

**CATHAY CENTURY INSURANCE CO., LTD.
FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
As Of December 31, 2002 and 2001**

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Independent Auditors' Report

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

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

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

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

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China
January 17, 2003

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current Assets						
Cash and cash equivalents (Notes 2, 4)	\$4,156,774	\$119,792	43.97	\$3,439,314	\$98,266	38.79
Short-term investments (Notes 2, 5)	2,063,054	59,454	21.82	2,185,214	62,435	24.64
Notes receivable (Note 2)	170,988	4,928	1.81	175,720	5,021	1.98
Interest receivable	31,352	904	0.33	37,962	1,085	0.43
Premiums receivable (Notes 2, 6)	425,789	12,271	4.50	445,653	12,733	5.03
Claims recoverable from reinsurers (Note 2)	235,541	6,788	2.49	175,311	5,009	1.98
Due from reinsurers and ceding companies	168,817	4,865	1.79	180,389	5,154	2.03
Other accounts receivable (Note 2)	16,951	489	0.18	50,708	1,449	0.57
Prepayments	47,776	1,377	0.50	35,724	1,021	0.40
Sub-total	<u>7,317,042</u>	<u>210,868</u>	<u>77.39</u>	<u>6,725,995</u>	<u>192,173</u>	<u>75.85</u>
Exchange Bills Negotiated, Discounted and Loans(Notes 2, 7)						
Short-term secured loans	18,908	545	0.20	19,719	563	0.22
Medium-term secured loans	484,906	13,974	5.13	595,921	17,026	6.72
Long-term secured loans	438,582	12,639	4.64	485,804	13,880	5.48
Sub-total	<u>942,396</u>	<u>27,158</u>	<u>9.97</u>	<u>1,101,444</u>	<u>31,469</u>	<u>12.42</u>
Funds, Long-term Investments, and Receivable (Notes 2, 8)						
Long-term Investments in stocks	383,893	11,063	4.06	558,632	15,961	6.30
Long-term Investments in bonds	645,534	18,603	6.83	370,115	10,575	4.17
Sub-total	<u>1,029,427</u>	<u>29,666</u>	<u>10.89</u>	<u>928,747</u>	<u>26,536</u>	<u>10.47</u>
Property and Equipment (Notes 2, 9)						
Communication and transportation equipment	14,308	412	0.15	16,790	480	0.19
Other equipment	140,432	4,047	1.49	102,050	2,916	1.15
Sub-total	<u>154,740</u>	<u>4,459</u>	<u>1.64</u>	<u>118,840</u>	<u>3,396</u>	<u>1.34</u>
Less: Accumulated depreciation	<u>(87,214)</u>	<u>(2,513)</u>	<u>(0.93)</u>	<u>(72,634)</u>	<u>(2,075)</u>	<u>(0.82)</u>
Sub-total	<u>67,526</u>	<u>1,946</u>	<u>0.71</u>	<u>46,206</u>	<u>1,321</u>	<u>0.52</u>
Intangible Assets						
Computer software cost (Note 2)	6,143	177	0.07	7,536	215	0.09
Sub-total	<u>6,143</u>	<u>177</u>	<u>0.07</u>	<u>7,536</u>	<u>215</u>	<u>0.09</u>
Other Assets						
Guarantee deposits paid	14,468	417	0.15	11,422	326	0.13
Overdue receivables (Note 2)	57,168	1,647	0.61	31,767	908	0.36
Temporary payments and suspense accounts	14,354	414	0.15	12,182	348	0.14
Funds held by ceding companies	145	4	0.00	119	3	0.00
Deferred charges	5,590	161	0.06	1,864	53	0.02
Sub-total	<u>91,725</u>	<u>2,643</u>	<u>0.97</u>	<u>57,354</u>	<u>1,638</u>	<u>0.65</u>
Total Assets	<u>\$9,454,259</u>	<u>\$272,458</u>	<u>100.00</u>	<u>\$8,867,282</u>	<u>\$253,352</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

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

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

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Liabilities & Stockholders' Equity						
Current Liabilities						
Collections for others	12,601	363	0.13	10,298	\$294	0.11
Accrued expenses	172,020	4,957	1.82	168,620	4,818	1.90
Income taxes payable	65,579	1,890	0.69	14,090	403	0.16
Commissions payable	8,377	241	0.09	13,031	372	0.15
Dividends payable	3,755	108	0.04	1,655	47	0.02
Claims outstanding	68,002	1,960	0.72	502	15	0.00
Due to reinsurers and ceding companies	99,008	2,853	1.05	74,384	2,125	0.84
Other payable	339,988	9,798	3.60	266,882	7,625	3.01
Sub-total	<u>769,330</u>	<u>22,170</u>	<u>8.14</u>	<u>549,462</u>	<u>15,699</u>	<u>6.19</u>
Long-term Liabilities						
Accrued pension liabilities	7,668	221	0.08	1,733	50	0.02
Sub-total	<u>7,668</u>	<u>221</u>	<u>0.08</u>	<u>1,733</u>	<u>50</u>	<u>0.02</u>
Other Liabilities						
Unearned premiums reserve(Notes 2,10)	3,352,667	96,619	35.46	3,186,537	91,044	35.94
Special claim reserve (Notes 2, 10)	2,037,684	58,723	21.55	1,811,260	51,750	20.43
Claims reserve (Notes 2, 10)	530,815	15,297	5.62	499,492	14,271	5.63
Temporary receipts and suspense accounts	63,696	1,836	0.67	32,973	942	0.37
Funds held for reinsurers	693	21	0.01	1,756	50	0.02
Sub-total	<u>5,985,555</u>	<u>172,496</u>	<u>63.31</u>	<u>5,532,018</u>	<u>158,057</u>	<u>62.39</u>
Total Liabilities	<u>6,762,553</u>	<u>194,887</u>	<u>71.53</u>	<u>6,083,213</u>	<u>173,806</u>	<u>68.60</u>
Stockholders' Equity						
Capital stock						
Common stock (Note 11)	2,317,006	66,773	24.51	2,317,006	66,200	26.13
Capital surplus						
Gains on disposal of property and equipment	0	0	0.00	724	21	0.01
Retained earnings (Note 12)						
Legal reserve	138,025	3,978	1.46	102,100	2,917	1.15
Unappropriated retained earnings	234,503	6,758	2.48	361,977	10,343	4.08
Equity adjustment						
Cumulative translation adjustments	2,172	62	0.02	2,262	65	0.03
Total Stockholders' Equity	<u>2,691,706</u>	<u>77,571</u>	<u>28.47</u>	<u>2,784,069</u>	<u>79,546</u>	<u>31.40</u>
Total Liabilities and Stockholders' Equity	<u>\$9,454,259</u>	<u>\$272,458</u>	<u>100.00</u>	<u>\$8,867,282</u>	<u>\$253,352</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

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

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

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues(Note 2)						
Premiums income	\$6,183,557	\$178,200	55.45	\$4,988,633	\$142,532	46.40
Reinsurance commission earned	260,928	7,520	2.34	284,583	8,131	2.65
Claims recovered from reinsurers	1,141,819	32,906	10.24	1,331,989	38,057	12.39
Recovered unearned premium reserve	3,186,537	91,831	28.58	3,585,327	102,438	33.35
Recovered special claim reserve	112,615	3,245	1.01	99,977	2,856	0.93
Recovered claims reserve	38,306	1,104	0.34	32,652	933	0.30
Handling fee earned	49	1	0.00	169	5	0.01
Interest income	227,164	6,547	2.04	316,311	9,038	2.94
Gain on trading bills and securities	0	0	0.00	110,626	3,161	1.03
Sub-total	<u>11,150,975</u>	<u>321,354</u>	<u>100.00</u>	<u>10,750,267</u>	<u>307,151</u>	<u>100.00</u>
Operating Costs(Note 2)						
Reinsurance premiums ceded	(2,425,485)	(69,899)	(21.75)	(1,726,777)	(49,336)	(16.06)
Commissions expenses	(195,244)	(5,626)	(1.75)	(201,294)	(5,751)	(1.87)
Insurance claims payment	(3,056,376)	(88,080)	(27.41)	(3,264,447)	(93,270)	(30.37)
Provision for unearned premiums reserve	(3,352,667)	(96,619)	(30.07)	(3,186,537)	(91,044)	(29.64)
Provision for special claim reserve	(339,038)	(9,771)	(3.04)	(743,169)	(21,233)	(6.91)
Contribution to the stabilization funds	(11,814)	(340)	(0.11)	(9,789)	(280)	(0.09)
Provision for claims reserve	(36,610)	(1,055)	(0.33)	(38,306)	(1,094)	(0.36)
Handling fee paid	(140,811)	(4,058)	(1.26)	(113,714)	(3,249)	(1.06)
Interest expenses	(70)	(2)	0.00	(455)	(13)	(0.01)
Loss on trading bills and securities	(89,828)	(2,589)	(0.80)	0	0	0.00
Loss on Long-term investments in stocks	(11,993)	(345)	(0.11)	(1,286)	(37)	(0.01)
Agent expenses	(1,621)	(47)	(0.01)	(1,365)	(39)	(0.01)
Sub-total	<u>(9,661,557)</u>	<u>(278,431)</u>	<u>(86.64)</u>	<u>(9,287,139)</u>	<u>(265,346)</u>	<u>(86.39)</u>
Operating Gross Profit	<u>1,489,418</u>	<u>42,923</u>	<u>13.36</u>	<u>1,463,128</u>	<u>41,805</u>	<u>13.61</u>
Operating Expenses(Note 2)						
Marketing expenses	(890,951)	(25,676)	(7.99)	(789,849)	(22,567)	(7.35)
Administrative and general expenses	(251,188)	(7,239)	(2.26)	(228,367)	(6,525)	(2.12)
Operating Income	<u>347,279</u>	<u>10,008</u>	<u>3.11</u>	<u>444,912</u>	<u>12,713</u>	<u>4.14</u>
Non-operating Revenues						
Gain on foreign exchange	1,886	54	0.02	1,516	43	0.01
Gain on disposal of property and equipment	593	17	0.00	0	0	0.00
Miscellaneous income	2,294	66	0.02	1,022	29	0.01
Sub-total	<u>4,773</u>	<u>137</u>	<u>0.04</u>	<u>2,538</u>	<u>72</u>	<u>0.02</u>
Non-operating Expenses						
Loss on foreign exchange	(1,353)	(39)	(0.01)	(1,045)	(30)	(0.01)
Loss on disposal of property and equipment	(16)	0	0.00	(53)	(2)	0.00
Sub-total	<u>(1,369)</u>	<u>(39)</u>	<u>(0.01)</u>	<u>(1,098)</u>	<u>(32)</u>	<u>(0.01)</u>
Income from Continuing Operations before income taxes	350,683	10,106	3.14	446,352	12,753	4.15
Income Taxes (Notes 2, 13)	(116,180)	(3,348)	(1.04)	(87,829)	(2,509)	(0.81)
Net Income	<u>\$234,503</u>	<u>\$6,758</u>	<u>2.10</u>	<u>\$358,523</u>	<u>\$10,244</u>	<u>3.34</u>
Earnings Per Share before tax (expressed in dollars) (Note 14)	<u>\$1.51</u>	<u>\$0.04</u>		<u>\$1.93</u>	<u>\$0.06</u>	
Earnings Per Share after tax (expressed in dollars) (Note 14)	<u>\$1.01</u>	<u>\$0.03</u>		<u>\$1.55</u>	<u>\$0.04</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

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

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

Summary	Capital Stock		Capital Surplus		Retained Earnings				Cumulative		Total	
	Common Stock				Legal Reserve		Unappropriated Retained Earnings		translation adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2001	\$2,317,006	\$66,200	\$724	\$21	\$100,236	\$2,864	\$99,653	\$2,847	\$0	\$0	\$2,517,619	\$71,932
Appropriations and Distributions for 2000												
Legal reserve					1,864	53	(1,864)	(53)			0	0
Cash dividends							(92,680)	(2,648)			(92,680)	(2,648)
Bonus paid to employees							(1,655)	(47)			(1,655)	(47)
Cumulative translation adjustments									2,262	65	2,262	65
Net Income after tax for the year ended December 31, 2001							358,523	10,244			358,523	10,244
Balance on December 31, 2001	\$2,317,006	\$66,200	\$724	\$21	\$102,100	\$2,917	\$361,977	\$10,343	\$2,262	\$65	\$2,784,069	\$79,546
Balance on January 1, 2002	\$2,317,006	\$66,773	\$724	\$21	\$102,100	\$2,942	\$361,977	\$10,432	\$2,262	\$65	\$2,784,069	\$80,233
Appropriations and Distributions for 2001												
Legal reserve					35,925	1,036	(35,925)	(1,036)			0	0
Cash dividends							(323,021)	(9,309)			(323,021)	(9,309)
Bonus paid to employees							(3,755)	(108)			(3,755)	(108)
Cumulative translation adjustments									(90)	(3)	(90)	(3)
Capital surplus from disposal of property and equipment turn into retained earnings			(724)	(21)			724	21			0	0
Net Income after tax for the year ended December 31, 2002							234,503	6,758			234,503	6,758
Balance on December 31, 2002	\$2,317,006	\$66,773	\$0	\$0	\$138,025	\$3,978	\$234,503	\$6,758	\$2,172	\$62	\$2,691,706	\$77,571

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

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

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

	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income	\$234,503	\$6,758	\$358,523	\$10,244
Adjustments:				
Loss on bad debt	76,077	2,192	66,756	1,907
Amortizations	4,739	137	3,823	109
Depreciation	17,320	499	15,808	452
Provision for reserve for operations	3,728,316	107,444	3,968,012	113,372
Recovered unearned premium reserve	(3,186,537)	(91,831)	(3,585,327)	(102,438)
Recovered special claim reserve	(112,615)	(3,245)	(99,977)	(2,856)
Recovered claims reserve	(38,306)	(1,104)	(32,652)	(933)
Loss on disposal of property and equipment	16	0	53	2
Gain on disposal of property and equipment	(593)	(17)	0	0
Unrealized loss (gain) on long-term investments	11,993	346	1,286	37
Amortization long-term investments in bonds	4,918	142	5,899	169
Effects of exchange rate changes	(533)	(15)	(471)	(13)
Decrease (increase) in short-term investments	284,816	8,208	(139,573)	(3,988)
Decrease (increase) in notes receivable	4,779	138	103,022	2,943
Decrease (increase) in interest receivable	6,610	191	7,124	204
Decrease (increase) in premiums receivable	20,176	581	(82,548)	(2,359)
Decrease (increase) in claims recoverable from reinsurers	(60,230)	(1,736)	5,109	146
Decrease (increase) in due from reinsurers and ceding companies	36,196	1,043	(99,197)	(2,834)
Decrease (increase) in other accounts receivable	33,757	973	(35,858)	(1,025)
Decrease (increase) in prepayments	(28)	(1)	(523)	(15)
Decrease (increase) in deferred income tax assets-current	(12,023)	(346)	(11,043)	(316)
Decrease (increase) in deferred income tax assets-non-current	83	2	118	3
Decrease (increase) in overdue receivables	(75,172)	(2,166)	38,465	1,099
Decrease (increase) in temporary payments and suspense accounts	(2,171)	(63)	2,566	73
Increase (decrease) in collections for others	2,304	66	(3,470)	(99)
Increase (decrease) in accrued expenses	3,400	98	7,508	215
Increase (decrease) in income taxes payable	51,489	1,484	(28,911)	(826)
Increase (decrease) in commissions payable	(4,654)	(134)	(1,331)	(38)
Increase (decrease) in claims outstanding	67,500	1,945	472	13
Increase (decrease) in other payable	58,403	1,683	(53,830)	(1,538)
Increase (decrease) in accrued pension liabilities	2,126	61	0	0
Increase (decrease) in temporary receipts and suspense accounts	30,724	885	15,588	445
Increase (decrease) in loss reserve	33,018	952	101,554	2,902
Net Cash Provided by (Used in) Operating Activities	<u>1,220,401</u>	<u>35,170</u>	<u>526,975</u>	<u>15,057</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.7 and NT\$35 to US\$1.00)

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

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

	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash Flows from Investing Activities				
Decrease (increase) in short-term secured loans	0	0	5,000	143
Decrease (increase) in medium-term secured loans	100,669	2,901	(356,256)	(10,179)
Decrease (increase) in long-term secured loans	31,712	914	17,538	501
Acquisition of long-term investments in stocks	0	0	(22,656)	(647)
Disposal of long-term investments in stocks	0	0	150	4
Decrease (increase) in long-term investments in bonds	(280,337)	(8,079)	120,000	3,429
Disposal of property and equipment	2,258	65	26	1
Acquisition of property and equipment	(23,841)	(687)	(13,997)	(400)
Acquisition of intangible assets	(3,346)	(96)	(2,950)	(84)
Decrease (increase) in guarantee deposits paid	(3,046)	(88)	(935)	(27)
Decrease (increase) in funds held by ceding companies	(26)	(1)	0	0
Net Cash Provided by (Used in) Investing Activities	<u>(175,957)</u>	<u>(5,071)</u>	<u>(254,080)</u>	<u>(7,259)</u>
Cash Flows from Financing Activities				
Paid other payable for acquisition of property and equipment in former period	(1,777)	(51)	(2,940)	(84)
Increase (decrease) in funds held for reinsurers	(1,064)	(30)	(308)	(9)
Bonus to employees	(1,655)	(48)	(3,269)	(93)
Cash dividends	(323,021)	(9,309)	(92,680)	(2,648)
Net Cash Provided by (Used in) Financing Activities	<u>(327,517)</u>	<u>(9,438)</u>	<u>(99,197)</u>	<u>(2,834)</u>
Effects of Exchange Rate Changes	533	15	470	13
Increase(decrease) in Cash and Cash Equivalents	717,460	20,676	174,168	4,977
Cash and Cash Equivalents at the Beginning of Period	3,439,314	99,116	3,265,146	93,289
Cash and Cash Equivalents at the End of Period	<u>\$4,156,774</u>	<u>\$119,792</u>	<u>\$3,439,314</u>	<u>\$98,266</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid of the period	\$70	2	\$455	13
Less: capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	<u>\$70</u>	<u>\$2</u>	<u>\$455</u>	<u>\$13</u>
Income tax paid	<u>\$76,631</u>	<u>2,208</u>	<u>\$127,665</u>	<u>3,648</u>
Partial Cash Investing and Financing Activities:				
Equipment	\$40,321	1,162	\$15,774	451
Other payable at the year-end	<u>(16,480)</u>	<u>(475)</u>	<u>(1,777)</u>	<u>(51)</u>
Cash paid	<u>\$23,841</u>	<u>\$687</u>	<u>\$13,997</u>	<u>\$400</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

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

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1. Organization of Business Scope

CATHAY CENTURY INSURANCE CO., LTD. (the "Company") was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law (the "Company Law") of the Republic of China ("R.O.C."). The Company mainly engaged in property and casualty insurance. On April 22, 2002, the Company became one of the subsidiaries of CATHAY FINANCIAL HOLDING CO., LTD. by adapting the stock conversion method under the "Financial Holding Company Law" and other pertinent laws of the R.O.C.. On June 28, 2002, the Company changed its name from "Tong-Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd.".

2. Summary of Significant Accounting Policies

(1) Cash and Cash Equivalents

Cash includes cash on hand, unrestricted bank deposits, and all highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) near to their maturity and where changes in interest rates shall present insignificant risk.

(2) Short-term Investments

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

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

When market value is obtainable, short-term notes are stated at the lower of aggregate 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 is determined by the specific identification method.

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

The R.O.C. Statements of Financial Accounting Standards (SFAS) No.30 "Treasury stock" considers parent company stock held by a subsidiary to be treasury stock of the consolidated entity. Parent stock held by subsidiary is stated individually at the lower of aggregate cost or market value.

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(3) Allowance for Bad and Doubtful Debts

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

(4) Long – Term Investments

A. Long-term Investments in Stocks

Long-term investments in listed companies for which the Company's ownership interest is less than 20% of the voting 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 investments (accounted for under cost method), the difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

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

If changes occur in the capital structure of the invested companies causing an increase or decrease of the value of the stock, and the Company can no longer maintain its original shares of interest, adjustments will be dealt with in the capital surplus and long-term equity investment accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

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

B. Long-Term Investments in Bonds

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

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(5) Property and Equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed immediately. Upon disposal of an item of property and equipment, the related cost and accumulated depreciation are removed from the accounts.

Depreciation on depreciable assets is recognized on a straight-line method, based on the useful lives prescribed by the government of R.O.C.. When the economic useful lives have expired, property and equipment, still in use are depreciated based on the residual value.

(6) Deferred Charges

Deferred charges are stated at cost and amortized over three years on the straight-line method.

(7) Reserve for Operating

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

(8) Insurance Premiums Income and Expenses

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

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

(9) Contribution to the Stabilization Funds

The Company makes a monthly contribution from gross premiums to the stabilization fund and deposits it in "Property Insurance Stabilization Fund Committees". It is reported as "Contribution to the Stabilization" in income statements.

(10) Pension Plan

The company has established a pension plan for all employees. Pension plan benefits

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are based primarily on participants' compensation and the number of years of credited service.

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

(11) Foreign-currency Transactions

Foreign-currency transactions are recorded in New Taiwan Dollars at the rates of exchange date when the transactions occur. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Year-end foreign currency assets and liabilities are translated at year-end exchange rates, and exchange gains or losses are credited or charged to current income.

(12) Income Taxes

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

Deferred income tax assets and liabilities are classified as current or 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.

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

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

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(13) Capital Expenditure Expenses

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

(14) Derivative Financial Products Transaction

Transactions on forward exchange contracts are translated into New Taiwan Dollars based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At the year-end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and any 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 the forward exchange contracts are credited or charged to current income in the year of settlement.

(15) Insurance Claims Payment & Claims Recovered From Reinsurers

A. Insurance claims payment

The compensations and expenses under direct written policy and incoming reinsured policy, which the insurer should pay when the insured runs into an accident, are reported as "Insurance claims payment" in the statements of income, and these compensations payable are reported as "Claims outstanding" on the balance sheets.

B. Claims recovered from reinsurers

The compensations and expenses under outgoing reinsured policy, which the insurer can receive from other insurers after the company has paid for the compensation in advance when the insured runs into an accident, are reported as "Claims recovered from reinsurers", and these compensations receivable are reported as "Claims recoverable from reinsurers" on the balance sheets.

(16) Convenience Translation Into US Dollars

The financial statements are stated in New Taiwan dollars. Translation of the 2002 and 2001 New Taiwan dollar amounts into US dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001, of NT\$34.7 and NT\$35 to US\$1.00. The convenience translation should not

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be construed as a representation that the New Taiwan dollars amounts have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Changes in Accounting and Its Effects: None

4. Cash And Cash Equivalents

Item	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$6,443	\$186	\$3,872	\$110
Cash in banks	295,303	8,510	161,316	4,609
Time deposits	3,651,700	105,236	3,078,910	87,969
Cash equivalents	203,328	5,860	195,216	5,578
Total	<u>\$4,156,774</u>	<u>\$119,792</u>	<u>\$3,439,314</u>	<u>\$98,266</u>
Interest rate of time deposits	<u>1.45%~2.6%</u>	<u>1.45%~2.6%</u>	<u>2.25% ~ 5.30%</u>	<u>2.25% ~ 5.30%</u>

5. Short-Term Investments

Item	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$6,587	\$0	\$0
Less: Allowance for valuation loss	(106,222)	(3,061)	0	0
Sub-total	<u>122,365</u>	<u>3,526</u>	<u>0</u>	<u>0</u>
Common stock and beneficiary certificates	1,019,353	29,376	1,334,845	38,138
Financial debentures	200,000	5,764	200,000	5,714
Corporate bonds	599,580	17,279	654,934	18,713
Appoint purpose trust fund	121,756	3,509		
Short-term notes	203,328	5,860	195,216	5,578
Sub-total	<u>2,144,017</u>	<u>61,788</u>	<u>2,384,995</u>	<u>68,143</u>
Less: Allowance for valuation loss	0	0	(4,565)	(130)
Cash equivalents	<u>(203,328)</u>	<u>(5,860)</u>	<u>(195,216)</u>	<u>(5,578)</u>
Sub-total	<u>1,940,689</u>	<u>55,928</u>	<u>2,185,214</u>	<u>62,435</u>
Total	<u>\$2,063,054</u>	<u>\$59,454</u>	<u>\$2,185,214</u>	<u>\$62,435</u>

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6. Premiums Receivable

Item	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$428,399	\$12,346	\$448,575	\$12,816
Less: Allowance for bad				
debts	(2,610)	(75)	(2,922)	(83)
Net	<u>\$425,789</u>	<u>\$12,271</u>	<u>\$445,653</u>	<u>\$12,733</u>

7. Secured Loans

Item	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$22,000	\$634	\$22,000	\$628
Less: Allowance for bad				
debts	(3,092)	(89)	(2,281)	(65)
Sub-total	<u>18,908</u>	<u>545</u>	<u>19,719</u>	<u>563</u>
Medium-term secured loans	564,181	16,259	664,851	18,995
Less: Allowance for bad				
debts	(79,275)	(2,285)	(68,930)	(1,969)
Sub-total	<u>484,906</u>	<u>13,974</u>	<u>595,921</u>	<u>17,026</u>
Long-term secured loans	510,284	14,705	541,997	15,485
Less: Allowance for bad				
debts	(71,702)	(2,066)	(56,193)	(1,605)
Sub-total	<u>438,582</u>	<u>12,639</u>	<u>485,804</u>	<u>13,880</u>
Total	<u>\$942,396</u>	<u>\$27,158</u>	<u>\$1,101,444</u>	<u>\$31,469</u>
Interest rate	<u>3.91%~7.00%</u>	<u>3.91%~7.00%</u>	<u>4.55%~7.50%</u>	<u>4.55%~7.50%</u>

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

8. Long-Term Investments

A. Long-Term Investments in Stocks (Book value):

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Investee	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$142,294	\$4,101	\$150,976	\$4,314
Vista Technology Venture Capital Corp.	16,599	478	-	-
b. Under the cost method:				
Quanta Display Inc.	0	0	162,656	4,647
Koo Group Telecommunication Co., Ltd.	150,000	4,323	150,000	4,286
Vista Technology Venture Capital Corp.	-	-	20,000	571
KGEX. Com Co., Ltd.	75,000	2,161	75,000	2,143
Total	<u>\$383,893</u>	<u>\$11,063</u>	<u>\$558,632</u>	<u>\$15,961</u>

c. The changes under equity method are summarized as follows:

	For the year ended December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Balance of January 1	\$150,976	\$4,351	\$150,000	\$4,286
The change in treatment for a long-term investment in stock	20,000	577	-	-
Cumulative Translation Adjustments	(90)	(3)	2,262	65
Investment income (loss) by equity method recognized	(11,993)	(346)	(1,286)	(37)
Balance of December 31	<u>\$158,893</u>	<u>\$4,579</u>	<u>\$150,976</u>	<u>\$4,314</u>

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

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Investee	For the year ended December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	(\$8,592)	(\$248)	(\$1,286)	(\$37)
Vista Technology Venture Capital Corp.	(3,401)	(98)	-	-
Total	(\$11,993)	(\$346)	(\$1,286)	(\$37)

- e. The investment unrealized gains of Cathay Venture Capital Corp. for the year ended December 31, 2002 were recognized by the equity method based on audited financial statements in the same period.
- f. If the Company holds less than 50% of an investee company's outstanding common stock and is not able to obtain the investee's financial statements for the current year when the Company closed its books, the investee's investment gains (losses) for the year can be deferred to recognize till the following year. As the treatment for investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investee could not provide timely audited financial statement for the year ended December 31, 2002. The investee losses for the year ended December 31, 2002 were recognized based on audited financial statements of the prior years.
- g. The Company changes the holding purpose of investment in Quanta Display Inc. from long-term investment to short-term investment.

B. Long-Term Investments in Bonds

Investee	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Government Bonds	\$365,199	\$10,524	\$370,115	\$10,575
Oversea investments in bonds	280,335	8,079	-	-
Total	\$645,534	\$18,603	\$370,115	\$10,575
Interest rate	5.5%~7.75%	5.5%~7.75%	6.25%~7.75%	6.25%~7.75%

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Long-term investments in Government bonds is according to Article 141 of the Insurance Law of the R.O.C., amount equal to 15% of the Company's stockholder's equity should be deposited in the Central Bank of China as the "Guarantee Depository Insurance".

9. Property and Equipment

Item	December 31, 2002					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$14,308	\$412	\$5,405	\$156	\$8,903	\$256
Other equipment	140,432	4,047	81,809	2,357	58,623	1,690
Total	<u>\$154,740</u>	<u>\$4,459</u>	<u>\$87,214</u>	<u>\$2,513</u>	<u>\$67,526</u>	<u>\$1,946</u>

Item	December 31, 2001					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$16,790	\$480	\$5,620	\$161	\$11,170	\$319
Other equipment	102,050	2,916	67,014	1,914	35,036	1,002
Total	<u>\$118,840</u>	<u>\$3,396</u>	<u>\$72,634</u>	<u>\$2,075</u>	<u>\$46,206</u>	<u>\$1,321</u>

The insurance of insured property and equipment were NT\$76,337(US\$2,200) and NT\$77,689(US\$2,220) as of December 31, 2002 and 2001, respectively.

10. Reserves For Operations & Liabilities

	January 1, 2002		Provision		Recovered		December 31, 2002	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$3,186,537	\$91,831	\$3,352,667	\$96,619	\$3,186,537	\$91,831	\$3,352,667	\$96,619
Special claim reserve	1,811,260	52,197	339,039	9,771	112,615	3,245	2,037,684	58,723
Claims reserve	499,492	14,395	530,815	15,297	499,492	14,395	530,815	15,297
Total	<u>\$5,497,289</u>	<u>\$158,423</u>	<u>\$4,222,521</u>	<u>\$121,687</u>	<u>\$3,978,644</u>	<u>\$109,471</u>	<u>\$5,921,166</u>	<u>\$170,639</u>

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11. Capital Stock And Capital Increment

As of December 31, 2002 and 2001, the total authorized shares both were 231,700,560, respectively, with par value of NT\$10 each.

12. Retained Earnings

(1) Legal reserve

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used only to cover deficits but not for cash dividends distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders

(2) Unappropriated Retained Earnings

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

B. According to the related regulations if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

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

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	For the year ended December 31,	
	2001	
	NT\$	US\$
A. Distribution		
Bonus paid to employees-Cash	\$3,755	\$107
Bonus paid to employees-Stock	0	0
Remuneration paid to directors and supervisors	0	0
B. After income tax earnings per share (expressed in dollars)		
Pro-forma earnings per share (expressed in dollars)	\$1.53	\$0.04

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

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

13. Estimated Income Tax

(1) Income tax expenses include the following:

Item	For the year ended December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$350,683	\$10,106	\$446,352	\$12,753
Adjustments				
Interest income of tax on a separate basis	(8,597)	(248)	(19,539)	(558)
Losses (gains) on market price loss (recovery) of short-term investments	101,656	2,930	(309,410)	(8,840)
Bad debts exceeding legal limit	48,259	1,391	44,293	1,265

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Investment losses (gains) recognized by equity method	11,993	346	1,286	37
Losses (gains) on trading securities	20,053	578	219,499	6,271
Others	<u>(30,432)</u>	<u>(877)</u>	<u>(21,121)</u>	<u>(603)</u>
Taxable Income	493,615	14,226	361,360	10,325
Time; Taxes Rate; Less:				
Progressive difference	<u>25% - 10</u>	<u>-</u>	<u>25% - 10</u>	<u>-</u>
Sub-Total	123,394	3,556	90,330	2,581
Tax on a separate basis	1,719	50	3,908	112
Extra 10% income tax on undistributed retained earnings	3,684	106	5,499	157
Income tax credit	(1,072)	(31)	(1,035)	(30)
Deferred income tax expenses (benefits)	(11,940)	(344)	(10,925)	(312)
Adjustment of prior year's income tax	<u>395</u>	<u>11</u>	<u>52</u>	<u>1</u>
Total income tax expenses	<u>\$116,180</u>	<u>\$3,348</u>	<u>\$87,829</u>	<u>\$2,509</u>

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

	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	<u>\$44,960</u>	<u>\$1,296</u>	<u>\$33,019</u>	<u>\$943</u>
Total deferred income tax liabilities	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
B. Temporary differences:				
Employee benefits	\$484	\$14	\$998	\$29
Bad debts exceeding legal limit	179,297	5,167	131,038	3,744
Others	<u>57</u>	<u>2</u>	<u>42</u>	<u>1</u>
Total	<u>\$179,838</u>	<u>\$5,183</u>	<u>\$132,078</u>	<u>\$3,774</u>
C. Deferred income tax assets-current	\$44,912	\$1,294	\$32,888	\$940
Deferred income tax liabilities-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred income tax-current	<u>\$44,912</u>	<u>\$1,294</u>	<u>\$32,888</u>	<u>\$940</u>

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D. Deferred income tax				
assets – non-current	\$48	\$2	\$131	\$3
Deferred income tax				
liabilities –non-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred income tax –				
non-current	<u>\$48</u>	<u>\$2</u>	<u>\$131</u>	<u>\$3</u>

(3) Please refer to the following columns including law of income tax credits, the credits items, the amount of income tax credits, the remaining balance, and the expiry year:

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	<u>\$1,072(US\$31)</u>	<u>\$0</u>	2006

(4) The Company's income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2000.

(5) Information related to tax imputation:

	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$184,485</u>	<u>\$5,317</u>	<u>\$137,441</u>	<u>\$3,927</u>
		December 31, 2002 (Estimate)	December 31, 2001 (Actual)	
Imputation credit account ratio		<u>33.33%</u>	<u>33.33%</u>	

(6) Information relating of unappropriated earnings:

Year	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$3,454	\$99
After 1998	<u>234,503</u>	<u>6,758</u>	<u>358,523</u>	<u>10,244</u>
Total	<u>\$234,503</u>	<u>\$6,758</u>	<u>\$361,977</u>	<u>\$10,343</u>

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14. Earnings Per Share

	For the year ended December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$350,683	\$10,106	\$446,352	\$12,753
Net income after taxes (B)	\$234,503	\$6,758	\$358,523	\$10,244
Outstanding number of shares at year-end	231,700,560	231,700,560	231,700,560	231,700,560
Adjusted weighted average outstanding number of shares(C)	231,700,560	231,700,560	231,700,560	231,700,560
Earnings per share before tax (A)/(C) (dollars)	\$1.51	\$0.04	\$1.93	\$0.06
Earnings per share (B)/(C) (dollars)	\$1.01	\$0.03	\$1.55	\$0.04

15. Related Party Transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank Co., Ltd.	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Cathay Life Charity Foundation	Affiliate
United World Chinese Commercial Bank	Affiliate
Wu Ming-Yang	Senior Manager

(2) Transactions with related parties

A. Premium Revenues

Name	For the year ended December 31, 2002			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$131,432	\$3,788	\$4,354	\$125
Cathay United Bank Co., Ltd.	18,449	532	12,281	354
San-Ching Engineering Co., Ltd.	14,121	407	872	25

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Cathay General Hospital	4,480	129	197	6
Others	4,624	133	274	8
Total	<u>\$173,106</u>	<u>\$4,989</u>	<u>\$17,978</u>	<u>\$518</u>

Name	For the year ended December 31, 2001			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$110,851	\$3,167	\$24,253	\$693
Cathay United Bank Co., Ltd.	10,382	297	7,759	222
San-Ching Engineering Co., Ltd.	21,112	603	1,523	44
Cathay General Hospital	4,631	132	957	27
Others	6,090	174	166	5
Total	<u>\$153,066</u>	<u>\$4,373</u>	<u>\$34,658</u>	<u>\$991</u>

B. Insurance Claims Payment

Name	For the year ended December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$17,700	\$510	\$13,102	\$374
Cathay United Bank Co., Ltd.	339	10	5,322	152
San-Ching Engineering Co., Ltd.	51,453	1,483	8,512	243
Cathay General Hospital	3,195	92	178	5
Total	<u>\$72,687</u>	<u>\$2,095</u>	<u>\$27,114</u>	<u>\$774</u>

C. Rents (To related parties)

Name	For the year ended December 31, 2002					
	Rents		Guarantee Deposits		Prepaid Rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$49,535	\$1,428	\$12,730	\$367	\$2,328	\$67

Name	For the year ended December 31, 2001					
	Rents		Guarantee Deposits		Prepaid Rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$46,097	\$1,317	\$10,589	\$303	\$2,000	\$57

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D. Cash in Bank

Name	Nature	December 31, 2002		
		Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$186,631	0.50%	\$791
	Time Deposit	\$480,000	1.85%~2.30%	\$12,552
United World Chinese Commercial Bank	Cash in Bank	\$35,530	0.30%	\$252
	Time Deposit	\$285,000	1.85%~2.1%	\$8,311

Name	Nature	December 31, 2002		
		Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$5,378	0.50%	\$23
	Time Deposit	\$13,833	1.85%~2.30%	\$362
United World Chinese Commercial Bank	Cash in Bank	\$1,024	0.30%	\$7
	Time Deposit	\$8,213	1.85%~2.1%	\$240

Name	Nature	December 31, 2001		
		Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$79,303	1.2%	\$961
	Time Deposit	\$460,000	5.15%~5.20%	\$23,141
United World Chinese Commercial Bank	Cash in Bank	\$29,262	1.2%	\$393
	Time Deposit	\$285,000	2.8%~4.7%	\$8,090

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Name	Nature	December 31, 2001		
		Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$2,266	1.2%	\$27
	Time Deposit	\$13,143	5.15%~5.20%	\$661
United World Chinese Commercial Bank	Cash in Bank	\$836	1.2%	\$11
	Time Deposit	\$8,143	2.8%~4.7%	\$231

E. Secured Loans

Name	For the year ended December 31, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$3,309	\$3,189	4.25%	\$106

Name	For the year ended December 31, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Wu Ming-Yang	\$95	\$92	4.25%	\$3

Name	For the year ended December 31, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$10,000	\$0	7.20%	\$592

Name	For the year ended December 31, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Wu Ming-Yang	\$286	\$0	7.20%	\$17

F. Short-term Investment-Beneficiary Certificates

December 31,	
2002	2001

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Name	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$267,859	\$7,719	\$240,543	\$6,873

G. Handling Fee Paid

Name	For the year ended December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,875	\$83	\$0	\$0

H. Property Transactions (From related parties)

a. Acquisition

Name	Item	December 31, 2002	
		NT\$	US\$
San-Ching Engineering Co., Ltd.	Other equipment	\$1,168	\$34

b. Disposal

Name	Item	December 31, 2002	
		NT\$	US\$
Lin Yuan Building Management & Maintenance Co., Ltd.	Communication and transportation equipment	\$810	\$23
	Other equipment	\$8	\$0

18. Pledged Assets

Item	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Long-term Investment in Bonds	\$365,199	\$10,524	\$370,115	\$10,575

- (1) According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment in bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guarantee deposits.

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

19. Other Important Matters And Contingent Liabilities

A. The Company was taken disciplinary action by Tax Authority and requested to pay an overdue add-value tax, NT\$5,535(US\$159), and a fine NT\$55,348(US\$1,585), on July 13, 2000. The Company could not accept this outcome and applied to re-verify but the result was the same. According to Law of Administrative Appeals, the Company appealed against this result on August 23, 2001, and the Company has gotten the finding on September 26, 2002. Pursuant to the Administrative Appeals Commission's decision, the fine has been reversed.

B. The Company's income tax returns, except 1999, had been filed and assessed by the Tax Authorities until 2000. The Company was requested to pay a tax in the amount of NT\$7,690(US\$222)by the Tax Authorities. The Company has appealed to re-verify.

C. By the date of December 31, 2002, the Company had made some significant rental contracts, and based on which, we estimate that the rents for the following 5 years should be as below:

Year	Amount NT\$	Amount US\$
Jan.01, 03 ~Dec.31, 03	\$52,919	\$1,525
Jan.01, 04 ~Dec.31, 04	55,766	1,607
Jan.01, 05 ~Dec.31, 05	57,393	1,654
Jan.01, 06 ~Dec.31, 06	59,070	1,702
Jan.01, 07 ~Dec.31, 07	60,797	1,752
Total	\$285,945	\$8,240

20. Serious Damages: None

21. Subsequent Events: None

22. Other Important Events

A. Pension Related Information

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a. Pension funded status:

	For the year ended December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
(1) Vested benefit obligation	(\$23,399)	(\$675)	(\$14,292)	(\$408)
(2) Non-vested benefit obligation	(85,163)	(2,454)	(64,298)	(1,837)
(3) Accumulated benefit obligation	(108,562)	(3,129)	(78,590)	(2,245)
(4) Additional benefits based on future salaries	(51,320)	(1,479)	(40,524)	(1,158)
(5) Projected benefit obligation	(159,882)	(4,608)	(119,114)	(3,403)
(6) Fair value of plan assets	103,020	2,969	76,858	2,196
(7) Vested benefit	53,863	1,552	40,554	1,159
(8) Funded status = (5) + (6)	(56,862)	(1,639)	(42,256)	(1,207)
(9) Unrecognized transitional net benefit obligation (net assets)	9,284	268	9,863	282
(10) Unrecognized prior service cost	0	0	0	0
(11) Unrecognized pension gain and loss	47,578	1,371	32,393	925
(12) Additional accrued pension liability	(5,542)	(160)	(1,733)	(50)
(13) Accrued pension liability /prepaid pension cost=(8)+(9)+(10)+(11)+(12)	(\$5,542)	\$(160)	(\$1,733)	(\$50)

b. Net periodic pension cost:

	For the year ended December 31,			
	2002(NT\$)	2002(US\$)	2000(NT\$)	2001(US\$)
(1) Service cost	\$22,633	\$652	\$16,696	\$477
(2) Interest cost	5,310	153	4,591	131
(3) Projected return on plan assets	(4,031)	(116)	(4,550)	(130)
(4) Amortization of unrealized transit on obligation (asset)	580	17	580	17
(5) Amortization of prior service cost	0	0	0	0
(6) Amortization of gain or loss	1,024	30	0	0
(7) Net periodic pension cost	\$25,516	\$736	\$17,317	\$495

c. Actuarial assumptions

(1) Discount rate	4.30%	4.50%
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(2) Rate of increase in future salaries	1.08% ~ 8.69%	1.08% ~ 8.69%
(3) Expected return on pension plan assets	4.30%	4.50%

B. Financial Instruments Related Information

(a) Derivative Financial Instruments related information :

1. Credit and Market Risk

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

2. Cash Flow and Demand

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.

3. Forward Contract

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

(2) As of December 31, 2002 and 2001, the Company has forward exchange contracts of approximately US\$11,600 and \$0 respectively in notional value.

(b) Non Derivative Financial Instruments related information :

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of December 31, 2002 and 2001, is the same as the estimated fair market value:

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Item	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$ 2,063,054	\$2,172,225	\$59,454	\$62,600
December 31,				
Item	<u>2001</u>		<u>2001</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$2,185,214	\$2,185,214	\$62,435	\$62,435

C. Discretionary Account Management

Item	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$15,348	\$442	\$15,088	\$435
Cash in bank	76,985	2,219	76,985	2,219
Net other assets less liabilities	(104)	(3)	(104)	(3)
Total	\$92,229	\$2,658	\$91,969	\$2,651

2001 Year: None.

D. Material Contract: None

23. Information For Investment In Mainland China: None

24. Segment Information: None