

**Cathay Financial Holding Co., Ltd.**  
**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, R.O.C.**

**Telephone: 886-2-2708-7698**

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### **Independent auditors' report**

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

We have audited the accompanying balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") as of June 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the six-month periods 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 did not audit the financial statements of Cathay United Bank Co., Ltd., United World Chinese Commercial Bank Co., Ltd. and Cathay Pacific Venture Capital Co., Ltd. wholly-owned subsidiaries of the Company. Total investment for the subsidiaries is NT\$70,463 million (US\$2,036 million) constituting 46.81% of the total assets of the Company as of June 30, 2003, and investment gain is NT\$4,504 million (US\$130 million) constituting 32.96% of income before taxes of the Company for the six-month period ended June 30, 2003. We did not audit the financial statements of Cathay United Bank Co., Ltd., a wholly-owned subsidiary of the Company. Total investment for the subsidiary is NT\$11,022 million (US\$329 million) constituting 9.32% of the total assets of the Company as of June 30, 2002, and investment loss is NT\$259 million (US\$8 million) constituting 4.85% of income before taxes of the Company for the six-month period ended June 30, 2002. 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 such other auditors.

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.



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In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. as of June 30, 2003 and 2002, and the results of their operations and its 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.

Cathay Financial Holding Co., Ltd. has prepared the consolidated financial statements as of June 30, 2003 and 2002 accompany with modificatory unqualified opinion issued by our auditors furnished upon request.

The accompanying financial statements as of and for the six-month periods ended June 30, 2003 and 2002, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(13) to the financial statements.

BDO Taiwan Union & Co.

Taipei, Taiwan  
Republic of China

July 22, 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 jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

Assets	2003			2002		
	NT \$	US \$	%	NT \$	US \$	%
<b>Current assets</b>						
Cash and cash equivalents (Notes 2,4)	\$10,780,805	\$311,494	7.16	\$20,829,593	\$622,522	17.62
Short-term investments (Notes 2,5)	258,808	7,478	0.17	13,405,187	400,633	11.34
Interest receivable	45,195	1,306	0.03	380,909	11,384	0.32
Other receivable	5,583,221	161,318	3.71	0	0	0.00
Deferred income tax assets-current (Notes 2,13)	4,069	117	0.00	0	0	0.00
Prepayments	2	0	0.00	1,645	49	0.00
Subtotal	16,672,100	481,713	11.07	34,617,334	1,034,588	29.28
<b>Long-term investments</b>						
Long-term investments in stocks (Notes 2,6)						
Long-term investments under equity method	134,007,012	3,871,916	89.02	83,116,335	2,484,051	70.31
Allowance for valuation loss on long-term investments in stocks	(704,667)	(20,360)	(0.47)	(9,457)	(283)	0.00
Subtotal	133,302,345	3,851,556	88.55	83,106,878	2,483,768	70.31
<b>Property and equipment (Note 2)</b>						
Transportation and communication equipment	2,499	72	0.00	0	0	0.00
Other equipment	2,668	77	0.00	2,439	73	0.00
Subtotal	5,167	149	0.00	2,439	73	0.00
Less: Accumulated depreciation	(743)	(21)	0.00	(132)	(4)	0.00
Subtotal	4,424	128	0.00	2,307	69	0.00
<b>Other assets</b>						
Temporary payments and suspense accounts	6,957	201	0.01	9,307	278	0.01
Deferred income tax assets non-current (Notes 2,13)	244,238	7,057	0.16	0	0	0.00
Deferred charges (Note 2)	313,317	9,053	0.21	476,786	14,250	0.40
Subtotal	564,512	16,311	0.38	486,093	14,528	0.41
<b>Total assets</b>	<b>\$150,543,381</b>	<b>\$4,349,708</b>	<b>100.00</b>	<b>\$118,212,612</b>	<b>\$3,532,953</b>	<b>100.00</b>
<b>Liabilities &amp; stockholders' equity</b>						
<b>Current liabilities</b>						
Collections for others	\$1,233	\$36	0.00	\$559	\$17	0.00
Accrued expenses	2,078	60	0.00	0	0	0.00
Dividends payable	11,704,584	338,185	7.77	8,908,431	266,241	7.54
Other payable	25,800	745	0.02	4,800	143	0.00
Subtotal	11,733,695	339,026	7.79	8,913,790	266,401	7.54
<b>Long-term liabilities</b>						
Bonds payable (Notes 2,7,20)	25,436,263	734,940	16.89	24,593,831	735,022	20.80
Subtotal	25,436,263	734,940	16.89	24,593,831	735,022	20.80
<b>Other liabilities</b>						
Temporary receipts and suspense accounts	745	21	0.00	108	3	0.00
Subtotal	745	21	0.00	108	3	0.00
<b>Total liabilities</b>	<b>37,170,703</b>	<b>1,073,987</b>	<b>24.68</b>	<b>33,507,729</b>	<b>1,001,426</b>	<b>28.34</b>
<b>Stockholders' equity</b>						
Capital stock						
Common stock (Note 8)	83,074,891	2,400,315	55.18	60,958,728	1,821,839	51.57
Capital surplus (Note 9)	54,072,271	1,562,331	35.92	26,526,202	792,774	22.44
Retained earnings (Note 10)						
Legal reserve	1,335,046	38,574	0.89	13,713	410	0.01
Special reserve	1,833,255	52,969	1.22	0	0	0.00
Unappropriated retained earnings	10,084,130	291,365	6.70	5,333,533	159,400	4.51
Equity adjustments (Notes 2,6)						
Unrealized valuation losses on long-term equity investments	(704,667)	(20,360)	(0.47)	(9,458)	(283)	(0.01)
Cumulative conversion adjustments	173,919	5,025	0.12	6,686	200	0.01
Treasury stock (Notes 2,10,11)	(36,496,167)	(1,054,498)	(24.24)	(8,124,521)	(242,813)	(6.87)
<b>Total stockholders' equity</b>	<b>113,372,678</b>	<b>3,275,721</b>	<b>75.32</b>	<b>84,704,883</b>	<b>2,531,527</b>	<b>71.66</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$150,543,381</b>	<b>\$4,349,708</b>	<b>100.00</b>	<b>\$118,212,612</b>	<b>\$3,532,953</b>	<b>100.00</b>

(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 financial statements.**

**Cathay Financial Holding Co., Ltd.**  
**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		
	NT \$	US \$	%	NT \$	US \$	%
<b>Operating revenues (Note 2)</b>						
Interest income	\$237,622	\$6,865	1.67	\$85,045	\$2,541	1.52
Gain on disposal of investments	0	0	0.00	100,881	3,015	1.81
Gain on long-term equity investments (Notes 2,6)	14,030,602	405,392	98.33	5,399,700	161,378	96.67
Subtotal	<u>14,268,224</u>	<u>412,257</u>	<u>100.00</u>	<u>5,585,626</u>	<u>166,934</u>	<u>100.00</u>
<b>Operating costs (Note 2)</b>						
Interest expenses	(419,784)	(12,129)	(2.94)	(93,831)	(2,804)	(1.68)
Loss on foreign exchange	(9,042)	(261)	(0.06)	(1,508)	(45)	(0.03)
Subtotal	<u>(428,826)</u>	<u>(12,390)</u>	<u>(3.00)</u>	<u>(95,339)</u>	<u>(2,849)</u>	<u>(1.71)</u>
<b>Operating gross profit</b>	<u>13,839,398</u>	<u>399,867</u>	<u>97.00</u>	<u>5,490,287</u>	<u>164,085</u>	<u>98.29</u>
<b>Operating expenses</b>						
Administrative and general expenses	(182,343)	(5,268)	(1.28)	(157,388)	(4,704)	(2.81)
<b>Operating income</b>	<u>13,657,055</u>	<u>394,599</u>	<u>95.72</u>	<u>5,332,899</u>	<u>159,381</u>	<u>95.48</u>
<b>Non-operating revenues</b>						
Miscellaneous income	8,100	234	0.06	8,100	242	0.14
Subtotal	<u>8,100</u>	<u>234</u>	<u>0.06</u>	<u>8,100</u>	<u>242</u>	<u>0.14</u>
<b>Income from continuing operations before income taxes</b>	<u>13,665,155</u>	<u>394,833</u>	<u>95.78</u>	<u>5,340,999</u>	<u>159,623</u>	<u>95.62</u>
Income taxes (Notes 2, 13)	106,957	3,090	0.75	(7,466)	(223)	(0.13)
<b>Net income</b>	<u>\$13,772,112</u>	<u>\$397,923</u>	<u>96.53</u>	<u>\$5,333,533</u>	<u>\$159,400</u>	<u>95.49</u>
<b>Earnings per share(expressed in dollars) (Note 14)</b>						
Primary earnings per share						
Before income tax earnings per share	<u>\$1.84</u>	<u>\$0.05</u>		<u>\$0.92</u>	<u>\$0.03</u>	
After income tax earnings per share	<u>\$1.85</u>	<u>\$0.05</u>		<u>\$0.92</u>	<u>\$0.03</u>	
Fully-diluted earnings per share:						
Before income tax earnings per share	<u>\$1.79</u>	<u>\$0.05</u>				
After income tax earnings per share	<u>\$1.79</u>	<u>\$0.05</u>				
<b>Pro-forma as if amounts, assuming subsidiaries' shareholdings of the Company were not treated as treasury stock</b>						
Income from continuing operations before income taxes	<u>\$13,818,985</u>	<u>\$399,277</u>		<u>\$5,282,623</u>	<u>\$157,879</u>	
<b>Net income</b>	<u>\$13,925,942</u>	<u>\$402,368</u>		<u>\$5,275,157</u>	<u>\$157,656</u>	
<b>Earnings per share(expressed in dollars) (Note14)</b>						
Primary earnings per share:						
Income from continuing operations before income taxes	<u>\$1.77</u>	<u>\$0.05</u>		<u>\$0.91</u>	<u>\$0.03</u>	
Net income	<u>\$1.78</u>	<u>\$0.05</u>		<u>\$0.91</u>	<u>\$0.03</u>	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	<u>\$1.73</u>	<u>\$0.05</u>				
Net income	<u>\$1.73</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 financial statements.**

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

Summary	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 \$	NT \$	US \$	NT \$	US \$	
<b>Balance on January 1, 2002</b>	\$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
<b>Balance on June 30, 2002</b>	<b>\$60,958,728</b>	<b>\$1,821,839</b>	<b>\$26,526,202</b>	<b>\$792,774</b>	<b>\$13,713</b>	<b>\$410</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,333,533</b>	<b>\$159,400</b>	<b>\$6,686</b>	<b>\$200</b>	<b>(\$9,458)</b>	<b>(\$283)</b>	<b>(\$8,124,521)</b>	<b>(\$242,813)</b>	<b>\$84,704,883</b>	<b>\$2,531,527</b>	
<b>Balance on January 1, 2003</b>	\$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
<b>Balance on June 30, 2003</b>	<b>\$83,074,891</b>	<b>\$2,400,315</b>	<b>\$54,072,271</b>	<b>\$1,562,331</b>	<b>\$1,335,046</b>	<b>\$38,574</b>	<b>\$1,833,255</b>	<b>\$52,969</b>	<b>\$10,084,130</b>	<b>\$291,365</b>	<b>\$173,919</b>	<b>\$5,025</b>	<b>(\$704,667)</b>	<b>(\$20,360)</b>	<b>(\$36,496,167)</b>	<b>(\$1,054,498)</b>	<b>\$113,372,678</b>	<b>\$3,275,721</b>	

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

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

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

	2003		2002	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$13,772,112	\$397,923	\$5,333,533	\$159,400
Adjustments:				
Amortizations	72,683	2,100	93,492	2,794
Depreciation	396	11	132	4
Unrealized loss(gain) on long-term equity investments	(14,030,602)	(405,391)	5,177,704	154,743
Increase(decrease) in bonds payable redemption	419,784	12,129	93,831	2,804
Decrease (increase) in short-term investments	191,447	5,532	(13,405,187)	(400,633)
Decrease (increase) in interest receivable	(989)	(29)	(380,909)	(11,384)
Decrease (increase) in other receivable	104,220	3,011	0	0
Decrease (increase) in prepayments	4	0	(1,645)	(49)
Decrease (increase) in deferred income tax assets-noncurrent	(102,912)	(2,973)	0	0
Decrease (increase) in temporary payments and suspense accounts	(6,329)	(183)	(9,306)	(278)
Increase (decrease) in collections for others	728	21	558	17
Increase (decrease) in accrued expenses	(402,971)	(11,643)	(81,378)	(2,432)
Increase (decrease) in dividends payable	(47)	(1)	0	0
Increase (decrease) in other payable	25,800	745	0	0
Increase (decrease) in temporary receipts and suspense accounts	36	1	108	3
<b>Net cash provided by (used in) operating activities</b>	<u>43,360</u>	<u>1,253</u>	<u>(3,179,067)</u>	<u>(95,011)</u>
<b>Cash flows from investing activities</b>				
Acquisition of long-term investments in stocks	(600,000)	(17,336)	0	0
Acquisition of property and equipment	(2,518)	(73)	(2,440)	(73)
Decrease (increase) in deferred charges	9,051	262	(488,900)	(14,612)
<b>Net cash provided by (used in) investing activities</b>	<u>(593,467)</u>	<u>(17,147)</u>	<u>(491,340)</u>	<u>(14,685)</u>
<b>Cash flows from financing activities</b>				
Increase (decrease) in bonds payable	0	0	24,500,000	732,218
Remuneration paid to directors and supervisors	(5,400)	(156)	0	0
<b>Net cash provided by (used in) financing activities</b>	<u>(5,400)</u>	<u>(156)</u>	<u>24,500,000</u>	<u>732,218</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(555,507)</u>	<u>(16,050)</u>	<u>20,829,593</u>	<u>622,522</u>
<b>Cash and cash equivalents at the beginning of period</b>	<u>11,336,312</u>	<u>327,544</u>	<u>0</u>	<u>0</u>
<b>Cash and cash equivalents at the end of period</b>	<u>\$10,780,805</u>	<u>\$311,494</u>	<u>\$20,829,593</u>	<u>\$622,522</u>
<b>Supplemental disclosure of cash flows information</b>				
Income tax paid	<u>\$12,145</u>	<u>\$351</u>	<u>\$7,465</u>	<u>\$223</u>
Acquisition of subsidiaries by stock conversion method	<u>\$0</u>	<u>\$0</u>	<u>\$14,238,168</u>	<u>\$425,528</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 financial statements.**

# **Cathay Financial Holding Co., Ltd.**

## **Notes to financial statements**

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

**As of June 30, 2003 and 2002**

### **1. Organization of business scope**

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 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. Summary of significant accounting policies**

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

#### *(1) 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.

#### *(2) Cash and cash equivalents*

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

#### *(3) Short-term investments*

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.

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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**As of June 30, 2003 and 2002**

*(4) 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 stock, and the Company can no longer maintain its original shareholding, adjustments will be made in the capital surplus and long-term equity investments accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

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

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the subsidiaries 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.

*(5) 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.

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Depreciation on depreciable assets is calculated on a straight-line method, based on the useful lives prescribed by the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the ROC. "the Executive Yuan Depreciation Table". When their economic useful lives are expired, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

*(6) Deferred charges*

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

*(7) Convertible bonds payable*

The difference between the redemption price and 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.

*(8) 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 rates when the transactions occur. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Foreign currency of long-term investment accounted cumulative translation adjustments are treated as adjustments of retained earning. Year-ended 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.

*(9) Derivative financial products transaction*

The purpose of the Cross currency swaps ("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

**Cathay Financial Holding Co., Ltd.**

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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.

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

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

*(10)Income taxes*

The Company adopted Statement of Financial Accounting Standards (“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 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 in 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 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 the tax year in which its shareholding in the subsidiaries 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.

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

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

*(11)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.

*(12)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 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 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 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.

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2003 and 2002

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 the Article 31 of the Financial Holding Company Act and Article 28-2 and Article 38 of the Securities an 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.

#### (13) 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 NT\$33.46 to US\$1.00 effective on June 30, 2003 and 2002 as provided by the Federal 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 and its effects: None

### 4. Cash and cash equivalents

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Petty cash	\$20	\$1	\$22	\$1
Cash in banks	988	29	99,365	2,969
Time deposits	3,654,104	105,579	7,042,046	210,462
Cash equivalents	7,125,693	205,885	13,688,160	409,090
Total	<u>\$10,780,805</u>	<u>\$311,494</u>	<u>\$20,829,593</u>	<u>\$622,522</u>

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

**5. Short-term investments**

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Government bonds	\$258,808	\$7,478	\$13,405,187	\$400,633

As of June 30, 2003 and 2002, the Company didn't provide collateral or guarantee of government bonds on short-term investments.

**6. Long-term investments in stocks**

Name of investee	June 30,			
	2003(NT\$) Book Value	2003(US\$) Book Value	2002(NT\$) Book Value	2002(US\$) Book Value
Under the equity method:				
Cathay Life	\$60,270,080	\$1,741,407	\$69,637,952	\$2,081,230
Cathay Century	2,569,412	74,239	2,446,718	73,124
Cathay United Bank	12,703,488	367,047	11,022,208	329,414
UWCCB	57,162,333	1,651,613	—	—
Cathay Pacific Venture Capital Co., Ltd.	597,032	17,250	—	—
Total	<u>\$133,302,345</u>	<u>\$3,851,556</u>	<u>\$83,106,878</u>	<u>\$2,483,768</u>

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

	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Balance on January 1	\$123,840,475	\$3,578,170	\$74,846,501	\$2,236,895
Add (Less):				
Investment gains under equity method recognized	14,030,602	405,392	5,399,700	161,378
Add: Increment of investment by stock conversion method	0	0	14,238,168	425,528
Add: Increment of investment	600,000	17,336	0	0
Add: Capital Surplus under equity method recognized	3,013	87	0	0

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

Add: Cumulative conversion adjustments under equity method recognized	(25,651)	(741)	29	1
Add: Disposal of the Company stocks that the subsidiaries held as investments were treated as treasury stocks	110,239	3,185	0	0
Add (Less): Unrealized valuation loss on long-term equity investments under equity method recognized	327,759	9,470	(9,458)	(283)
Less: The Company stocks that the subsidiaries held as investments were treated as treasury stocks	(5,075)	(146)	(790,659)	(23,630)
Less: Cash dividends received	(5,579,017)	(161,197)	(10,577,403)	(316,121)
Balance on June 30	<u>\$133,302,345</u>	<u>\$3,851,556</u>	<u>\$83,106,878</u>	<u>\$2,483,768</u>

(2) The investment gains (losses) recognized by the equity method for the six-month periods ended June 30, 2003 and 2002 are listed below:

Name of Investee	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Life	\$9,317,858	\$269,225	\$5,578,269	\$166,715
Cathay Century	209,183	6,044	80,733	2,413
Cathay United Bank	989,132	28,579	(259,302)	(7,750)
UWCCB	3,517,397	101,630	0	0
Cathay Pacific Venture Capital Co., Ltd.	(2,968)	(86)	0	0
Total	<u>\$14,030,602</u>	<u>\$405,392</u>	<u>\$5,399,700</u>	<u>\$161,378</u>

A. The investment gains (losses), which were recognized based on the audited financial statements of the Cathay Life and Cathay Century in the same current periods for the six-month periods, ended June 30, 2003 and 2002.

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

- B. We did not audit the financial statements of Cathay United Bank, a wholly-owned subsidiary of the Company. Cathay United Bank was audited by other auditors with qualified opinions, which complied with the ROC Financial Institution Merger Law amortizing the losses of disposing of delinquent assets. On April 11, 2002, Cathay United Bank 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 losses amounted to NT\$189,438 (US\$5,474) and NT\$94,730 (US\$2,831), respectively, for the six-month periods ended June 30, 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 1,799,879 (US\$53,792) and should be recognized as current expense on the transaction date. If the losses were recognized as expense in 2002, other assets would be decreased by NT\$1,065,524 (US\$30,787) and NT\$1,349,909 (US\$40,344) and accumulated earnings would be decreased by NT\$1,065,524 (US\$30,787) and NT\$1,349,909 (US\$40,344) as of June 30, 2003 and 2002; provision for credit losses would be decreased by NT\$189,438 (US\$5,474) and increased by NT\$1,799,879 (US\$53,792); the net income before tax would be increased by NT\$189,438 (US\$5,474) and decreased by NT\$1,799,879 (US\$53,792); and the net income after tax would be increased by NT\$142,079 (US\$4,105) and decreased by NT\$1,349,909 (US\$40,344) for the six-month periods ended June 30, 2003 and 2002, respectively. Effective 2002, the Company recognized as subsidiary's current expenses, the investment gain/loss had increased NT\$142,079 (US\$4,105) for the 1<sup>st</sup> half of 2003 after the adjustment. The investment gains of the Company accounted for under equity method recognized increased by NT\$142,079 (US\$4,105) for the six-month period ended June 30, 2003 and decreased by NT\$522,064 (US\$15,603), respectively. The capital surplus were decreased by NT\$827,845 (US\$24,741) for the six-month period ended June 30, 2002.
- C. We did not audit the financial statements of UWCCB, a wholly-owned subsidiary of the Company. UWCCB was audited by other auditors with modified unqualified opinion. UWCCB's auditors did not audit the financial statements of the equity-basis investee as of the six-month periods ended June 30, 2003 and 2002. The investment accounted for by the equity method amounted to NT\$2,068,850 (US\$59,776) and NT\$2,408,591 (US\$71,984) as of June 30, 2003 and 2002, respectively, and related investment loss of NT\$173,757 (US\$5,020) and NT\$25,295 (US\$756) recognized for the six-month periods ended. Those statements were audited by other auditors whose reports have been furnished to UWCCB's auditors, and UWCCB auditor's opinion, insofar as it related to the amounts included for such said investee, is based solely on the report of the other auditors.

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2003 and 2002

- D. We did not audit the financial statements of Cathay Pacific Venture Capital Co., Ltd. for the six-month period June 30, 2003. Cathay Pacific Venture Capital Co., Ltd. was audited by other auditors with unqualified opinion. In accordance with other auditors' report of its investee, it recognized its gain/loss on investments in accordance with the statements audited by other auditors.
- E. 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 Pacific Venture Capital Co., Ltd., because its total assets and operating revenues are not up to 10% of the Company.
- (3) As of June 30, 2003 and 2002, the Company didn't provide collateral or guarantee on long-term investments.

### 7. Bonds payable

	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
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 20, "Zero coupon convertible notes related information" for details.

### 8. Common stock

As of June 30, 2003 and 2002, the numbers of issued shares, par value of NT10 dollars (US0.3 dollars), were 8,307,489,100 shares and 6,095,872,818 shares, respectively.

## **Cathay Financial Holding Co., Ltd.**

### **Notes to financial statements**

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

**As of June 30, 2003 and 2002**

#### **9. Capital surplus**

- (1) Capital Surplus was the 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.
- (2) The additional paid-in capital at par value through 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 distributed as cash dividends.
- (3) In addition, pursuant to the Company Law, capital surplus can only be used to offset deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

#### **10. Retained earnings**

##### **(1) Legal reserve**

Pursuant to the Company Law, 10% and 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 and 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.

##### **(2) Unappropriated retained earnings**

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

## **Cathay Financial Holding Co., Ltd.**

### **Notes to financial statements**

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

**As of June 30, 2003 and 2002**

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

- (3) 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 NT1.5(US0.04) 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.
- (4) According to the revised Income Tax Law in 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer in effect.
- (5) 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.
- (6) 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.
- (7) Dividends policy

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

#### **11. Treasury stock**

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

# Cathay Financial Holding Co., Ltd.

## Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2003 and 2002

(Unit: in thousands of shares)

Reason for Transfer	Jan. 1, 2003			June 30, 2003	Book Value	Book Value	Per Share	Per Share	Per Share	Per Share
	2003	Increase	Decrease		(in NT thousands of dollars)	(in US thousands of dollars)	Book Value (in NT dollars)	Book Value (in US dollars)	Market Value (in NT dollars)	Market Value (in US dollars)
To conserve the credit and stockholders' equity of the Company	145,674	0	145,674	0	\$0	\$0	\$0	\$0	—	—
Subsidiaries translated it to employees	156,927	0	0	156,927	7,333,863	211,900	46.73	1.35	42.68	1.23
Parent's stock that the subsidiaries held were treated as treasury stock	369,490	101	2,501	367,090	13,489,714	389,764	36.75	1.06	42.68	1.23
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
<b>Total</b>	<b>1,020,988</b>	<b>101</b>	<b>148,175</b>	<b>872,914</b>	<b>\$36,496,167</b>	<b>\$1,054,498</b>				

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

(Unit: in thousands of shares)

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	Within three years	None
Cathay United Bank	1,209	51,583	1,490	"	None	Within three years	None
UWCCB	7,099	303,005	8,755	"	None	Within three years	None
Seaward Leasing Ltd.	871	33,063	955	"	None	Within three years	None
<b>Total</b>	<b>524,017</b>	<b>\$21,193,671</b>	<b>\$612,357</b>				

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

**12. Personnel 、 depreciation 、 depletion and amortizations**

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	—	—	—	—	—	—
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.

**13. Estimated income taxes**

(1) Income tax expenses for the six-month periods ended June 30, 2003 and 2002 are estimated as follows:

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Income before taxes	\$13,665,155	\$394,833	\$5,340,999	\$159,623
Adjustments:				
Exemption from income tax on securities trade gain	0	0	(100,881)	(3,015)
Interest income of tax on a separate basis	(56,919)	(1,645)	(37,329)	(1,115)
Investment gains recognized by equity method	(14,030,602)	(405,392)	(5,399,700)	(161,378)
Unrealized bonds payable redemption premium	419,784	12,129	93,831	2,804
Others	(8,068)	(233)	44	1
Taxable income	(10,650)	( 308)	(103,036)	(3,080)
Times: Taxes rate	25%	25%	25%-10	25%-10
Subtotal	(2,663)	(77)	0	0
Add: Tax on a separate basis	12,145	351	7,466	223
Deferred income tax expense (benefit)	(102,911)	(2,973)	0	0
Dissimilitude on estimate tax aforesaid	(13,528)	(391)	0	0
Income taxes expense (benefit)	(\$106,957)	(\$3,090)	\$7,466	\$223

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

	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
A. Total deferred income tax liabilities	\$0	\$0	\$0	\$0
B. Total deferred tax assets	\$248,307	\$7,174	\$0	\$0
C. Temporary differences from resulting deferred tax assets or liabilities:				
a. Deductible temporary difference from Unrealized bonds payable redemption premium	\$936,263	\$27,052	\$0	\$0
b. Deductible temporary difference from organization costs amortization into 5 years	56,964	1,646	0	0
Subtotal	\$993,227	\$28,698	\$0	\$0

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

D. Deferred income tax assets-current	\$4,069	\$117	\$0	\$0
Deferred income tax liabilities-Current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net offset balance of deferred income tax assets (liabilities)-current	<u>\$4,069</u>	<u>\$117</u>	<u>\$0</u>	<u>\$0</u>
E. Deferred income tax assets-noncurrent	\$244,238	\$7,057	\$0	\$0
Deferred income tax Liabilities- noncurrent	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net offset balance of deferred income tax assets (liabilities) - noncurrent	<u>\$244,238</u>	<u>\$7,057</u>	<u>\$0</u>	<u>\$0</u>

(3) The Company's income tax returns, up until 2001, have been reviewed and approved by the Tax Authorities.

(4) In accordance with Article 49 of Financial Holding Company Act, the Company were selected as representative taxpayer of the holding group and filed income tax returns with a 10% surcharge on the 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.

(5) Information related tax imputation:

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

(6) Information relating of undistributed earnings:

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2003 and 2002

Year	June 30,			
	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	<u>\$267,215</u>	<u>\$7,721</u>	<u>\$1,917,548</u>	<u>\$57,309</u>

Undistributed retained earnings after 1998 does not included 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.

#### 14. Earnings per share

	For the six-month period ended June 30, 2003								
	Amount (Numerator)					EPS			
	Before income taxes (in thousands of dollars)		After income taxes (in thousands of dollars)			Shares (denominator)	Before income tax EPS (in dollars)		After income tax EPS (in dollars)
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Net Income	<u>\$13,665,155</u>	<u>\$394,833</u>	<u>\$13,772,112</u>	<u>\$397,923</u>					
<b>Primary earnings per share</b>									
Net income for common stock holder	\$13,665,155	\$394,833	\$13,772,112	\$397,923	7,433,234,075	\$1.84	\$0.05	\$1.85	\$0.05
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	\$419,784	\$12,129	\$314,838	\$9,097	417,227,484				
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	\$14,084,939	\$406,962	\$14,086,950	\$407,020	7,850,461,559	\$1.79	\$0.05	\$1.79	\$0.05

# Cathay Financial Holding Co., Ltd.

## Notes to financial statements

(Expressed in thousands of dollars unless otherwise stated)

As of June 30, 2003 and 2002

	For the six-month period ended June 30, 2002								
	Amount (Numerator)				EPS				
	Before income taxes (in thousands of dollars)		After income taxes (in thousands of dollars)		Shares (denominator)	Before income tax EPS (in dollars)		After income tax EPS (in dollars)	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Net Income	\$5,340,999	\$159,623	\$5,333,533	\$159,400					
<b>Primary earnings</b>									
<b>per share</b>									
Net income for common stock holder	\$5,340,999	\$159,623	\$5,333,533	\$159,400	5,775,420,766	\$0.92	\$0.03	\$0.92	\$0.03
<b>Effect of potentially dilutive common stock</b>									
Convertible bonds payable	—	—	—	—	—	—	—	—	—
<b>Fully-diluted earnings per share</b>									
Net income for common stock holder & effect of potentially common stock	—	—	—	—	—	—	—	—	—

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

(Shares)	For the six-month periods end June 30,	
	2003	2002
Shares at the beginning of year	8,453,163,100	5,838,615,765
Add: Capital stock was issued by stock conversion method	—	99,491,678
Less: Treasury stock	(505,823,901)	(156,927,000)
The Company that the subsidiaries held were treated as treasury stock	(368,431,124)	(5,759,677)
Retired treasury stock	(145,674,000)	—
Total	7,433,234,075	5,775,420,766

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

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Income before income taxes	\$13,818,985	\$399,277	\$5,282,623	\$157,879
Net income after income taxes	\$13,925,942	\$402,368	\$5,275,157	\$157,656
Before income taxes primary earnings per share (expressed in dollars)	\$1.77	\$0.05	\$0.91	\$0.03
After income taxes primary earnings per share (expressed in dollars)	\$1.78	\$0.05	\$0.91	\$0.03
Before income taxes fully – diluted earnings per share (expressed in dollars)	\$1.73	\$0.05	—	—
After income taxes fully – diluted earnings per shares (expressed in dollars)	\$1.73	\$0.05	—	—

**15. Related party transactions**

*(1) Related parties*

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
UWCCB	Subsidiary of the Company
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Affiliate

*(2) Significant transactions with related parties:*

A. Real estate rental expense

Name	For the six-month periods ended June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Life	\$3,908	\$113	\$3,908	\$117

B. Cash in bank

## Cathay Financial Holding Co., Ltd.

### Notes to financial statements

(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, 2003			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposits	\$1,817,571	\$1,400,000	0.9% ~ 1.05%	\$9,934
	Cash In Bank	24,323	962	0.25% ~ 0.5%	0
			\$1,400,962		

Name	Item	For the six-month period ended June 30, 2003			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time Deposits	\$52,516	\$40,451	0.9% ~ 1.05%	\$287
	Cash In Bank	703	28	0.25% ~ 0.5%	0
			\$40,479		

Name	Item	For the six-month period ended June 30, 2002			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposits	\$1,400,000	\$1,400,000	2.1% ~ 2.5%	\$3,174
	Cash In Bank	99,354	99,354	0.6% ~ 1.15%	255
			\$1,499,354		

Name	Item	For the six-month period ended June 30, 2002			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time Deposits	\$41,841	\$41,841	2.1% ~ 2.5%	\$95
	Cash In Bank	2,969	2,969	0.6% ~ 1.15%	8
			\$44,810		

#### C. Interest receivable

Name	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay United Bank	\$178	\$5	\$382	\$11

#### D. Temporary payments and suspense accounts

Name	June 30,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
Cathay Securities Investment Co., Ltd.	\$6,854	\$198	\$0	\$0

**16. Pledged assets:** None.

**17. Other important matters and contingent liabilities:** None.

## **Cathay Financial Holding Co., Ltd.**

### **Notes to financial statements**

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

**As of June 30, 2003 and 2002**

#### **18. Serious damages: None**

#### **19. 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 NT10 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.

#### **20. 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) Financial instruments related information**

###### **(a) Derivative financial instruments:**

###### **1. Credit and market risk**

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.

###### **2. 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 bearing 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.

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

3. CCS

(1) 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.

(2) As of June 30, 2003, the Company has CCS contracts of approximately US\$700,000. The maturity dates of CCS are from May 20, 2002 to May 20, 2007.

4. Foreign currency options

As of June 30, 2003:

Counterpart	Effective Date	Put Date	Amount (in thousands of dollars)
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	US\$700,000

(b) Non-derivative financial instruments related information:

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.

(3) 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).

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The Notes will not bear interest except in 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.

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.

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

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 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.

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

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.

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 PORTAL<sup>SM</sup> Market 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:

**Cathay Financial Holding Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2003 and 2002**

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.

(4) As of June 30, 2003 the consolidated capital adequacy ratio was 176.00%.

(5) Material contract: None.

(6) Presentation of financial statements:

Certain accounts in financial statements for the six-month period 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.

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

**22. Segment information:** None

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

**23. The Subsidiaries' concise balance sheets and statements of income**

(a) Concise balance sheets:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				CATHAY CENTURY INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.				UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD.			
	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.**  
**Notes to 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 period ended June 30, 2003		For the six-month period ended June 30, 2002		For the six-month period ended June 30, 2003		For the six-month period ended June 30, 2002		For the six-month period ended June 30, 2003		For the six-month period ended June 30, 2002		For the six-month period ended June 30, 2003		For the six-month period ended June 30, 2002	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	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 period 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).