market value. The cost of these notes, interest income, and gain or loss due to maturity or as a result of sales of notes are determined by the specific identification method.

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

(7) Unamortized acquisition costs

For Cathay United Bank, commissions and other direct expenses paid on mortgage loans and vehicle loans are capitalized and amortized using the interest method over the term of the loans. The unamortized acquisition costs are recognized as an addition to the related loans; each amortization is recognized against related interest revenue.

(8) Allowance for bad and doubtful debts

For Cathay Life and Cathay Century, allowance for bad debts and doubtful accounts on notes receivable, premium receivable, overdue accounts and loans are determined based on the aging analysis of outstanding balances of such accounts and experience.

For Cathay United Bank, the allowance for bad debts is measured based on the credit

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

rating of the borrower, aging analysis of loans and receivables on the balance sheet date, the value of collateral assets of the borrower and the Rules for Loss Reserve Provision of Bank Asset Evaluation, and Bad Debts Provision for Overdue Loans, Delinquent Loans stipulated by the ROC Ministry of Finance ("MOF"). Probable losses are recorded as a provision for credit losses.

For UWCCB, allowance for doubtful accounts on receivables is provided based on the results of a review of the collectibles of account balances and the rates adopted by the relevant regulations. Whenever certain receivables are deemed uncollectible by the management, a charge-off of such receivables based on UWCCB's relevant regulations is recommended and approved by the Board of Directors.

(9) Long - term investments

A. Long-term investments in stocks

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

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

If changes occur in the capital structure of the investee companies causing an increase or decrease of the value of the stocks, and the Company can no longer maintain its original shareholding, adjustments will be made in the capital surplus

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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.

- B. 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 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.

C. Long-term investments in bonds

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

D. Investments in real estate

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

Depreciation is calculated by the straight-line method pursuant to the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the ROC (the "Executive Yuan Depreciation Table").

Real estate investment primarily is building lease and all are intended for business leasing; rents can be paid yearly, semi-yearly, quarter and lump sum.

(10) Other real estate owned and allowances

Other real estate owned consists of loan-related properties acquired through foreclosure and deed in lieu of foreclosure. Other real estate owned is booked at the acquisition cost from the court. On the balance sheet date, it is stated at the lower of cost or net realizable value. However if there is evidence indicating a decline in the value of the aforementioned asset, the resulting loss is recognized in the period incurred and recorded as a provision for credit losses.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(11)Property and equipment

Property and equipment are carried at cost. Improvement 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 calculated on a straight-line method, based on the useful lives prescribed by the Executive Yuan Depreciation Table. When their economic useful lives expire, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

(12)Deferred charges

Deferred charges are expense, which are effective more than one year. Deferred charges are amortized over the economic useful life by the straight-line method.

The acquisition cost arising from the purchase of SOGO affinity credit cards business by Cathay United Bank is capitalized and amortized on a straight-line basis over the estimated economic lives of 48 months and is accounted for as other operating cost.

(13)Guaranteed depository insurance payment

Cathay Life and Cathay Century are required under the Article 141 of the ROC Insurance Law (“Insurance Law”) to deposit an amount equal to 15% of the capital stock in the Central Bank. Such deposit is the “Guaranteed Depository Insurance.” The amount was deposited in the form of a bond.

(14)Reserves for operations

A.Cathay Life

Reserves for operations are organized according to the Insurance Law. These reserves include unearned premium reserve claim reserve, special reserve and reserve for life insurance. The actuary provides the figures of such reserves in the financial statements.

The MOF passed a new regulation on December 24, 2002. The regulation 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.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

In addition, according to another regulation that was passed on December 30, 2002, the surplus from the "Special Reserve for the Loss Movement" should be placed as special reserve under Proprietary Equity after the Board of Directors has approved the surplus appropriation. This amount may not be allocated or used for other purposes unless approved by the MOF.

Cathay Life had a surplus of NT \$6,249,135 (US\$180,559) from the "Special Reserve for the Loss Movement".

B. Cathay Century

Cathay Century's reserves for operations are organized according to the Insurance Law. These reserves include unearned premium reserve, claim reserve and special reserve. The actuary provides the figures of such reserves in the financial statements.

(15) Reserves for securities trading losses

According to Article 11 of the ROC Rules Governing Securities Firms, Cathay United Bank and UWCCB, which are engaged in the trading of securities, are required to set aside 10% of net realized trading gains as a provision for trading losses. Such reserves for losses can only be used to cover securities trading losses. No further provision is required when the accumulated provision exceeds NT\$200 million (US\$5.78 million).

(16) Reserves for guarantee liabilities

For Cathay United Bank, the reserves for guarantee liabilities is determined by evaluating the potential losses on total outstanding guarantees issued and recorded as "provision for loss on guarantees and trading securities."

For UWCCB, the reserve for losses on guarantees is computed at the maximum limit allowed by the relevant laws and regulations based on the account balance of guarantees for custom duties, commodity taxes and contracts.

(17) Reserves for losses on stock brokerage transactions

Pursuant to the regulations issued by the MOF, UWCCB's reserve for possible losses on stock brokerage transactions is based on 0.0018% of the amount of total stock traded derived from stock brokerage business until such reserve reaches the amount of NT\$100 million (US\$2.89 million).

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(18) Convertible bonds payable

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

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

(19) Insurance premiums

For Cathay Life and Cathay Century, direct premiums are recognized on the date the policies became effective. Policy-related expenses are recognized when they are incurred.

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

(20) Recognition of interest income, commissions and service fees

Interest income on loans is recognized on an accrued basis. The interest income on the outstanding loans more than three months past due and delinquent loans are recognized on a cash basis. Commissions and service fees are recognized when the provision of service is completed.

(21) 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.

An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligations and the fair value of plan assets.

According to the SFAS No. 23 "Interim Financial Reporting and Disclosures", the interim financial statement are not required to follow the principles outlined in the

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

SFAS No. 18 "Accounting for Pensions".

(22) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency transactions should be accounted for at cost and recognized on a straight-line method recorded in NT dollars at the spot rate when the transactions occur. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Foreign currency of long-term investment accounted cumulative translation adjustments are treated as adjustments of retained earning. Year-end foreign currency assets and liabilities are converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

Assets and liabilities of UWCCB's foreign branches, which are denominated in local currencies, are converted into NT dollars using the method described in the preceding paragraph. Local currency-denominated income and expenses of such branches are converted at weighted-average rate. Gains or losses resulting from the conversion are treated as "Conversion Adjustments" accounted for under shareholders' equity.

B. Conversion of foreign subsidiaries' statements

Financial statements of foreign subsidiaries accounted for by the equity method are converted into NT dollars as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income statement items are converted by the weighted-average exchange rate for the year. Differences arising from a conversion are reported as "Cumulative Conversion Adjustments" in the section of stockholders' equity as a separate item.

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements should be first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same results as 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 directly affects the cash flows of the foreign operation.

(23) Income taxes

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

The Company adopted SFAS No. 22, "Accounting for Income Taxes," which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year's loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year's income tax expense 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 non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

In accordance with Article 49 of the Financial Holding Company Act, in the case of a company holds more than 90% of the outstanding issued shares of its domestic subsidiaries, such a company may, for any tax year in which its shareholding in the subsidiary has existed for the entire twelve months of the tax year, elect to be the taxpayer itself, and jointly declare and report income tax and the 10% surcharge on undistributed retained earnings to the Tax Authority under the ROC Income Tax Law ("Income Tax Law").

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits," for deductible income tax. The deductible income tax resulting from the expenditure on the purchase of equipment, R&D, education, training and investment in equity shall be dealt with under the current recognition method.

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

(24)Capital expenditure expenses

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

(25)Treasury stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is charged to the cost of the shares purchased. When

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus. If the disposal price is lower than the cost, the difference is debited to capital surplus. If the capital surplus is insufficient to cover the excess of the cost over the price, the difference is charged to retained earnings. 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 retired treasury stock to total issued stock. When the book value of the retired treasury stock is higher than the sum of its par value and capital surplus, if the capital surplus account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus.

In accordance with Article 31 of the Financial Holding Company Act, the Company will adopt Article 28 in dealing with the adjustment of the organization and shareholding of its original investment. A shareholder of a financial holding company can transfer its shares to the employees of the 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 the ROC Securities and Exchange Law (“Securities and Exchange Law”), or sell its shares in a securities market or on the stock exchange market, which is excluded from the restriction of Article 38. The Shares that are either not transferred or unsold will be treated as the unissued shares of the financial holding company and will be reported as changes to the government.

Treasury stock of the subsidiaries was converted into common stock of the Company on December 31, 2001. On the basis of the conservative principle and the SFAS No. 30, the 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 Article 31 of the Financial Holding Company Act and Article 28-2 and Article 38 of the Securities and Exchange Law.

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.” It is not necessary to retroactively adjust the financial statements for the prior years.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(26) Derivative financial products transaction

A. Transactions on forward exchange contracts are converted into NT Dollars based on the spot rate on the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At year end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and resulting gains or losses are credited or charged to current income. The net value of receivables and payables of the forward exchange contracts is represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of forward contracts are credited or charged to current income in the year of settlement.

B. Cross currency swap (“CCS”)

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

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

C. For Cathay United Bank and UWCCB, derivative financial instruments held or issued for trading purposes are recorded at cost upon acquisition and revalued at fair value as of each financial reporting date. Gains and losses resulting from changes in fair value are recognized as current period earnings. Receivables and payables resulting from changes in fair value and from execution of contracts after netting are included in other assets or liabilities.

D. Options

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

against current income. As of the balance sheet dates, options are marked to market and the resulting gains or losses are credited or charged to current income.

E. Interest Rate Swaps

Interest rate swaps represent agreements between two parties to exchange periodic interest payments, most often fixed versus floating, based on a notional principal amount. The differential to be received or paid is recorded as adjustment of interest income.

(27) Trust funds

Cathay United Bank for the purpose of conversion into a commercial bank, all discretionary trust funds had been completely diminished in accordance with the reduction plan as of December 31, 2001, except for the employee pension trust fund, which should be reduced to zero before July 20, 2003. The employee pension trust fund was approved by the Bureau of Monetary Affairs (MOF) in October 2001 to be transferred to the Trust Department, and has been managed by the Banking Department. The employee pension trust fund is recorded as deposits of the Banking Department, and the Trust Department only collects a commission fee. However, the reduction plan is behind schedule, the Bank has drawn the transferred plan for aforementioned fund. Based on the plan, the Bank makes arrangements with clients to transfer the employee pension trust fund to the savings trust fund; otherwise, the bank returns the deposits to clients.

(28) Commitments and contingent liabilities

Contingent liabilities and commitments should be recorded at estimated amounts if it is probable that they have been incurred and the amounts can be reasonably estimated. If it is not probable, or if the amounts cannot be reasonably estimated, the disclosure should be made in the footnote of the financial statements.

(29) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the June 30, 2003 and 2002 NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$34.61 and 33.46 to US\$1.00 effective on June 30, 2003 and 2002, as provided by the Federal

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting principles and its effects: None

4. Cash and cash equivalents

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Petty cash and cash on hand	\$7,513,169	\$217,081	\$7,477,145	\$223,465
Cash in banks	1,304,340	37,687	2,997,712	89,591
Time deposits	51,272,860	1,481,446	103,080,330	3,080,703
Cash equivalents	24,401,187	705,033	53,962,013	1,612,732
Checks for clearing	4,612,992	133,285	9,012,806	269,361
Total	<u>\$89,104,548</u>	<u>\$2,574,532</u>	<u>\$176,530,006</u>	<u>\$5,275,852</u>

5. Short-term investments

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Equity share of listed companies	\$48,073,747	\$1,389,013	\$68,301,133	\$2,041,277
Beneficiary certificates	68,906,602	1,990,945	60,761,599	1,815,947
Government bonds and corporate bonds	99,065,139	2,862,327	96,096,846	2,871,992
Oversea investments	121,183,985	3,501,415	75,912,727	2,268,761
Appoint purpose trust fund	45,226,503	1,306,747	58,946,699	1,761,706
Depository receipt	72,535	2,096	0	0
Financial debentures	15,299,766	442,062	13,200,000	394,501
Certificates of Deposit	49,909,952	1,442,067	57,021,608	1,704,172
Time deposits linked to bond yield	1,199,691	34,663	0	0
Short-term notes	34,633,464	1,000,678	25,459,268	760,887
Subtotal	483,571,384	13,972,013	455,699,880	13,619,243
Less: Cash equivalents	(17,075,494)	(493,369)	(17,736,748)	(530,088)
Less: Allowance for valuation loss	(774,761)	(22,385)	(5,137,865)	(153,552)
Total	<u>\$465,721,129</u>	<u>\$13,456,259</u>	<u>\$432,825,267</u>	<u>\$12,935,603</u>

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

UWCCB's Marketable securities in the amount of NT\$14,305,423 (US\$413,332) and NT\$1,324,478 (US\$39,584) at June 30, 2003 and 2002, respectively, were pledged to other parties as collateral for business reserves and guarantees.

6. Exchange bills negotiated discounted and loans, net

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Import-export bills negotiated and exchange bills negotiated	\$855,507	\$24,719	\$963,674	\$28,801
Short-term loans	209,536,083	6,054,206	210,121,076	6,279,769
Short-term secured loans	112,989,652	3,264,653	134,670,951	4,024,834
Medium-term loans	53,927,179	1,558,139	49,866,108	1,490,320
Medium-term secured loans	147,237,161	4,254,180	175,035,321	5,231,181
Long-term loans	23,953,144	692,087	18,553,599	554,501
Long-term secured loans	445,717,530	12,878,287	389,187,814	11,631,435
Subtotal	994,216,256	28,726,271	978,398,543	29,240,841
Less: Allowance for bad debts	(7,303,654)	(211,027)	(6,652,525)	(198,820)
Total	<u>\$986,912,602</u>	<u>\$28,515,244</u>	<u>\$971,746,018</u>	<u>\$29,042,021</u>

For Cathay Life and Cathay Century's secured loans are secured by government bonds, stock, corporate bonds and real estate, secure loans. Loans with terms for less than one year are classified as short-term loans; loans with terms of more than one year but less than seven years are classified as medium-term loans ; and loans with terms of more than seven years are classified as long-term loans.

For Cathay United Bank and UWCCB, as of June 30, 2003 and 2002, the past-due loans and other credit loans without accrued interest amounted to NT\$16,628,112 (US\$480,442) and NT\$34,192,137 (US\$1,021,881), respectively, and there are categorized under loans and delinquent loans, respectively. The non-accrued interest income amounted to NT\$536,196 (US\$15,493) and NT\$1,141,058 (US\$34,102), respectively, for the six-month periods ended June 30, 2003 and 2002.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

7. Long-term investments in stocks

<u>Investee</u>	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$ Book Value	US\$ Book Value	NT\$(Restated) Book Value	US\$(Restated) Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd	\$375,440	\$10,848	\$380,209	\$11,363
Cathay Insurance (Bermuda) Co., Ltd.	54,764	1,582	47,938	1,433
Cathay Venture Capital Co., Ltd.	317,334	9,169	303,646	9,075
Vista Technology Venture Capital Corp.	98,850	2,856	82,994	2,480
Omnitek Venture Capital Corp.	150,572	4,351	152,693	4,563
IBT Venture Capital Corp.	565,288	16,333	595,228	17,789
Wa Tech Venture Capital Co., Ltd.	179,871	5,197	180,078	5,382
Cathay Securities Investment Trust Co., Ltd.	200,879	5,804	193,267	5,776
Symphox Information Co., Ltd.	256,843	7,421	268,966	8,038
Lin Yuan Property Management Co., Ltd.	31,778	918	0	0
Cathay Securities Investment Co., Ltd.	11,107	321	0	0
Cathay Property Insurance Agent Co., Ltd.	6,489	187	7,916	236
Seaward Property Insurance	2,000	58	0	0
Cathay Pacific Venture Co., Ltd.	597,032	17,250	0	0
Cathay Life Insurance Agent Co., Ltd.	12,267	354	7,939	237
Seaward futures Corp.	1,662,573	48,037	1,671,847	49,965
Seaward Leasing Ltd.	2,150,970	62,149	1,971,047	58,908
Huong Yee Co., Ltd.	466,737	13,486	647,904	19,364
Seaward Insurance Agent Corp.	27,719	801	14,587	436
Seaward Card Co., Ltd.	38,251	1,105	34,282	1,025
Indovina Bank	418,269	12,085	405,455	12,118
Taiwan Real-estate Management Corp.	54,162	1,565	67,307	2,012
Taiwan Finance Corp.	1,185,654	34,258	1,343,808	40,162

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Subtotal	8,864,849	256,135	8,377,111	250,362
Less: Unrealized gain from intercompany transactions	(87,825)	(2,537)	(87,740)	(2,622)
Long-term investment under the equity method - net	8,777,024	253,598	8,289,371	247,740
B.Long-term investment under the cost method	50,927,221	1,471,460	16,014,883	478,627
Total	<u>\$59,704,245</u>	<u>\$1,725,058</u>	<u>\$24,304,254</u>	<u>\$726,367</u>

8. Long-term investments in bonds

Long-term investments in bonds consist mainly the government bonds. As of June 30, 2003 and 2002, long-term investments in bonds amounted to NT\$244,566,878 (US\$7,066,364) and NT\$102,574,723 (US\$3,065,592), respectively.

9. Investment in real estate

Item	June 30 2003,							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,124,549	\$2,719,577	\$5,010	\$145	(11,138,618)	(321,832)	\$82,990,941	\$2,397,890
Construction	10,966,994	316,873	0	0	0	0	10,966,994	316,873
Prepayments for buildings and land	414	12	0	0	0	0	414	12
Total	<u>\$105,091,957</u>	<u>\$3,036,462</u>	<u>\$5,010</u>	<u>\$145</u>	<u>(\$11,138,618)</u>	<u>(\$321,832)</u>	<u>\$93,958,349</u>	<u>\$2,714,775</u>

Item	June 30 2002(Restated)							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$85,524,660	\$2,556,027	\$5,132	\$153	(\$9,861,348)	(\$294,720)	\$75,668,444	\$2,261,460
Construction	15,884,359	474,727	0	0	0	0	15,884,359	474,727
Total	<u>\$101,409,019</u>	<u>\$3,030,754</u>	<u>\$5,132</u>	<u>\$153</u>	<u>(\$9,861,348)</u>	<u>(\$294,720)</u>	<u>\$91,552,803</u>	<u>\$2,736,187</u>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Real estate investment's rents can be paid yearly, semi-yearly, quarterly, monthly and lump sum.
- (3) No investments in real estate were pledged as collateral. The insurance coverage on investments in real estate was stated at book value.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

10. Deposits and remittances payable

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Check deposit	\$12,046,275	\$348,058	\$10,002,069	\$298,926
Demand deposits	56,222,280	1,624,452	51,035,415	1,525,266
Demand savings deposits	218,206,702	6,304,730	204,385,964	6,108,367
Time deposits	156,044,126	4,508,643	170,907,474	5,107,815
Time savings deposits	159,889,884	4,619,760	154,700,903	4,623,458
Deposits from post office savings	17,561,988	507,425	16,210,326	484,469
Negotiable certificates of deposit	3,613,200	104,397	4,069,700	121,629
Discretionary pension trust funds	3,364,123	97,201	3,586,262	107,181
Foreign deposits	39,898,864	1,152,813	36,924,097	1,103,529
Outward remittance	235	7	21,024	628
Remittances payable	152,861	4,416	168,918	5,049
Bank's debenture	17,350,000	501,300	5,000,000	149,432
Total	<u>\$684,350,538</u>	<u>\$19,773,202</u>	<u>\$657,012,152</u>	<u>\$19,635,749</u>

A. Cathay United Bank

For the purpose of enhancing the ratio of banking capital to risk assets and raising loan funds, Cathay United Bank issued 5-year subordinated financial debentures on April 28, 2003, which were approved by the MOF, with a face value of NT\$2,350,000 (US\$67,899). The significant terms of the aforementioned debentures were as follows:

- (a) Interest: interest paid on April 28 annually with fixed rate 2.0%.
- (b) Duration: five years (April 28, 2003 to April 28, 2008).
- (c) Repayment term: principal paid at maturity.
- (d) Repayment method: repayment sequence is superior to the allocation of residual property rights of Cathay United Bank's shareholders, but it is inferior to other creditors.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

B. UWCCB

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Banker's debenture	\$5,000,000	\$144,467	\$0	\$0
Subordinate Banker's debenture	10,000,000	288,934	5,000,000	149,432
Total	<u>\$15,000,000</u>	<u>\$433,401</u>	<u>\$5,000,000</u>	<u>\$149,432</u>

On June 20, 2003, UWCCB issued five-year and six-month banker's debenture amounting to NT\$5,000,000 with a stated interest rate of 3.019%. The banker's debenture are repayable at maturity, and the interests are payable semiannually. Banker's debenture has equal to priority claim on assets and income with other debt. Banker's debenture is senior to common stock.

On May 23, 2002, UWCCB issued five-year subordinate banker's debenture amounting to NT\$5,000,000 with a stated interest rate of 4.15%. On September 10, 2002, UWCCB issued another five-year and six-month subordinate banker's debenture amounting to NT\$5,000,000 with a stated interest rate of 5.9% minus the six-month LIBOR rate. The subordinate banker's debenture are repayable at maturity, and the interests are payable semiannually. Each subordinate Banker's debenture has lower priority claim on assets and income than other debt. That is, its principal and interests are repayable only after more senior debt with higher priority has been satisfied. Subordinate Banker's debenture is senior to common stock.

11. Bonds payable

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Zero Coupon Convertible Notes	\$24,500,000	\$707,888	\$24,500,000	\$732,218
Redemption premium payable	936,263	27,052	93,831	2,804
Total	<u>\$25,436,263</u>	<u>\$734,940</u>	<u>\$24,593,831</u>	<u>\$735,022</u>

Please see note 25, "Zero coupon convertible notes related information" for details.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

12. Reserve for operations and liabilities

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Unearned premium reserve	\$12,617,859	\$364,572	\$17,024,530	\$508,803
Reserve for life insurance	1,241,573,069	35,873,247	1,099,115,000	32,848,625
Special reserve	14,251,424	411,772	19,027,780	568,672
Claims reserve	903,228	26,097	797,344	23,830
Reserves for losses on guarantees	28,895	835	61,567	1,840
Reserves for losses on stock brokerage transactions	37,181	1,074	34,366	1,027
Reserves for losses on trading securities	123,902	3,580	42,766	1,278
Total	<u>\$1,269,535,558</u>	<u>\$36,681,177</u>	<u>\$1,136,103,353</u>	<u>\$33,954,075</u>

13. Common stock

As of June 30, 2003 and 2002, the numbers of issued shares par value of NT 10 dollars (US0.3 dollars) were 8,307,489,100 shares and 6,095,872,818 shares, respectively.

14. Capital surplus

A. Capital Surplus was NT\$54,072,271 (US\$1,562,331) and NT\$26,526,202 (US\$792,774) in June 30, 2003 and 2002. Before conversion into financial holding company, NT\$267,215 (US\$7,721) and NT\$1,917,548 (US\$57,309) constituted retained earnings of certain Subsidiaries of the Company.

B. The additional paid-in capital of par value through the exchange of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, 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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

distributed as cash dividends.

- C. In addition, pursuant to the 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.

15.Retained earnings

A. 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 can only be used to offset deficits cannot to be used for the purposes of 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.

B. Unappropriated retained earnings

According to the Company Law of the Company's articles of Incorporations, 10% of the Company's annual earnings, after paying tax and offsetting deficits, if any, should first be added to the as legal reserve. After distributing 0.01%~0.05% of total distribution for employees' bonus, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

After conversion into a financial holding company the Subsidiary's treasury stock is treated as the Company's treasury stock without any stockholder rights.

- C. At the stockholder's meeting of the Company on June 6, 2003, according to the Company's annual earnings by NT\$13,085,152 (US\$378,074), capital surplus belongs to unappropriated retained earnings before the Subsidiaries' stock conversion by NT\$1,917,548 (US\$55,404) cash dividends of NT\$1.5(US\$0.04) dollars for each stock and disposal of fixed assets retransfer unappropriated retained earnings of NT\$128,170 (US\$3,703) were declared. The date of issuing cash dividends was July 11, 2003.

- D. According to the revised Tax Law of 1998, the Company is required to pay an extra

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer in effect.

- E. In accordance with SFC regulations, in addition to the legal reserve retained, the Company should provide a special reserve of equal amount for any current year shareholders' equity contra account from current year's earnings after tax or prior years' unappropriated earnings. However, the special reserve of equal amounts for prior years' accumulated shareholders' equity contra accounts should only be provided from prior years' unappropriated earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.
- F. 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. The cost of these shares cannot be distributed as special reserve.

G. 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.

16. Treasury stock

- (1) The following is a summary of the movement of treasury stock for the six-month periods ended June 30, 2003.

(Unit: in thousands of shares)

Reason for Transfer	Jan. 1,			June 30,		Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	2003	Increase	Decrease	2003	thousands of dollars)	(in NT thousands of dollars)	(in US thousands of dollars)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
To conserve the credit and stockholders' equity of the Company	145,674	0	145,674	0	\$0	\$0	\$0	\$0	\$0	—	—
Subsidiaries translated it to employees	156,927	0	0	156,927	7,333,863	211,900	46.73	1.35	42.68	1.23	1.23
Parent's stock that the subsidiaries	369,490	101	2,501	367,090	13,489,714	389,764	36.75	1.06	42.68	1.23	1.23

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

held were treated as treasury stock Holding subsidiaries' stocks by conversion were treated as treasury stock	348,897	0	0	348,897	15,672,590	452,834	44.92	1.30	42.68	1.23
Total	<u>1,020,988</u>	<u>101</u>	<u>148,175</u>	<u>872,914</u>	<u>\$36,496,167</u>	<u>\$1,054,498</u>				

(2) The Company's 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	Resolution determined by the board of directors
Cathay Life	156,927	\$7,333,863	\$211,900	Subsidiaries purchased shares were translated	Treasury stock doesn't carry any stockholder rights	Within three years	None
Cathay Life	354,514	13,327,192	385,068	Holding other subsidiaries stock by conversion	None	Within three years	Engaged GDR issues
Cathay Century	3,397	144,965	4,189	None	None	Within three years	None
Cathay United Bank	1,209	51,583	1,490	None	None	Within three years	None
UWCCB	7,099	303,005	8,755	None	None	Within three years	None
Seaward Leasing Ltd.	871	33,063	955	None	None	Within three years	None
Total	<u>524,017</u>	<u>\$21,193,671</u>	<u>\$612,357</u>				

(3) Cathay Life

	(Unit: in thousands of shares)			
Reason for transfer	Jan. 1, 2003	Increase	Decrease	June 30, 2003
Transferred to employees	<u>156,927</u>	<u>0</u>	<u>0</u>	<u>156,927</u>
Total	<u>156,927</u>	<u>0</u>	<u>0</u>	<u>156,927</u>

A. Pursuant to the ROC Securities and Exchange Law, 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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

surplus. As of December 30, 2001, Cathay Life had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$211,900).

B. Treasury stock of Cathay Life was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001.

(4) UWCCB

A. As a result of this conversion, the Company owned 100% of Cathay Life's shares.

B. UWCCB adopted SFAS No.30 to account for its stock held by its subsidiary as treasury stock since January 1, 2002.

17. Personnel 、 depreciation 、 depletion and amortizations

(1) The Company

Item	For the six-month period ended June 30,2003 (NT\$)			For the six-month period ended June 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	—	25,055	25,055	—	—	—
Labor & health Insurance expenses	—	664	664	—	9	9
Pension expenses	—	—	—	—	—	—
Other expenses	—	7,824	7,824	—	—	—
Depreciation	—	396	396	—	132	132
Depletion	—	—	—	—	—	—
Amortizations	—	72,683	72,683	—	93,492	93,492

Item	For the six-month period ended June 30,2003 (US\$)			For the six-month period ended June 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	—	724	724	—	—	—
Labor & health Insurance expenses	—	19	19	—	—	—
Pension expenses	—	—	0	—	—	—
Other expenses	—	226	226	—	—	—
Depreciation	—	11	11	—	4	4
Depletion	—	—	—	—	—	—
Amortizations	—	2,100	2,100	—	2,794	2,794

The total number of employees was 40 on June 30, 2003.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(2) Cathay Life

Item	For the six-month period ended June 30,2003 (NT\$)			For the six-month period ended June 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	9,274,643	1,734,839	11,009,482	9,948,307	1,902,275	11,850,582
Labor & health Insurance expenses	610,690	111,671	722,361	562,447	107,462	669,909
Pension expenses	466,116	85,234	551,350	428,920	81,950	510,870
Other expenses	525,932	111,243	637,175	532,953	101,500	634,453
Depreciation	—	1,101,925	1,101,925	—	1,103,742	1,103,742
Depletion	—	—	—	—	—	—
Amortizations	—	—	—	—	—	—

Item	For the six-month period ended June 30,2003 (US\$)			For the six-month period ended June 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	267,976	\$50,125	318,101	297,320	56,852	354,172
Labor & health Insurance expenses	17,645	3,226	20,871	16,809	3,212	20,021
Pension expenses	13,467	2,463	15,930	12,819	2,449	15,268
Other expenses	15,196	3,214	18,410	15,928	3,034	18,962
Depreciation	—	31,838	31,838	—	32,987	32,987
Depletion	—	—	—	—	—	—
Amortizations	—	—	—	—	—	—

The total number of employees was 30,519 on June 30, 2003.

(3) Cathay Century

Item	For the six-month period ended June 30,2003 (NT\$)			For the six-month period ended June 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	278,279	278,279	-	258,846	258,846
Labor & health Insurance expenses	-	16,979	16,979	-	12,870	12,870

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Pension expenses	-	15,152	15,152	-	12,758	12,758
Other expenses	-	98,670	98,670	-	78,647	78,647
Depreciation	-	12,066	12,066	-	8,347	8,347
Depletion	-	-	-	-	-	-
Amortizations	-	1,990	1,990	-	2,270	2,270

Item	For the six-month period ended June 30,2003 (US\$)			For the six-month period ended June 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	8,040	8,040	-	7,736	7,736
Labor & health Insurance expenses	-	491	491	-	385	385
Pension expenses	-	438	438	-	381	381
Other expenses	-	2,851	2,851	-	2,350	2,350
Depreciation	-	349	349	-	249	249
Depletion	-	-	-	-	-	-
Amortizations	-	57	57	-	68	68

The total number of employees was 788 on June 30, 2003

(4) Cathay Bank

Item	For the six-month period ended June 30,2003 (NT\$)			For the six-month period ended June 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	—	372,087	372,087	—	353,290	353,290
Labor & health Insurance expenses	—	41,008	41,008	—	33,590	33,590
Pension expenses	—	15,990	15,990	—	13,896	13,896
Other expenses	—	50,390	50,390	—	27,976	27,976

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Depreciation	—	75,495	75,495	—	66,265	66,265
Depletion	—	—	—	—	—	—
Amortizations	112,403	16,817	129,220	43,189	9,536	52,725

Item	For the six-month period ended June 30,2003 (US\$)			For the six-month period ended June 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	—	10,751	10,751	—	10,559	10,559
Labor & health Insurance expenses	—	1,185	1,185	—	1,004	1,004
Pension expenses	—	462	462	—	415	415
Other expenses	—	1,456	1,456	—	836	836
Depreciation	—	2,181	2,181	—	1,980	1,980
Depletion	—	—	—	—	—	—
Amortizations	3,248	486	3,734	1,291	285	1,576

The total number of employees was 1,248 on June 30, 2003.

(5) UWCCB

Item	For the six-month period ended June 30,2003 (NT\$)			For the six-month period ended June 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	—	1,252,030	1,252,030	—	1,307,961	1,307,961
Labor & health Insurance expenses	—	128,534	128,534	—	118,896	118,896
Pension expenses	—	165,313	165,313	—	154,101	154,101
Other expenses	—	288,784	288,784	—	285,849	285,849
Depreciation	—	311,159	311,159	—	296,518	296,518
Depletion	—	—	—	—	—	—

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Amortizations	—	30,741	30,741	—	23,548	23,548
---------------	---	--------	--------	---	--------	--------

Item	For the six-month period ended June 30,2003			For the six-month period ended June 30,2002		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	—	36,175	36,175	—	39,090	39,090
Labor & health Insurance expenses	—	3,714	3,714	—	3,553	3,553
Pension expenses	—	4,777	4,777	—	4,606	4,606
Other expenses	—	8,344	8,344	—	8,543	8,543
Depreciation	—	8,990	8,990	—	8,862	8,862
Depletion	—	—	—	—	—	—
Amortizations	—	888	888	—	704	704

The total number of employees was 2,517 on June 30, 2003.

18. Estimated income taxes

A. Income tax expenses include the following:

	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Expected income tax expense	\$1,874,585	\$54,163	\$516,396	\$15,433
Plus: Interest income of tax on a separate basis	202,429	5,849	360,780	10,782
Deferred income tax expenses (benefits)	614,823	17,764	(3,838,435)	(114,717)
Less: Income tax credit	(9,078)	(262)	(110,607)	(3,305)
Other	(155,334)	(4,488)	95,088	2,842
Total income tax expenses (benefit)	<u>\$2,527,425</u>	<u>\$73,026</u>	<u>(\$2,976,778)</u>	<u>(\$88,965)</u>

In accordance with Article 49 of Financial Holding Company Act, the Company selected to be the taxpayer and filed income tax returns with a 10% surcharge on the

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

undistributed retained earnings for both itself and its domestic subsidiaries, on the basis that the Company holds more than 90% of the outstanding issued shares of subsidiaries for the entire tax year.

B. Income tax return:

- (1) The Company's income tax returns, up until 2001, have been reviewed and approved by the Tax Authority.
- (2) Income tax returns, except for the year 1994、1995、1997 and 1999, had been filed and assessed by the Tax Authorities as the end of the year 2000. Due to the bond interest argument, Cathay Life had filed a counterclaim through Administrative proceedings against its prior bondholders. In the meantime, the tax authority is still seeking appropriated amended procedures for 1994、1995、1997 income tax returns of Cathay Life. However, Cathay Life disagreed with the assessments for 1998, and petitioned the Administrative Court.
- (3) Cathay Century's income tax returns, up until 2000 excepting for 1999, have been reviewed and approved by the Tax Authority.
- (4) Except for 1999, the ROC Tax Authority has reviewed and approved Cathay United Bank's income tax returns through 2000. The withholding tax on the interest of prior bondholders in 1994 and 1995, amounting to NT\$46,298 and NT\$37,542, respectively, was rejected by the Tax Authority as being able to offset income tax payable. The amount was accounted for as tax expense financial reporting purposes. Cathay United Bank disagreed with these assessments and petitioned for a remedy. As of June 30, 2003, the tax return is still pending resolution in the administrative court June 30, 2003.
- (5) UWCCB's income tax returns for the year 1998 and the years prior to the 1998 have been determined.
- (6) UWCCB's income tax returns for the year from 1999 to 2002 are being examining by the Tax Authority.
- (7) The tax authority assessed an additional NT\$193,319 on UWCCB's 1994 income tax payment. UWCCB contested the assessment and on July 30, 2002, the tax authority determined that NT\$153,319 can be used to offset the additional income tax payment. The remaining NT\$40,000 was paid in year 2002.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(8) A valuation allowance has been established on the basis of UWCCB's income tax returns for the years from 1995 to 1998, UWCCB did not agree with the assessment and appealed to the Tax Authorities. The claim is in the process of being reviewed by the Tax Authority.

C. Information related tax imputation:

a. The Company

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance of imputation credit account	<u>\$4,980,972</u>	<u>\$143,917</u>	<u>\$3,248,406</u>	<u>\$97,083</u>
	June 30, 2003(Actual)		June 30, 2002(Actual)	
Imputation credit account ratio	<u>35.69%</u>		<u>30.71%</u>	

b. Cathay Life

	June 30,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Balance of imputation credit account	<u>\$25,735</u>	<u>\$744</u>	<u>\$3,415,945</u>	<u>\$102,090</u>
		June 30, 2003 (Actual)	June 30, 2002 (Actual)	
Imputation credit account ratio (stock dividends) – Actual		<u>30.17%</u>	<u>33.33%</u>	

c. Cathay Century

	June 30,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Balance of imputation credit account	<u>\$248,744</u>	<u>\$7,187</u>	<u>\$113,178</u>	<u>\$3,382</u>
		June 30,		

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	2003 (Actual)	2002 (Actual)
Imputation credit account ratio	33.33%	33.33%

d. Cathay Bank

	June 30,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$108,677	\$3,140	\$237,075	\$7,085

	June 30,	
	2003 (Actual)	2002 (Actual)
	Imputation credit account ratio	33.33%

e. UWCCB

	June 30,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$119,607	\$3,456	\$868,078	\$25,944

The following is the rate of tax credit available for dividends to the Bank's shareholders for the year 2003 and 2002:

	June 30,	
	2003 (Actual)	2002 (Actual)
	Imputation credit account ratio - Cash dividend	16.57%
Imputation credit account ratio - Stock dividend	23.80%	32.49%

D. Information relating of undistributed earnings:

For the six month periods ended June 30,

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Year	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Prior to 1997	\$267,215	\$7,721	\$869,860	\$25,997
After 1998	0	0	1,047,688	31,312
Total	\$267,215	\$7,721	\$1,917,548	\$57,309

Undistributed retained earnings after 1998 does not include the amount for the six-month periods ended June 30, 2003 and 2002.

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

Undistributed retained earnings before 1997 includes subsidiary's unappropriated retained earnings before the stock conversion subsidiary's unappropriated retained earnings before 1997.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

19. Earnings per share

	For the six-month period ended June 30, 2003								
	Amount (Numerator)				Shares (Denominator)	EPS			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net income	\$16,299,537	\$470,949	\$13,772,112	\$397,923					
Primary earnings per share									
Net income for common stock holder	16,299,537	470,949	13,772,112	397,923	7,433,234,075	\$2.19	\$0.06	\$1.85	\$0.05
Effect of potentially dilutive common stock									
Convertible bonds payable	419,784	12,129	314,838	9,097	417,227,484				
Fully-diluted earnings per share									
Net income for common stock holder & effect of potentially common stock	16,719,321	483,078	14,086,950	407,020	7,850,461,559	\$2.13	\$0.06	\$1.79	\$0.05

	For the six-month period ended June 30, 2002								
	Amount (Numerator)				Share (Denominator)	EPS			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Net income	(\$7,866,553)	(\$235,103)	\$5,333,533	\$159,400					
Primary earnings per share									
Net income for common stock holder	(7,866,553)	(235,103)	5,333,533	159,400	5,775,420,766	(\$1.36)	(\$0.04)	\$0.92	\$0.03

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

20. Related party transactions

(1) Related parties

Name	Relationship
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	The investee is accounted for using the equity method
Lin Yuan Investment Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Life Charity Foundation	Affiliate
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the company's chairman
Cathay Insurance (Bermuda) Co., Ltd.	The investee is accounted for using the equity method
Symphox Information Co., Ltd.	The investee is accounted for using the equity method
Cathay Securities Investment Co., Ltd.	The investee is accounted for using the equity method
Cathay Life Insurance Agent Co., Ltd.	The investee is accounted for using the equity method
Cathay Property Insurance Agent Co., Ltd.	The investee is accounted for using the equity method
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Seaward Futures Corp.	The investee is accounted for using the equity method
Seaward Leasing Ltd.	The investee is accounted for using the equity method
Seaward Insurance Agent Corp.	The investee is accounted for using the equity method
Huong Yee Co., Ltd.	The investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee is accounted for using the equity method
Seaward Card Co., Ltd.	The investee is accounted for using the equity method
Seaward Property Insurance Agent Corp.	The investee is accounted for using the equity method

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Indovina Bank	The investee is accounted for using the equity method
Gemfor Tech Co.	Their Chairman of the Board is the president of the UWCCB
China England Company Ltd. and etc.	Investee company of UWCCB
Culture and Charity Foundation of the UWCCB	UWCCB is the major sponsor of the Foundation
Taiwan Cooperative Bank, and etc.	Former directors or supervisors of UWCCB (resigned since December 18, 2003 as UWCCB join the Cathay Financial Holding Group)
Taipei Smart Card Corp.	Investee Company of UWCCB
Wu Ming-Yang	Senior manager of Cathay Century

(2) *Significant transactions with related parties:*

A. Property transactions (from related parties):

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

Name	Item	For the six-month period ended June 30, 2003	
		NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Tainmu jungcheng	\$6,930	\$200
	Hsinyi District Base-D	440,633	12,732
	Cathay Information Building	21,610	624
	Taitung Building	2,776	80
	Yungdang Building	125	4
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	2,678	77
	Tucheng office Building	582	17
	Ban ciao Building	524	15
	Total	<u>\$475,858</u>	<u>\$13,749</u>

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Name	Item	For the six-month period ended June 30, 2002 (Restated)	
		NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Lin Yuan Finance building	\$568,611	\$16,994
	Hsinyi District Base	319,994	9,563
	Tainan Shopping Center	1,775,729	53,070
	Cathay General Hospital of Hsinchu	332,704	9,943
	Kaohsing International Business Building	6,629	198
	Tainmu jungcheng	7,075	211
	Taitung Building	90,431	2,703
	YungKang Building	38,147	1,140
Cathay Real Estate Development Co., Ltd.	Other	263	8
	Total	\$3,139,583	\$93,830

1. The total amount of construction contracts for real estate on June 30, 2003 and 2002 between the Company and San Ching Engineering Co., Ltd. are NT\$12,267,825 (US\$354,459) and NT\$19,862,922 (US\$593,632) respectively. As of June 30 2003 and 2002, NT\$9,709,113 (US\$280,529) and NT\$14,223,596 (US\$425,093), respectively, had been paid according to the schedule of construction contracts.
2. In the six-month periods ended June 30, 2003 and 2002, Cathay United Bank engaged San Ching Engineering Co., Ltd. to install office equipment and furniture, and to decorate office buildings and workplaces. The installation fees amounted to NT\$15,886 (US\$459) and NT\$1,440 (US\$43) for the six-month periods ended June 30, 2003 and 2002, respectively. As of June 30, 2003 and 2002, the foregoing installation fees had been paid off.
3. As of June 30, 2003, UWCCB has paid off NT\$792 (US\$23) of total purchase amount of NT\$1,980 (US\$57) for the web design service provided by Gemfor Tech Co.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

4. During the six-month periods ended June 30, 2002, UWCCB had purchased equipment amounting to NT\$32,881 (US\$948) from Gemfor Tech Co.
5. UWCCB paid project and construction management service fees to Taiwan Real Estate Management Corp. in the amount of NT\$398 (US\$11) and NT\$1,338 (US\$40) in the six-month periods ended June 30, 2003 and 2002, respectively.
6. UWCCB has paid the typing system for 24-hour self-service banking center to San Ching Engineering Co., Ltd. for NT\$3,020 (US\$87) in the six-month period ended June 30, 2003.
7. For the six-month periods ended June 30, 2003 and 2002, the Company and the Subsidiaries did not repurchase any property and investments it had previously sold.
8. Cathay Life acquisition of property and equipment information:

Name	Item	For the six-month periods ended June 30,			
		2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Symphox Information Co., Ltd.	Communication and transportation equipment	\$1,560	\$45	\$0	\$0
	Other equipment	0	0	21,424	640
		\$1,560	\$45	\$21,424	\$640

b. Disposal of real estate from Cathay Life and UWCCB:

1. Cathay Life didn't recognize the gain (loss) of real estate which sold to Cathay General Hospital for the six-month period ended June 30, 2003, because it's unfinished process.
2. As of June 30, 2003, UWCCB has received the full contract amount of NT\$27,739 (US\$829) from Seaward Leasing Ltd. for the disposal of real estate.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

c. Real-estate rental income from Cathay Life and UWCCB:

Name	Rental income			
	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Cathay Real Estate Development Co., Ltd.	\$14,932	\$431	\$15,475	\$462
San Ching Engineering Co., Ltd.	9,920	287	10,001	299
Cathay Securities Investment Trust Co., Ltd.	4,543	131	4,550	136
Cathay General Hospital	81,529	2,356	60,448	1,807
Symphox Information Co., Ltd.	15,023	434	15,259	456
Cathay Securities Investment Co., Ltd.	2,070	60	0	0
Lin Yuan Property Management Co., Ltd.	209	6	0	0
Lin Ynan Investment Co., Ltd.	89	3	52	2
Seaward Leasing Ltd.	998	29	1,036	31
Taipei Smart Card Corp.	4,020	116	0	0
Culture and Charity Foundation of the UWCCB	250	7	250	7
Total	<u>\$133,583</u>	<u>\$3,860</u>	<u>\$107,071</u>	<u>\$3,200</u>

Name	Guarantee deposits received			
	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Cathay Real Estate Development Co., Ltd.	\$12,386	\$358	\$12,386	\$370
San Ching Engineering Co., Ltd.	6,779	196	6,828	204
Cathay General Hospital	1,983	57	1,983	59
Cathay Securities Investment Trust Co., Ltd.	2,144	62	2,060	62
Symphox Information Co., Ltd.	1,421	41	70	2
Other	65	2	16	1
Total	<u>\$24,778</u>	<u>\$716</u>	<u>\$23,343</u>	<u>\$ 698</u>

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

d. Real estate rental expense from Cathay Life, Cathay United Bank and UWCCB

Name	Rental Expense			
	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
		(Restated)	(Restated)	
Cathay Real Estate Development Co., Ltd.	\$22,454	\$649	\$19,188	\$573
Lin Yuan Investment Co., Ltd.	1,673	48	0	0
Seaward Leasing Ltd.	257	7	0	0
Total	\$24,384	\$704	\$19,188	\$573

Name	Guarantee Deposits paid			
	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
		(Restated)	(Restated)	
Cathay Real Estate Development Co., Ltd.	\$12,760	\$368	\$12,760	\$381
Lin Yuan Investment Co., Ltd.	1,650	48	0	0
Seaward Leasing Ltd.	42,090	1,216	42,000	1,255
Total	\$56,500	\$1,632	\$54,760	\$1,636

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

B. Beneficiary certificates

Name	Transaction type	June 30,			
		2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
				(Restated)	(Restated)
Cathay Securities Investment Trust Co., Ltd.	Equity Fund	\$583,910	\$16,871	\$468,930	\$14,015
	Bond Fund	3,349,428	96,776	1,951,413	58,321
		\$3,933,338	\$113,647	\$2,420,343	\$72,336

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

C. Deposits

As of June 30, 2003 and 2002, Cathay United Bank's deposits from related parties amounted to NT\$2,305,330 (US\$66,609) and NT\$1,538,851 (US\$45,991). The related interest expenses paid to related parties for the six-month periods ended June 30, 2003 and 2002, amounted to NT\$22,868 (US\$661) and NT\$21,084 (US\$630), respectively.

Except for the staff savings accounts and 0% interest rate on checking accounts, all other interest expense was computed at the general market rate, ranging from 0% to 2.65% and 0% to 5.20% during the six-month periods ended June 30, 2003 and 2002, respectively. The details of deposit balances (over NT\$0.1 billion) were as follows:

Name	June 30, 2003			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay Real Estate Development Co., Ltd.	\$925,682	\$51,175	0%~0.50%	\$16

Name	June 30, 2003			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay Real Estate Development Co., Ltd.	\$26,746	\$1,479	0%~0.50%	\$0.5

Name	June 30, 2002 (Restated)			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay Real Estate Development Co., Ltd.	\$625,952	\$232,533	0%~0.51%	\$104

Name	June 30, 2002 (Restated)			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay Real Estate Development Co., Ltd.	\$18,707	\$6,950	0%~0.51%	\$3

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

D.Loans

As of June 30, 2003 and 2002, Cathay United Bank loans to related parties amounted to NT\$14,573 (US\$421) and NT\$8,733 (US\$261), respectively.

The interest revenue received from related parties for the six-month periods ended June 30, 2003 and 2002, amounted to NT\$170 (US\$5) and NT\$316 (US\$9), respectively, with interest rates ranging from 2.31% to 13.75% and 5.60% to 6.47%, respectively.

E. Regular secured loans

As of and for the six-month period June 30, 2003				
Name	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General			3.67%~	
Hospital	\$1,173,912	\$1,173,552	4.25%	\$23,626
Wu Ming-Yang	3,189	2,443	3.67%	49
Total		\$1,175,995		\$23,675

As of and for the six-month period June 30, 2003				
Name	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General			3.67%~	
Hospital	\$33,918	\$33,908	4.25%	\$683
Wu Ming-Yang	92	71	3.67%	1
Total		\$33,979		\$684

As of and for the six-month period June 30, 2002				
(Restated)				
Name	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General			4.36% ~	
Hospital	\$1,174,594	\$1,174,261	5.21%	\$28,931
Wu Ming-Yang	3,309	3,270	4.36%	37
Total		\$1,177,531		\$28,968

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

As of and for the six-month period June 30, 2002

Name	(Restated)			
	Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay General Hospital	\$35,104	\$35,094	4.36% ~ 5.21%	\$865
Wu Ming-Yang	99	98	4.36%	1
Total		\$35,192		\$866

F. Receivables

Name	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Notes Receivable				
Cathay General Hospital	\$36,999	\$1,069	\$19,039	\$569
Symphox Information Co., Ltd.	583	17	0	0
Cathay Securities Investment Trust Co., Ltd.	139	4	0	0
Sub-total	37,721	1,090	19,039	569
Account receivable				
Cathay Insurance (Bermuda) Co., Ltd.	9,806	283	0	0
Total	\$47,527	\$1,373	\$19,039	\$569

G. Payable

Name	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Lin Yuan Property Management Co., Ltd.	\$14,127	\$408	\$32,146	\$961
Symphox Information Co., Ltd.	27,931	807	113,686	3,397
Seaward Card Co., Ltd.	27,547	796	23,413	700
Others	2,236	65	662	20
Total	\$71,841	\$2,076	\$169,907	\$5,078

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

H. Advance receipts

Name	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Cathay General Hospital	\$118,833	\$3,434	\$197	\$6

I. Prepayments

Name	June 30			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Symphox Information Co., Ltd.	\$21,392	\$618	\$72,014	\$2,152

J. Premium revenues

Name	As of and for the six-month period ended June 30, 2003			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$758	\$22	\$222	\$6
Cathay General Hospital	2,318	67	505	15
Others	1,178	34	474	14
Total	\$4,254	\$123	\$1,201	\$35

Name	As of and for the six-month period ended June 30, 2002 (Restated)			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$930	\$28	\$556	\$17
Cathay General Hospital	2,013	60	249	7
Others	1,567	47	626	19
Total	\$4,510	\$135	\$1,431	\$43

K. Reinsurance income

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Name	For the six-month periods ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$41,248	\$1,192	\$42,472	\$1,269

Cathay Insurance (Bermuda) Co., Ltd. reinsurance effective April 1, 2000, assumed damage reinsurance from RGA and CRC and re-direct 90% of reinsurance to Cathay Life.

L. Handling fees

Related parties	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
			(Restated)	(Restated)
Seaward Futures Corp.	\$1,432	\$41	\$609	\$18

M. Reinsurance expense

Name	For the six-month periods ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$22,074	\$638	\$20,513	\$613

Reinsurance is at Cathay Life's expense to pay Cathay Insurance (Bermuda) Co., Ltd.

N. Commissions expense

Name	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
			(Restated)	(Restated)
Cathay Life Insurance Agent Co., Ltd.	\$14,450	\$418	\$6,225	\$186
Seaward Insurance Agent Corp.	28,830	833	0	0
Total	\$43,280	\$1,251	\$6,225	\$186

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

O. Credit card processing charges

Related parties	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$) (Restated)	2002(US\$) (Restated)
Seaward Card Co., Ltd.	\$159,134	\$4,598	\$119,829	\$3,581

P. Other expense (Marketing expense)

	For the six-month periods ended June 30,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Symphox Information Co., Ltd.	\$291,565	\$8,424	\$110,786	\$3,311

Q. Other expense (Administrative and general expense)

	For the six-month periods ended June 30,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Lin Yuan Property Management Co., Ltd.	\$375,734	\$10,857	\$491,456	\$14,688
Cathay Real Estate Development Co., Ltd.	10,426	301	0	0
Cathay Securities Investment Trust Co., Ltd.	12,500	361	0	0
Total	\$398,660	\$11,519	\$491,456	\$14,688

R. Temporary payments and suspense accounts

Related parties	For the six-month periods ended June 30,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Cathay Securities Investment Co., Ltd.	\$6,854	\$198	\$0	\$0

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

21. Pledged assets

a. Cathay Life:

Item	June 30,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,719,351	\$223,038	\$9,226,628	\$275,751
Time Deposits	1,002,550	28,967	9,000	269
Total	<u>\$8,721,901</u>	<u>\$252,005</u>	<u>\$9,235,628</u>	<u>\$276,020</u>

As of June 30 2003 and 2002, Cathay Life pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, Cathay Life agrees to purchase the time certificates by the security deposit received as a guarantee. In addition, these deposits serve as guarantees for the Law court. Further, pursuant to Article 141 of the Insurance Law, Cathay Life should deposit long-term investment in bonds equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

b. Cathay Century:

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government bonds	<u>\$362,762</u>	<u>\$10,481</u>	<u>\$367,677</u>	<u>\$10,989</u>

(1) According to Article 141 of the Insurance Law, Cathay Century should deposit long-term investment in bonds, in an amount equal to 15% of its capital, into the Central Bank as capital guarantee deposits.

(2) The pledged assets are disclosed at their net carrying values.

c. UWCCB

(1) Securities purchased of NT\$14,305,423 (US\$413,332) and NT\$1,324,478 (US\$39,584) at June 30, 2003 and 2002, respectively, were pledged to other parties as collateral for business reserves and guarantees.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

22. Other important matters and contingent liabilities

(1) Cathay Life

As of June 30, 2003 signed sales contracts and construction contracts of approximately NT\$800 million (US\$23 million) are either not completed or still in progress. About NT\$131 (US\$3.79) had been paid as of June 30, 2003.

(2) Cathay Century

a. Cathay Century's income tax returns, except for 1999, have been filed and approved by the Tax Authorities until 2001. In year 2000 and 2001 Cathay Century was assessed to pay overdue tax in the amount of NT\$7,690 (US\$222) and NT\$2,474 (US\$71), respectively by the Tax Authority. Cathay Century has appealed against this assessment.

b. By June 30 2003, Cathay Century had made some significant rental contracts. Based on these, Cathay Century estimate that the rent payments for the following 5 years should be as follows:

Year	Amount	Amount
	NT\$	US\$
July 01, 2003 ~June 30, 2004	\$52,921	\$1,529
July 01, 2004 ~June 30, 2005	54,463	1,574
July 01, 2005 ~June 30, 2006	56,052	1,619
July 01, 2006 ~June 30, 2007	57,689	1,667
July 01, 2007 ~June 30, 2008	59,374	1,716
Total	<u>\$280,499</u>	<u>\$8,105</u>

(3) Cathay United Bank

a. Guarantees on commercial paper issued for customers and loans secured by other banks amounted to NT\$5,343,843 (US\$154,402). The reserve for guarantees amounted to NT\$10,000 (US\$289) and was determined by evaluating the potential losses of total outstanding guarantees issued.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

- b. Unused commercial letters of credit which were issued for customers amounted to NT\$850,356 (US\$24,570).
- c. Cathay United Bank entered into contract for significant equipment renovation, purchase and maintenance of computer hardware and software due to operating requirements. As of June 30, 2003, the contracts for equipment renovation and computer purchase delivered but not yet tested, and for maintenance services provided already, amounted to NT\$287,204 (US\$8,298).
- d. Total repurchase prices of bonds and bills sold under repurchase agreements amounted to NT\$8,123,861 (US\$234,726).
- e. Cathay United Bank entered into certain operating leases for its branch premises and equipment (including leasing office premises from related parties). As of June 30, 2003, the related refundable deposits amounted to NT\$60,921 (US\$1,760). The estimated future lease payments under the lease contracts were as follows:

Fiscal Year	Amount	Amount
	NT\$	US\$
July 01, 2003 ~June 30,2004	\$222,900	\$6,440
July 01, 2004 ~June 30, 2005	150,222	4,340
July 01, 2005 ~June 30, 2006	86,772	2,507
July 01, 2006 ~June 30, 2007	83,877	2,423
July 01, 2007 ~June 30,2008	88,404	2,554
Total	<u>\$632,175</u>	<u>\$18,264</u>

f. Trust fund assets/liabilities

Cathay United Bank is permitted, under the ROC Trust Law, to engage in trust operations. As of June 30, 2003 and 2002, the trust fund assets amounted to NT\$16,617,200 (US\$480,127) and NT\$2,293,037 (US\$68,531), respectively.

(4) UWCCB

As of June 30, 2003, UWCCB had the following commitments and contingent liabilities, which are not reflected in the financial statements:

a. Collection and guarantee assets and liabilities:

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	Amount NT\$	Amount US\$
Securities purchased under agreements to resell	\$11,733,827	\$339,030
Securities sold under agreements to repurchase	19,756,812	570,841
Trust and security held for safe keeping	428,273,850	12,374,281
Travelers checks for sale	735,524	21,252
Bills for collection	56,886,490	1,643,643
Guarantees on duties and contracts	12,494,004	360,994
Unused commercial letters of credit	2,087,146	60,305
Stamp tax, securities and memorial currency consignments in	3,128	90
Loan commitments	20,067,775	579,826
Credit card lines	40,865,144	1,180,732

b. As of June 30, 2003, UWCCB had various lawsuits, claims and proceedings of considered normal to its operations are pending against UWCCB, the most significant ones are described below:

- (1) In 1997, the certificate of certified deposit in the amount of \$600 million with Chung Shing Bank requested from Polaris International Securities Investment Trust Co., Ltd. (formerly Chronicle Securities Investment Trust Co., Ltd.) was found to be a forgery made by Mr. Chung-For Su. UWCCB has filed a suit in the higher court claiming for the NT\$600 million.
- (2) In 1996, customers claimed that UWCCB was responsible for making restitution for the amount of approximately NT\$24,000 because safe-deposit boxes were stolen at the Chung-Li Branch. The higher court ordered UWCCB to make restitution for NT\$12,634. UWCCB is filing an appeal. The claim is still in the Supreme Court. UWCCB also has filed insurance claims against Taiwan Secom Co., Ltd. relating to the loss mentioned above.
- (3) In 2001 unauthorized transactions were made by UWCCB's employees in the amount of approximately NT\$60,204 and NT\$89,307, respectively. Pursuant

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

to a court order, UWCCB has held the employees' personal properties or related deposits as collateral, which may be sold to cover the loss.

The management believes that the amount of contingent liability, if any, after deducting an appropriate reserve with respect to these actions, will not materially affect the financial statements of UWCCB.

- c. As of June 30, 2003, UWCCB has entered into certain contracts to purchase premises and equipment totaling NT\$563,818 (US\$16,291) with prepayments of NT\$383,528 (US\$11,081).

23.Serious damages: None

24.Subsequent events

On July 29, 2003, Cathay Life will sell 35,451,450 Global Depositary Shares ("GDSs") representing 354,514,500 Common Shares, par value NT 10 dollars per share. The Company is also selling 3,548,550 GDSs representing 35,485,500 Common Shares. The Common Shares underlying the GDSs being sold by the Company will be treasury stock. The Company will not issue any new Common Shares. Total is 39,000,000 GDSs at an offering price of US 11.63 dollars per GDS, total amount are US\$453,570,000. The Company has granted the Initial Purchasers an option, exercisable from time to time within 30 days from the date of this Offering Circular, to purchase up to 5,850,000 additional GDSs representing 58,500,000 Common Shares, which will also be treasury stock.

25.Other important events

(1) Pension related information

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

(2) Derivative financial instruments related information

A. The Company

a. Credit and market risk

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

The Company is party to certain derivative transactions, including cross currency swaps (“CCS”) and foreign currency options with high credit rating financial institutions. Losses incurred from fluctuations of exchange rate and interest rate can be offset by forward hedging contracts.

b. Cash flow and demand

The primary objective of CCS and foreign currency options is to limit exchange rate and interest rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments, and beating fixed interest rates. As there will be cash inflow and cash outflow on the expiration date of a CCS contract, no demand for substantial cash flow is expected.

c. CCS

(a) The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contact date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. Interest receivables or payables and amortized principal as determined by agreement are recognized as current interest income or expenses, along with the hedged positions is calculated according to the agreed period at the applicable interest rate. The difference is credited or charged to the current income.

(b) As of June 30, 2003, the Company has CCS contracts of approximately US\$700,000. The maturity dates of CCS are from May 20, 2003 to May 20, 2007.

d. Foreign currency options

As of June 30, 2003:

Counterpart	Effective Date	Put Date	Amount (in thousands of dollars)
Goldman Sachs International	2002.05.20	2005.5.20; 2007.5.20	US\$700,000

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

B. Cathay Life

a. Credit and market risk

Cathay Life enters into forward contracts with financial institutions having good credit ratings. In addition, Cathay Life enters into contracts with many financial institutions to hedge risk. Forward hedging contracts can offset losses incurred from exchange rate fluctuation.

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.

b. Futures

All futures transactions have been offset as of June 30, 2003.

c. Forward Contracts

(a) 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.

(b) As of June 30, 2003 and 2002, Cathay Life has forward exchange contracts of approximately US\$7,722,800 and US\$3,086,000, respectively in notional value.

The 1ST half 2003 forward contracts are due from the period of July 3, 2003 to June 28, 2004. In addition, the 2002 forward contracts are due from period of July 1, 2002 to August 23, 2003.

June 30, 2003

Item	Contract Amount	Fair Value (NT\$)	Fair Value (US\$)	Due Value (NT\$)	Due Value (US\$)
Forward & CCS	US\$10,342,800	\$358,050,573	\$10,345,292	\$358,142,736	\$10,347,955

June 30, 2002

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Item	Contract	Fair Value	Fair Value	Due Value	Due Value
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$5,776,000	\$195,841,071	\$5,852,991	\$199,139,099	\$5,951,557

The above-mentioned forward contracts agreement hedges against risk in association with net capital exchange rate fluctuation.

Net capital	June 30,	
	<u>2003</u>	<u>2002</u>
Short-term investment	US\$10,342,800	US\$5,776,000

The forward contacts agreement listed gain-loss amount is not significant to this company for the period of year 2003 and 1st half year of 2002.

d. Interest Rate Swap Agreement (“IRS”)

IRS agreements are applied to hedge the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of June 30, 2003, the IRS agreements of Cathay Life are summarized as following:

Category	Currency	Period	Amount
IRS	NTD	2002.09.03~2010.02.18	\$12,800,000

C. Cathay Century

a. Credit and market risk

Cathay Century enters into forward contracts with financial institutions having good credit ratings. In addition, Cathay Century enters into contracts with many financial institutions to hedge risk. Forward hedging contracts can offset losses incurred from exchange rate fluctuation.

b. Cash flow and demand

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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

c. Forward contract

(a) 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.

(b) As of June 30, 2003 and 2002, Cathay Century has forward exchange contracts of approximately US\$28,000 and \$0, respectively in notional value.

D.Cathay United Bank

a. Foreign exchange forward and swap contracts

Cathay United Bank enters into foreign exchange forward contracts and swap contracts for the purpose of hedging foreign exchange risk. The foreign exchange forward contracts and swap contracts are recorded at acquisition cost and valued at the spot currency rate on the balance sheet date. As of June 30, 2003, receivables and payables resulting from foreign exchange forward contracts and swap contracts, which are recorded at net receivable amount, amounted to NT\$6,336 (US\$183). As of June 30, 2003, the unsettled balance of foreign exchange forward contracts and swap contracts amounted to US\$39,439, AUD 2,000 and EUR 2,300, with maturity dates ranging from July 1 to December 29, 2003.

Credit risk arises when the transaction counterparty fails to perform its contractual obligation. When derivative financial instruments are profitable, credit risk increases. To lower credit risk effectively, Cathay United Bank takes the same policy as for loans, primarily by setting credit limiting and limits its selection of counterparties to those with high credit ratings. Because the counterparties of foreign forward contracts are international banking institutions with high credit ratings, the possibility of default on the contractual obligations is very low.

Market risk is the possible loss arising from the fluctuations in market interest rates or exchange rates. To reduce interest and exchange rate exposures, Cathay

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

United Bank has maintained its net foreign currency positions within certain limits to reduce market risk.

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

b. Options

Cathay United Bank engaged in option transactions to comply with the new business of combined foreign currency deposits. Depositors include savings deposit clients and internationally well-know banks, which have to qualify under the risk management assessment of Cathay United Bank. The deposit clients are those who deposit their principal in Cathay United Bank and use the interest earned to buy the options. Therefore, the credit risk is very low. In order to eliminate the potential market risk, Cathay United Bank will buy opposite options at the same time the clients buy their options.

c. As of June 30, 2003 and 2002, the nominal principal and fair value of derivative contracts which had not matured were as follows:

	June 30, 2003			
	Nominal principal		Fair value	
	NT\$	US\$	NT\$	US\$
Foreign exchange forward and swap contracts	\$ 3,458,537	\$99,929	\$6,196	\$179
Options	—	—	—	—

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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

E. UWCCB

In a normal course of business, UWCCB is a party to a variety of off-balance sheet and derivative instruments, including forward exchange contracts, interest rate swaps and cross-currency interest rate swaps, and options. These financial instruments involve varying degrees of risks. These transactions are typically customer-driven and are not for trading purposes. The related information is as follows:

a. Notional and credit risk amounts for derivative financial instruments

Derivative Financial Instruments	June 30, 2003		June 30, 2002	
	Notional Amount	Credit Risk	Notional Amount	Credit Risk
Foreign Exchange Contracts				
Forward Contracts				
Commitments to purchase	US\$571,804	US\$4,908	US\$182,305	US\$942
Commitments to sell	263,880	1,874	424,709	3,414
Options				
Purchase	2,410	5	—	—
Sell	2,410	—	—	—
Interest rate contract, interest rate swaps				
swaps	203,574	8,981	168,251	2,142
Cross-currency interest rate swaps	89,058	435	95,184	1,445

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Credit risk is the possibility of loss if counterparty fails to perform its contracted obligations under the terms of a derivative financial instrument. The above amount of credit risk represents the loss, which UWCCB would suffer if counterparties fail to perform according to the terms of the contract after the effect of the master netting agreements.

Foreign exchange contracts constitute agreements to exchange designated currencies on a specified date at a predetermined price. UWCCB enters into foreign exchange contracts to provide foreign exchange to its clients as hedging instruments. All client positions are entered into under the approved credit limits and under the similar policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled. Certain clients are required to provide collateral, general cash, before entering into these transactions. This measure is deemed necessary over the life of the contract to reduce UWCCB's credit exposure on this position.

Interest rate swaps entered into by UWCCB have remaining maturities ranging from two years and eight months to approximately five years on June 30, 2003. Interest rate swaps represents agreements between two parties to exchange periodic interest payments, most often fixed versus floating, and are based on a notional principal amount. Cross-currency interest rate swaps entered into by UWCCB, with remaining maturities ranging from two months to three years as of June 30, 2003, involve an exchange of principal balances denominated in two different currencies at the inception of the contract, an exchange of interest payments during the life of the contract and another exchange of the principal balance at a specified future date. The above non-trading swap transactions are used to hedge UWCCB's balance sheet position of foreign marketable securities, foreign certified deposits and foreign liquidity gap. The swap contracts entered into by UWCCB are made with major international financial institutions within approved credit limits based on each financial institution's world ranking and credit rating. This limits the risk associated with these swap contracts.

To limit the credit exposure arising from the option transaction UWCCB maintains its transactions with counterparty that have deposit in UWCCB or other major financial institutions. Consequently, UWCCB does not anticipate significant loss due to credit risk.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

b. Market risk

Market risk is the potential loss arising from adverse future changes in market rates and prices, such as interest rate, foreign currency exchange rate, and price of equity securities. Market risk includes interest rate risk, equity price risk and foreign exchange rate risk. The related risks for UWCCB's derivative financial instruments are as follows:

Items	June 30, 2003	June 30, 2002
Interest rate risk	US\$56,268	US\$41,309
Foreign exchange risk	467,787	155,051

The overall value of market risk of UWCCB's derivative financial instruments is less than the aggregate market risk of individual instruments mentioned above.

c. Liquidity risk, cash flow risk and the uncertainty of amount and period of future cash flow

The table below summarizes the expected cash outflow for UWCCB's derivative financial instrument activities:

Period	June 30, 2003	June 30, 2002
0-1 year	US\$2,613	US\$1,749
1-2 year	5,021	979
2-3 year	5,021	955
3-4 year	3,900	916
above 4 year	3,314	553

The uncertainty of the fluctuation for future interest rate and foreign exchange rates will affect the amount of the expected cash outflow. The level of uncertainty corresponds to the time frame.

The liquidity of forward exchange contracts entered into by UWCCB with customers is generally low. However, UWCCB provides this financial instrument to its customers as a hedging instrument and also requires customers

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

to provide related trading documents to execute the trade. Since UWCCB and customers both commit to perform according to the terms of the forward exchange contract, the liquidity risk of the forward exchange contract should be immaterial. In the meantime, UWCCB also enters into forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because UWCCB could buy or sell forward exchange contracts at any time on the secondary market. Though the liquidity of interest rate swaps and cross-currency interest rate swaps is not high, the liquidity risk associated with these financial instruments should be low because most of the trading participants will hold these financial statements to maturity.

A summary of the notional amount of UWCCB's liquidity risk related to outstanding derivative financial instruments appears in the table below:

Items	Notional Amount	
	June 30, 2003	June 30, 2002
Interest rate swaps	US\$203,574	US\$168,251
Cross-currency interest rate swaps	89,058	95,184

- d. The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

Assets and liabilities arising from trading forward contracts are recorded at the contract forward rate. Upon settlement, gains or losses caused by the difference between the spot rate at the settlement date and the contracted forward rate are credited or charged to income. As of the balance sheet date, the gains or losses on outstanding forward contracts arising from the differences between the forward available for the remaining period of each contract and the contracted forward rate are credited or charged to income. The balance of accounts receivable and payable caused by forward contracts are netted on the balance sheet date, and the difference are treated as an asset or liability.

The notional amount is not recorded for interest rate swaps. In the meantime, the differential to be received or paid, calculated by the difference between fixed vs. floating rates, is recorded as adjustment of interest income.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Assets and liabilities caused by cross-currency interest rate swaps are recorded at the agree-upon forward rate. The differential to be received or paid is recorded as an adjustment of interest income.

For options contracts, only memorandum entries of notional principle are made on the contract date. Gains or losses on exercise of the option are credited to or charged again current income. At balance sheet dates, options are marked to market and the resulting gains or losses are recognized currently.

e. Off-balance-sheet credit risk

UWCCB entered into certain transactions with customers to repurchase or resell securities or short-term notes for business purposes. UWCCB also provides various types of loans and credit card services. The term for the related loans depends on the credit status of the borrowers. The interest rate for credit card loans is 19.7%. UWCCB also provides guarantees for loans and commercial letters of credit. These guarantees represent an irrevocable obligation to pay a third-party beneficiary in the event a customer fails to meet a financial or performance obligation and the maturity dates of guarantees are not in one particular period.

A summary of the contract amount of each significant class of off-balance sheet credit related financial instruments outstanding appear in the table below:

Items	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Securities purchase				
under agreements to				
resell	\$11,733,827	\$339,030	\$7,936,669	\$237,199
Securities sold under				
agreements to				
repurchase	19,756,812	570,841	22,671,619	677,574
Loan commitments	20,067,775	579,826	22,137,375	661,607
Credit card lines	40,865,144	1,180,732	31,572,652	943,594
Guaranty and				
Commercial letters of				
credit	14,581,150	421,299	19,438,260	580,940

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

These financial instruments will not be fully paid before maturity. Therefore, the total contract amount of these contracts does not necessarily represent future cash requirements. The maximum amount of possible losses for the above off-balance sheet credit related financial instruments are approximately the contractual amounts if borrowers failed to perform according to the terms of the contract and if the value of existing collateral became worthless.

UWCCB enforces a strict policy of evaluating customers' credit status when providing securities sold under agreements to repurchase, securities purchased under agreements to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loan, and UWCCB retains the legal right to foreclose or liquidate the collateral. Generally, this collateral includes cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancelled by UWCCB following periodic reviews of customers' credit status.

(3) Non-derivative financial instruments related information

A. The Company

The book value of non-derivative Financial Instruments held by the Company as of June 30, 2003, is the same as the estimated fair market value.

B. Cathay Life

Except for the item listed in the following table, the book value of non-derivative financial instruments as of June 30, 2003 and 2002, is the same as the estimated fair market value:

Item	June 30,			
	<u>2003</u>		<u>2003</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$326,980,899	\$335,428,145	\$9,447,584	\$9,691,654

Item	June 30,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$287,726,078	\$287,726,078	\$8,599,105	\$8,599,105

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

C. Cathay Century

Except for the item listed in the following table, the book value of non-derivative financial instruments as of June 30, 2003 and 2002, is the same as the estimated fair market value:

Item	June 30,			
	<u>2003</u>		<u>2003</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$2,208,030	\$2,268,358	\$63,797	\$65,541

Item	June 30,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$1,938,043	\$1,941,516	\$57,921	\$58,025

D. Cathay United Bank

a. Estimated fair values of the Cathay United Bank's financial instruments

The book values and the estimated fair values of Cathay United Bank's financial instruments are as follows:

	<u>June 30, 2003</u>		<u>June 30, 2002</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
	NT\$	NT\$	NT\$	NT\$
Financial assets:				
Cash and due from banks	\$11,789,532	\$11,789,532	\$15,467,268	\$15,467,268
Due from Central Bank	10,791,703	10,823,942	11,307,382	11,311,457
Bills and securities purchased, net	8,163,082	8,163,082	2,600,260	2,600,260
Receivables	24,086,153	24,086,153	16,420,605	16,420,605
Loans and exchange bills negotiated and discounted	117,217,219	117,217,219	102,781,056	102,781,056
Long-term investment	5,954,327	6,021,410	4,908,028	5,104,280
Other assets	9,101,387	9,137,565	5,469,063	5,471,279
Financial liabilities:				
Due to banks	4,197,921	4,197,921	941,615	941,615
Accrued expenses	3,606,274	3,606,274	6,105,861	6,105,861
Deposits and remittances payable	167,859,958	167,859,958	144,329,434	144,329,434
Financial debentures	2,350,000	2,350,000	—	—
Other liabilities	164,788	164,788	141,369	141,369
Off-balance sheet financial instruments:				
Guarantees on loans and letters of credit	—	5,343,843	—	7,295,708

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	<u>June 30, 2003</u>		<u>June 30, 2002</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
	US\$	US\$	US\$	US\$
Financial assets:				
Cash and due from banks	\$340,639	\$340,639	\$462,261	\$462,261
Due from Central Bank	311,809	312,740	337,937	338,059
Bills and securities purchased, net	235,859	235,859	77,712	77,712
Receivables	695,930	695,930	490,753	490,753
Loans and exchange bills				
negotiated and discounted	3,386,802	3,386,802	3,071,759	3,071,759
Long-term investment	172,041	173,979	146,683	152,549
Other assets	262,970	264,015	163,451	163,517
Financial liabilities:				
Due to banks	121,292	121,292	28,142	28,142
Accrued expenses	104,197	104,197	182,482	182,482
Deposits and remittances payable	4,850,042	4,850,042	4,313,492	4,313,492
Financial debentures	67,899	67,899	—	—
Other liabilities	4,761	4,761	4,225	4,225
Off-balance sheet financial instruments:				
Guarantees on loans and letters of credit	—	154,402	—	218,043

The following methods and assumptions were used to estimate the fair values of financial instruments.

- (i) The book value reported in the balance sheet for short-term financial instruments approximates the fair value due to their short maturity period or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash amounts due from banks, call loans to banks, deposit reserves due from the Central Bank, receivables, other assets (excluding delinquent loans) and accrued expenses, and other liabilities.
- (ii) The fair values of bills and securities purchased and of deposit reserves for trust funds in the form of securities and of other assets are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on financial or other information.
- (iii) Loans and exchange bills negotiated and discounted, due to banks, deposits and financial debentures are the interest-bearing financial assets and liabilities, and the evaluation of collectable amount. Their book value approximates fair value.
- (iv) The fair values of financial guarantees are based on the contract value.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

b. Financial instruments with off-balance sheet credit risk

By engaging in the business of loans and issuing credit cards, Cathay United Bank holds large credit commitments. During the six-months periods ended June 30, 2003 and 2002, according to the different types of loans, the interest rates on loans ranged from 2.01% to 13.32% and 4.82% to 14.79%, respectively. The maximum credit card interest rate at the reporting date was 19.89%. Cathay United Bank also provided guarantees and letters of credit to guarantee customers' performance of obligations to third parties. These agreements generally extend for up to one year. Expirations are not concentrated in any particular period.

Most of the contracts are expected to expire without any payment by Cathay United Bank, and accordingly, the total contractual amounts do not necessarily represent future cash payments. The future cash flow requirement will be less than the contract amount. The maximum loss on each guarantee is equal to the contractual amount, which does not take into account the value of any collateral.

Cathay United Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. As of June 30 2003 and 2002, the ratios of secured loans to total loans (excluding credit card operations) were 77.34% and 82.43%, respectively, and the extent of collateral held for guarantees and letters of credit were 36.77% and 42.41%, respectively. Collateral for loans, guarantees, and letters of credit is usually in the form of time deposits, marketable securities, real estate, or other property. When customers are in default, Cathay United Bank can forcibly execute its related collateral or security rights.

Credit card commitments are unsecured. Periodic review of cardholders' credit status is performed to adjust card limits if necessary.

Cathay United Bank required strict credit assessment in the investment in CLN, CCN and SLN. The criteria on the investment objectives were referred to the stipulation of the MOF. The assessment was based on having financial institutions with sound finances and good reputations, or the linked investing objectives ranked "long-term bond rating BBB-" or "short-term bond rating A-3 grade" and above assessed by Standard & Poor's Corporation or with "long-term bond rating Baa3" or "short-term bond rating P-3 grade" and above assessed by Moody's Investor Service. The credit ratings of the above-mentioned investing objectives were all above these grades, and no material credit risk existed during the six-month period ended June 30, 2003. Cathay United Bank has been periodically assessing the credit and financial position of the issuers and the

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

linked investing objectives. When credit risks arise, the Bank may take necessary action, or dispose of its investments.

c. Information on concentrations of credit risk

The concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for individuals or groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Cathay United Bank does not have material concentrations of credit risk with respect to any individual customer or counterparty but is exposed to counterparty default with respect to its portfolio concentrations in certain industries. The information on concentrations of credit risk of more than 10% of Cathay United Bank's loan balance by industry is as follows:

	<u>June 30, 2003</u>		<u>June 30, 2002</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Manufacturing	\$15,040,946	\$434,584	\$14,916,649	\$445,805
Real estate and lease	14,034,813	405,513	15,399,494	460,236
Others (less than 10% of loans)	<u>88,992,804</u>	<u>2,571,303</u>	<u>73,257,888</u>	<u>2,189,417</u>
	<u>\$118,068,563</u>	<u>\$3,411,400</u>	<u>\$103,574,031</u>	<u>\$3,095,458</u>

The credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The collateral requirements for loans are described in paragraph (b).

E. UWCCB

a. Fair value of financial instruments

As of June 30 2003 and 2002, except as stated in the table below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximately equal to their carrying values:

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Financial Assets	June 30, 2003(NT\$)		June 30, 2003(US\$)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Securities purchased	\$129,082,092	\$131,047,757	\$3,729,618	\$3,786,413
Investments	12,067,344	12,213,341	348,666	352,885

Financial Assets	June 30, 2002(NT\$)		June 30, 2002(US\$)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Securities purchased	\$127,887,983	\$128,081,457	\$3,822,115	\$3,827,898
Investments	12,301,886	12,455,789	367,659	372,259

Fair value amounts of securities purchased and investments were based on quoted market price, if available, if quoted market prices did not exist, fair values were estimated according to book value or other financial resources.

b. Others

(1) Concentration of credit risk

When counterparties of financial instrument transactions are significantly concentrated on one particular person or most of the counterparties perform similar business or have the similar business characteristic, UWCCB is exposed to credit risk when such counterparties fail to live up to the terms of the contract under certain economic circumstances. UWCCB mitigates this risk by diversifying counterparties and customers. The table below summarizes this risk by type of industry and geographic region:

Items	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Bills and loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$399,071,823	\$11,530,535	\$407,133,110	\$12,167,756
South East Asia	7,990,519	230,873	8,269,819	247,155
North East Asia	515,086	14,883	519,136	15,515
North America	6,500,999	187,836	6,256,667	186,990
Others	4,007,970	115,804	6,507,884	194,497
Total	<u>\$418,086,397</u>	<u>\$12,079,931</u>	<u>\$428,686,616</u>	<u>\$12,811,913</u>

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Industry type				
Manufacturing	\$52,282,187	\$1,510,609	\$54,065,804	\$1,615,834
Financial institutions and insurer	24,325,067	702,834	29,788,629	890,276
Leasing and real estate	65,832,545	1,902,125	80,672,238	2,411,005
Individuals	173,997,156	5,027,367	162,970,846	4,870,617
Others	101,649,442	2,936,996	101,189,099	3,024,181
Total	<u>\$418,086,397</u>	<u>\$12,079,931</u>	<u>\$428,686,616</u>	<u>\$12,811,913</u>
Credit Card				
Gold card	\$10,004,382	\$289,061	\$8,290,074	\$247,761
Regular card	2,551,810	73,730	2,330,135	69,639
Advance	4,060	117	1,724	52
Total	<u>\$12,560,252</u>	<u>\$362,908</u>	<u>\$10,621,933</u>	<u>\$317,452</u>

The amount of possible losses for the above credit-related loan approximated to those notional amounts if borrowers failed to perform according to the terms of the contract and the value of existing collateral became worthless.

(4) Discretionary account management

A. Cathay Life

Item	June 30, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,033,068	\$29,849	\$1,052,998	\$30,425
Repurchase bonds	5,863,913	169,428	5,864,624	169,449
Convertible bond	323,050	9,334	324,202	9,367
Governmental bonds	1,734,833	50,125	1,820,273	52,594
Cash in bank	217,727	6,291	217,727	6,291
Net other assets less liabilities	(139,218)	(4,022)	(139,218)	(4,023)
Total	<u>\$9,033,373</u>	<u>\$261,005</u>	<u>\$9,140,606</u>	<u>\$264,103</u>

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Item	June 30, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,945,860	\$88,041	\$2,588,744	\$77,368
Repurchase bonds	2,357,668	70,462	2,357,668	70,462
Short-term securities	99,968	2,988	99,968	2,988
Governmental bonds	3,143,793	93,957	3,165,998	94,620
Cash in bank	765,490	22,878	765,490	22,878
Net other assets less liabilities	(10,061)	(301)	(10,061)	(301)
Total	<u>\$9,302,718</u>	<u>\$278,025</u>	<u>\$8,967,807</u>	<u>\$268,015</u>

As of June 30, 2003 and 2002, the securities investment and trust company had recorded that Cathay Life had discretionary account management contracts in the amount of NT\$8,500,000(US\$245,594) and NT\$9,000,000(US\$268,978), respectively.

B. Cathay Century

Item	June 30,2003			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$21,502	\$621	\$21,740	\$628
Cash in bank	28,821	833	28,821	833
Net other assets less liabilities	(4,427)	(128)	(4,427)	(128)
Total	<u>\$45,896</u>	<u>\$1,326</u>	<u>\$46,134</u>	<u>\$1,333</u>

Item	June 30,2002			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$23,863	\$713	\$23,676	\$707
Cash in bank	26,022	778	26,022	778
Net other assets less liabilities	(7)	0	(7)	0
Total	<u>\$49,878</u>	<u>\$1,491</u>	<u>\$49,691</u>	<u>\$1,485</u>

As of June 30, 2003 the securities investment had recorded that Cathay Century had discretionary account management contracts in the amount of NT\$50,000(US\$1,445) respectively.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(5) Zero coupon convertible notes related information:

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

Offering: The Purchaser is offering outside United States the International Notes in reliance on Regulation S under the U.S. Securities Act ("Regulation S") and is offering 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 amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The Notes will not bear interest except in the limited circumstances.

Conversion rights:

Subject to certain conditions, each holder of the Notes (the "Holder") will have the right during the conversion period 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 for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period. Cathay Financial Holdings shall as soon as practicable but in no event more than five trading days from the conversion date deliver common shares to the converting holders or the depository, as the case may be.

Repurchase at the option of the holder:

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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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.

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.

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; provided that (a) the closing price (translated into U.S. dollars at the prevailing rate) of the common shares for a period of 30 consecutive trading days (including trading days that fall within a closed period), the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into U.S. dollars at the exchange rate, as defined in the indenture) 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

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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 ROC tax laws or such other jurisdiction in which Cathay Financial Holdings is then organized, Cathay Financial Holdings becomes obligated to pay certain additional amounts, 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 will, create or permit to subsist any lien to secure for the benefit of the holders of any international investment securities 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.

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.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Governing law:

The indenture, the Notes and the deposit agreements are governed by, and construed in accordance with, the laws of the State of New York.

Listing:

The international Notes have been listed on the Luxembourg Stock Exchange and the Rule 144A Notes have been designated for trading on the PORTALSM 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 June 30 2003.

(6) Capital adequacy ratio:

A. As of June 30, 2003 the consolidated capital adequacy ratio was 176.00%.

B. Cathay United Bank

In order to enhance the banking financial structure, the Banking Law and related regulations required that the ratio of banking capital to risk assets should not be lower than 8% ("BIS"); otherwise, the ROC banking authority will be able to restrict the distribution of earnings. As of June 30, 2003 and 2002, the BIS ratio was 10.07% and 9.20%, respectively.

C. UWCCB

As of June 30, 2003 and 2002 the BIS ratio was 10.96% and 9.95%, respectively.

(7) Material contract: None.

(8) Presentation of financial statements:

Certain accounts in financial statements for the six-month periods ended of 2002 have been reclassified in order to be comparable with those in the financial statements for the six-month period ended of 2003.

(9) Others

A. Cathay Life

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

On December 25, 2002, the investment commission of the Ministry of Economic Affairs has approval for Cathay Life to remit US \$22,850 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 yet invested substantially.

B. Cathay United Bank and UWCCB

Pursuant to the resolution of the board of director's meeting held on April 21, 2003, Cathay United Bank is scheduled to merge with UWCCB on September 30, 2003. Cathay United Bank is the extinguished company and UWCCB is the surviving company. The ratio for exchange of shares is 0.2808 UWCCB share for one share of Cathay United Bank. The Merger has been resolved by the director's meeting of Cathay Holding on April 25, 2003.

18. Information for investment in Mainland China: None

19. Segment information: None

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

20. The Subsidiaries' concise balance sheets and statements of income

(a) Concise balance sheets:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				CATHAY CENTURY INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.				UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD.			
	June 30, 2003		June 30, 2002		June 30, 2003		June 30, 2002		June 30, 2003		June 30, 2002		June 30, 2003		June 30, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Current assets	\$450,162,948	\$13,006,730	\$487,180,346	\$14,560,082	\$7,410,543	\$214,116	\$7,059,107	\$210,973	\$54,894,338	\$1,586,082	\$45,835,929	\$1,369,871	\$229,665,846	\$6,635,823	\$239,289,123	\$7,151,498
Exchange bills negotiated, discounted, and loans	479,050,048	13,841,377	487,325,504	14,564,420	916,720	26,487	1,042,829	31,166	117,217,219	3,386,802	102,781,056	3,071,759	399,791,378	11,551,326	395,360,753	\$11,815,922
Funds and long-term investments	391,205,991	11,303,265	200,619,609	5,995,804	1,289,947	37,271	602,257	17,999	5,954,327	172,041	4,908,028	146,683	12,067,344	348,667	12,301,886	\$367,659
Fixed assets	15,986,522	461,905	16,301,222	487,186	61,397	1,774	40,923	1,223	1,750,098	50,566	1,279,038	38,226	23,253,342	671,868	22,971,898	\$686,548
Other assets(including intangible assets)	22,449,370	648,638	18,473,040	552,093	458,184	13,238	475,020	14,198	11,365,883	328,398	7,860,704	234,929	7,424,426	214,516	9,512,469	\$284,294
Current liabilities	12,018,974	347,269	7,806,632	233,312	1,162,179	33,579	781,980	23,371	178,014,153	5,143,430	151,376,910	4,524,115	613,860,346	17,736,503	625,519,872	18,694,557
Long-term liabilities	331,414	9,575	3,726	112	8,067	233	2,126	64	0	0	0	0	34,119	986	34,119	1,020
Other liabilities	1,272,910,077	36,778,679	1,131,945,584	33,829,814	6,252,168	180,646	5,822,283	174,008	412,640	11,923	206,209	6,163	809,470	23,388	1,083,876	32,393
Capital stocks	50,686,158	1,464,495	58,386,158	1,744,954	2,317,006	66,946	2,317,006	69,247	12,346,083	356,720	12,346,083	368,980	39,715,627	1,147,519	39,715,626	1,186,958
Capital surplus	5,200	150	3,048	91	430	12	0	0	430	12	0	0	5,095,598	147,229	5,095,598	152,289
Retained earnings	30,245,376	873,891	19,093,470	570,636	394,698	11,405	294,479	8,801	408,488	11,802	(1,264,447)	(37,790)	12,708,463	367,190	8,094,223	241,908
Equity adjustments	(8,457)	(244)	(5,034)	(151)	2,243	65	2,262	68	71	2	0	0	(21,287)	(615)	56,760	1,696
Treasury stocks	(7,333,863)	(211,900)	(7,333,863)	(219,183)	0	0	0	0	0	0	0	0	0	0	(163,945)	(4,900)
Total assets	\$1,358,854,879	\$39,261,915	\$1,209,899,721	\$36,159,585	\$10,136,791	\$292,886	\$9,220,136	\$275,559	\$191,181,865	\$5,523,889	\$162,664,755	\$4,861,468	\$672,202,336	\$19,422,200	\$679,436,129	\$20,305,921
Total liabilities	\$1,285,260,465	\$37,135,523	\$1,139,755,942	\$34,063,238	\$7,422,414	\$214,458	\$6,606,389	\$197,443	\$178,426,793	\$5,155,353	\$151,583,119	\$4,530,278	\$614,703,935	\$17,760,877	\$626,637,867	\$18,727,970
Total stockholders' equity	\$73,594,414	\$2,126,392	\$70,143,779	\$2,096,347	\$2,714,377	\$78,428	\$2,613,747	\$78,116	\$12,755,072	\$368,536	\$11,081,636	\$331,190	\$57,498,401	\$1,661,323	\$52,798,262	\$1,577,951

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(b) Concise statements of income:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				CATHAY CENTURY INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.				UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD.			
	For the six-month periods ended June 30, 2003		For the six-month periods ended June 30, 2002		For the six-month periods ended June 30, 2003		For the six-month periods ended June 30, 2002		For the six-month periods ended June 30, 2003		For the six-month periods ended June 30, 2002		For the six-month periods ended June 30, 2003		For the six-month periods ended June 30, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$220,130,130	\$6,360,304	\$212,222,340	\$6,342,569	\$7,839,524	\$226,510	\$5,490,404	\$164,088	\$6,001,111	\$173,392	\$4,952,515	\$148,014	\$14,176,986	\$409,621	\$17,540,309	\$524,217
Operating costs & expenses	(209,646,362)	(6,057,392)	(206,011,481)	(6,156,948)	(7,536,688)	(\$217,760)	(5,260,543)	(\$157,219)	(4,887,141)	(141,205)	(6,016,288)	(179,805)	(9,367,605)	(270,662)	(30,689,619)	(917,203)
Operating income	10,483,768	302,912	6,210,859	185,621	302,836	8,750	229,861	6,869	1,113,970	32,187	(1,063,773)	(31,791)	4,809,381	138,959	(13,149,310)	(392,986)
Non-operating revenues	542,615	15,678	189,354	5,659	1,852	54	2,577	78	31,282	904	17,754	531	103,287	2,984	106,991	3,198
Non-operating expenses	(7,958)	(230)	(3,510)	(105)	(1,325)	(39)	(225)	(7)	(22,157)	(640)	(3,170)	(95)	(463,722)	(13,398)	(251,912)	(7,529)
Operating income before taxes	11,018,425	318,360	6,396,703	191,175	303,363	8,765	232,213	6,940	1,123,095	32,451	(1,049,189)	(31,355)	4,448,946	128,545	(13,294,231)	(397,317)
Net income	9,444,176	272,874	5,711,319	170,691	233,223	6,739	156,454	4,676	996,103	28,781	(766,802)	(22,915)	3,585,946	103,610	(9,831,231)	(293,820)
Earnings per share before taxes (in dollars)	\$2.24	\$0.06	\$1.13	\$0.03	\$1.31	\$0.04	\$1.00	\$0.03	\$0.91	-	(\$0.85)	(\$0.03)	\$1.12	\$0.03	(\$3.54)	(\$0.11)
Earnings per share (in dollars)	\$1.92	\$0.06	\$1.01	\$0.03	\$1.01	\$0.03	\$0.68	\$0.02	\$0.81	\$0.02	(\$0.62)	(\$0.02)	\$0.90	\$0.03	(\$2.62)	(\$0.08)

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 ROC Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. The amortized loss amounted to NT\$189,438 (US\$5,474) and NT\$94,730 (US\$2,831), respectively, for the six-month periods ended 2003 and 2002. As of June 30, 2003 and 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,420,699 (US\$41,049) and NT\$1,799,879 (US\$53,792). According to general accepted accounting principles, the losses should be recognized as current expenses on the transaction date, thus on June 30, 2003 and 2002, other assets of its subsidiary decreased by NT\$1,065,524(US\$30,787) and NT\$1,349,909(US\$40,344), retained earnings of its subsidiary decreased by NT\$1,065,524(US\$30,787) and NT\$1,349,909(US\$40,344), respectively. In the six-month periods June 30, 2003 and 2002, provision for credit losses of its subsidiary decreased by NT\$189,438(US\$5,474), the net income before tax of its subsidiary increased by NT\$189,438(US\$5,474) and the net income after tax of its subsidiary increased by NT\$142,079(US\$4,105). In the six-month periods June 30, 2002, provision for credit losses of its subsidiary increased by NT\$1,799,879(US\$53,792), the net income before tax of its subsidiary decreased by NT\$1,799,879(US\$53,792) and the net income after tax of its subsidiary decreased by NT\$1,349,909(US\$40,344).

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

21. Elimination of reciprocal accounts

According to the SFC regulations, the consolidated statements should disclose as follows:

Transactions	Account Item	As of and for the six-month periods ended June 30,			
		2003 (NT\$)	2003 (US\$)	2002 (NT\$)	2002(Restated) (US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Common stock	\$105,064,872	\$3,035,680	\$110,765,890	\$3,310,397
	Subscribed capital	—	—	1,998,982	59,742
	Capital surplus	5,101,660	147,404	5,098,647	152,380
	Legal reserve	24,022,054	694,078	30,840,658	921,717
	Special reserve	6,683,126	193,098	257,487	7,695
	Unappropriated retained earnings	—	—	(150,160)	(4,488)
	Cumulative conversion adjustments	173,919	5,025	122,655	3,666
	Unrealized valuation losses on long-term equity investments	(201,350)	(5,818)	(68,667)	(2,052)
	Allowance for valuation loss on long-term investments in stock	19,419	561	9,458	283
	Treasury stock	(7,333,863)	(211,900)	(7,497,808)	(224,083)
	Short-term investments	(1,618,775)	(46,772)	(1,158,029)	(34,609)
	Allowance for valuation loss on short-term investments	646,993	18,694	425,746	12,724
	Long-term investments in stock	(145,609,901)	(4,207,163)	(83,116,335)	(2,484,051)
	Minority interest	—	—	(52,798,262)	(1,577,952)
	Deferred tax assets	355,175	10,262	449,970	13,448
	Other assets	(1,420,699)	(41,049)	1,799,879	53,792
	Gain on long-term investments	14,033,570	405,477	5,399,700	161,378
	Net income before acquisitions of the subsidiaries	—	—	(392,077)	(11,718)
	Minority interest income	—	—	(9,831,231)	(293,820)
	Provisions expenses	(189,649)	(5,480)	(1,799,879)	(53,792)
	Operating expenses	51,043	1,475	151,722	4,534
	Miscellaneous revenues	8,100	234	—	—
	Gain on disposal of investments	166,946	4,824	(58,376)	(1,745)
	Income taxes expenses benefit	47,359	1,368	(449,970)	(13,448)

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to consolidated financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Transactions	Account Item	As and for the six-month periods ended June 30,			
		2003 (NT\$)	2003 (US\$)	2002 (NT\$)	2002(Restated) (US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Deposits and remittances payables	16,593,540	479,444	36,717,110	1,097,343
	Cash and cash equivalents	(16,593,540)	(479,444)	(36,717,110)	(1,097,343)
	Prepayments	(2,357)	(68)	(2,293)	(69)
	Accounts collected in advance	2,357	68	2,293	69
	Payables	63,981	1,849	13,539	405
	Receivables	(63,981)	(1,849)	(13,539)	(405)
	Dividends payable	5,579,018	161,197	—	—
	Other receivables	(5,579,018)	(161,197)	—	—
	Interest income	78,230	2,260	141,262	4,222
	Interest expenses	(78,230)	(2,260)	(141,262)	(4,222)
	Premiums income	158,121	4,569	118,946	3,555
	Insurance expenses	(158,121)	(4,569)	(118,946)	(3,555)
	Rental income	124,027	3,584	88,251	2,638
	Rental expenses	(124,027)	(3,584)	(88,251)	(2,638)
	Guarantee deposits received	73,204	2,115	41,714	1,247
	Guarantee deposits paid	(73,204)	(2,115)	(41,714)	(1,247)
	Commission earned	1,414	41	—	—
	Handing fee earned	61,105	1,766	36,713	1,097
	Handing fee paid	(62,519)	(1,807)	(36,713)	(1,097)
	Other revenues	85,823	2,480	8,100	242
	Other expenses	(85,823)	(2,480)	(8,100)	(242)
	Indemnity income	7,942	229	833	25
	Insurance Claims Payment	(7,942)	(229)	(833)	(25)