

Central Reinsurance Corporation

Financial Statements as of December 31, 2002 and 2001

Together with Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. Also, these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors and Stockholders
Central Reinsurance Corporation

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

We conducted our audits in accordance with Regulations for Audit of Financial Statements by Certified Public Accountants and 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 provide 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 the Corporation as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years ended December 31, 2002 and 2001 in conformity with practices generally accepted in the insurance industry, the regulations governing the preparation of financial statements of public companies, other government regulations, and accounting principles generally accepted in the Republic of China.

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Effective April 22, 2002
(Formerly a Member Firm of Andersen Worldwide, SC)
Taipei, Taiwan
The Republic of China

January 27, 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.

English Translation of Financial Statements Originally Issued in Chinese

CENTRAL REINSURANCE CORPORATION

BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2002		2001		LIABILITIES AND STOCKHOLDERS' EQUITY	2002		2001	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 6,587,783	41	\$ 7,761,092	50	Accrued expenses	\$ 67,000	-	\$ 34,720	-
Short-term investments - net (Notes 2 and 5)	6,962,193	43	4,928,827	32	Accounts with reinsurers	602,972	4	578,959	4
Accounts receivable - net (Notes 2 and 6)	886,256	5	1,060,356	7	Other current liabilities	154,805	1	136,848	1
Pledged time deposits (Note 15)	270,625	2	270,625	2	Total Current Liabilities	824,777	5	750,527	5
Prepaid expenses and other current assets	36,009	-	58,706	-					
Total Current Assets	14,742,866	91	14,079,606	91	LONG-TERM LIABILITIES				
					Reserve for land revaluation increment tax (Notes 2 and 9)	150,869	1	150,869	1
LONG-TERM INVESTMENTS					Accrued pension liabilities (Notes 2 and 11)	442	-	272,178	2
Real estate - net (Notes 2 and 7)	366,224	2	367,591	2	Total Long-term Liabilities	151,311	1	423,047	3
Long-term investments - net (Notes 2 and 8)	248,521	2	96,498	1					
Total Long-term Investments	614,745	4	464,089	3	OTHER LIABILITIES				
					Operating reserves (Note 2)				
PROPERTY AND EQUIPMENT (Notes 2 and 9)					Reserve for premiums	5,342,873	33	5,130,441	33
Cost					Contingency fund	1,927,746	12	1,684,887	11
Land	127,986	1	127,986	1	Claims reserve	4,130,517	26	3,769,510	25
Buildings	43,873	-	43,873	-	Total operating reserves	11,401,136	71	10,584,838	69
Machinery and equipment	21,420	-	20,226	-	Miscellaneous	35,777	-	57,525	-
Transportation equipment	5,897	-	5,847	-	Total Other Liabilities	11,436,913	71	10,642,363	69
Other equipment	15,634	-	15,476	-					
Total cost	214,810	1	213,408	1	Total Liabilities	12,413,001	77	11,815,937	77
Revaluation increment	280,477	2	280,477	2					
	495,287	3	493,885	3	STOCKHOLDERS' EQUITY (Note 13)				
Accumulated depreciation	(51,363)	-	(45,463)	-	Capital stock - \$10 par value				
Net Property and Equipment	443,924	3	448,422	3	Authorized and issued - 300,000 thousand shares	3,000,000	18	3,000,000	19
					Capital surplus (Notes 2 and 9)	129,608	1	147,148	1
OTHER ASSETS					Retained earnings:				
Reserve funds held by ceding companies	329,792	2	317,129	2	Appropriated as legal reserve	209,160	1	183,141	1
Miscellaneous (Note 10)	25,834	-	89,236	1	Appropriated as special reserve	62,870	1	53,424	-
Total Other Assets	355,626	2	406,365	3	Unappropriated earnings	342,654	2	261,703	2
					Unrealized losses on long-term investments (Notes 2 and 8)	-	-	(61,875)	-
TOTAL ASSETS	\$ 16,157,161	100	\$ 15,398,482	100	Cumulative translation adjustments (Note 2)	(132)	-	(996)	-
					Total Stockholders' Equity	3,744,160	23	3,582,545	23
					TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 16,157,161	100	\$ 15,398,482	100

Chairman: _____
Cheng-Tui Yang

President: _____
Cheng-Tui Yang

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

English Translation of Financial Statements Originally Issued in Chinese

CENTRAL REINSURANCE CORPORATION

STATEMENTS OF INCOME

(In Thousand New Taiwan Dollars, Except Per Share Amounts)

	<u>Years Ended December 31</u>			
	<u>2002</u>		<u>2001 (Audited by the MOA, Note 3)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
OPERATING REVENUES				
Reinsurance premiums written (Note 2)	\$ 15,877,103	140	\$ 14,413,577	136
Reinsurance premiums ceded (Note 2)	<u>5,140,336</u>	<u>45</u>	<u>4,615,042</u>	<u>43</u>
Net reinsurance premiums	10,736,767	95	9,798,535	93
Interest income	388,720	3	529,418	5
Overriding commissions	104,068	1	93,337	1
Income from short-term investments - net (Note 2)	81,903	1	120,915	1
Income from real estate investments - net (Note 2)	9,048	-	16,641	-
Other	<u>25,991</u>	<u>-</u>	<u>35,095</u>	<u>-</u>
Total Operating Revenues	<u>11,346,497</u>	<u>100</u>	<u>10,593,941</u>	<u>100</u>
OPERATING COSTS				
Reinsurance commissions	4,353,933	39	3,880,131	36
Reinsurance commission ceded	<u>1,334,047</u>	<u>12</u>	<u>1,401,362</u>	<u>13</u>
Net reinsurance commissions	<u>3,019,886</u>	<u>27</u>	<u>2,478,769</u>	<u>23</u>
Claims paid	9,753,262	86	8,060,973	76
Claims recovered	<u>3,103,741</u>	<u>27</u>	<u>2,459,043</u>	<u>23</u>
Net claims paid	<u>6,649,521</u>	<u>59</u>	<u>5,601,930</u>	<u>53</u>
Increase in operating reserves (Note 2)				
Reserve for premiums - net	212,519	2	669,642	6
Claims reserve - net	361,006	3	623,916	6
Contingency fund - net	<u>245,797</u>	<u>2</u>	<u>473,059</u>	<u>5</u>
	<u>819,322</u>	<u>7</u>	<u>1,766,617</u>	<u>17</u>
Realized loss from long-term investments (Notes 2 and 8)	<u>66,238</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other	<u>39,708</u>	<u>-</u>	<u>32,100</u>	<u>-</u>
Total Operating Costs	<u>10,594,675</u>	<u>93</u>	<u>9,879,416</u>	<u>93</u>
GROSS PROFIT	751,822	7	714,525	7
OPERATING EXPENSES	<u>344,476</u>	<u>3</u>	<u>346,319</u>	<u>4</u>
OPERATING INCOME	407,346	4	368,206	3
NONOPERATING INCOME	2,212	-	564	-
NONOPERATING EXPENSES	(<u>1,871</u>)	<u>-</u>	(<u>3,791</u>)	<u>-</u>
INCOME BEFORE INCOME TAX	407,687	4	364,979	3
INCOME TAX (Notes 2 and 12)	<u>98,811</u>	<u>1</u>	<u>104,790</u>	<u>1</u>
NET INCOME	<u>\$ 308,876</u>	<u>3</u>	<u>\$ 260,189</u>	<u>2</u>

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>Years Ended December 31</u>			
	<u>2002</u>		<u>2001 (Audited by the MOA, Note 3)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
NET INCOME PER SHARE Based on weighted average number of outstanding shares of 300,000,000				
			<u>\$1.03</u>	<u>\$0.87</u>

Chairman: _____ President: _____
Cheng-Tui Yang Cheng-Tui Yang

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English Translation of Financial Statements Originally Issued in Chinese

CENTRAL REINSURANCE CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousand New Taiwan Dollars, Except Per Share Amounts)

	CAPITAL STOCK AUTHORIZED AND ISSUED		CAPITAL SURPLUS (Notes 2 and 9)			RETAINED EARNINGS (Note 13)				UNREALIZED LOSSES ON LONG-TERM INVESTMENTS (Notes 2 and 8)	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL STOCKHOLDERS' EQUITY
	Shares	Amount	Gain on Disposal of Property and Equipment	Revaluation Increment on Property and Equipment	Total	Legal Reserve	Special Reserve	Unappropriated	Total			
BALANCE, JANUARY 1, 2001	300,000,000	\$ 3,000,000	\$ 17,540	\$ 129,608	\$ 147,148	\$ 142,296	\$ -	\$ 422,783	\$ 565,079	(\$ 52,839)	(\$ 466)	\$ 3,658,922
Appropriations of earnings:												
Legal reserve	-	-	-	-	-	40,845	-	(40,845)	-	-	-	-
Special reserve	-	-	-	-	-	-	53,424	(53,424)	-	-	-	-
Cash dividends - \$1.09 per share	-	-	-	-	-	-	-	(327,000)	(327,000)	-	-	(327,000)
Balance after appropriations	300,000,000	3,000,000	17,540	129,608	147,148	183,141	53,424	1,514	238,079	(52,839)	(466)	3,331,922
Net income for year 2001 (audited by the MOA, Note 3)	-	-	-	-	-	-	-	260,189	260,189	-	-	260,189
Unrealized losses on long-term investments in shares of stock	-	-	-	-	-	-	-	-	-	(9,036)	-	(9,036)
Changes in translation adjustments (audited by the MOA, Note 3)	-	-	-	-	-	-	-	-	-	-	(530)	(530)
BALANCE, DECEMBER 31, 2001 (AUDITED BY THE MOA, Note 3)	300,000,000	3,000,000	17,540	129,608	147,148	183,141	53,424	261,703	498,268	(61,875)	(996)	3,582,545
Appropriations of earnings:												
Legal reserve	-	-	-	-	-	26,019	-	(26,019)	-	-	-	-
Special reserve	-	-	-	-	-	-	9,446	(9,446)	-	-	-	-
Cash dividends - \$0.7 per share	-	-	-	-	-	-	-	(210,000)	(210,000)	-	-	(210,000)
Balance after appropriations	300,000,000	3,000,000	17,540	129,608	147,148	209,160	62,870	16,238	288,268	(61,875)	(996)	3,372,545
Capital surplus from gain on disposal of property and equipment transferred to unappropriated earnings	-	-	(17,540)	-	(17,540)	-	-	17,540	17,540	-	-	-
Net income for year 2002	-	-	-	-	-	-	-	308,876	308,876	-	-	308,876
Unrealized losses on long-term investments	-	-	-	-	-	-	-	-	-	61,875	-	61,875
Changes in translation adjustments	-	-	-	-	-	-	-	-	-	-	864	864
BALANCE, DECEMBER 31, 2002	<u>300,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ 129,608</u>	<u>\$ 129,608</u>	<u>\$ 209,160</u>	<u>\$ 62,870</u>	<u>\$ 342,654</u>	<u>\$ 614,684</u>	<u>\$ -</u>	<u>(\$ 132)</u>	<u>\$ 3,744,160</u>

Chairman: _____
Cheng-Tui Yang

President: _____
Cheng-Tui Yang

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English Translation of Financial Statements Originally Issued in Chinese

CENTRAL REINSURANCE CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousand New Taiwan Dollars)

	<u>Years Ended December 31</u>	
		2001
		(Audited by the MOA, Note 3)
	<u>2002</u>	<u>Note 3)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 308,876	\$ 260,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in operating reserves	816,298	1,731,213
Deferred income taxes	73,283	46,342
Realized loss on long-term investments	66,238	-
Provision for doubtful accounts	10,157	11,907
Depreciation and amortization	8,289	7,787
Reversal of allowance for loss on short-term investments	-	(155,488)
Loss on disposal of property and equipment	-	380
Changes in operating assets and liabilities:		
Short-term investments	(2,015,852)	(866,812)
Accounts receivable	163,943	(86,888)
Prepaid expenses and other current assets	22,697	4,561
Overdue receivables	-	(49,428)
Accrued expenses	32,280	(53,740)
Other current liabilities	(8,541)	51,607
Accrued pension liabilities	(219,477)	-
Net Cash Provided by (Used in) Operating Activities	(741,809)	901,630
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term investments	(173,900)	(11)
Increase in other assets	(25,314)	(12,321)
Acquisitions of property and equipment	(1,402)	(4,654)
Proceeds from disposal of property and equipment	-	14
Net Cash Used in Investing Activities	(200,616)	(16,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(210,000)	(327,000)
Decrease in guarantee deposits received and deposits from reserve funds held for reinsurers	(21,748)	(8,314)
Net Cash Used in Financing Activities	(231,748)	(335,314)
TRANSLATION ADJUSTMENTS	864	(530)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,173,309)	548,814
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,761,092	7,212,278
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,587,783</u>	<u>\$ 7,761,092</u>

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>Years Ended December 31</u>	
		<u>2001</u>
		(Audited by the MOA, Note 3)
	<u>2002</u>	<u>2001</u>
SUPPLEMENTARY INFORMATION		
Interest paid (interest of reinsurance reserve funds released)	<u>\$ 1,917</u>	<u>\$ 1,914</u>
Income tax paid	<u>\$ 46,376</u>	<u>\$ 85,769</u>

Chairman: _____
Cheng-Tui Yang

President: _____
Cheng-Tui Yang

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

CENTRAL REINSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

(Amounts are Expressed in Thousands New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

The Corporation was incorporated on October 31, 1968, and it provides a broad range of property, and life inward and outward reinsurance services. The Corporation's shares of stock have been traded in the Taiwan Stock Exchange since July 6, 2000. The Corporation's Singapore branch was closed in March 2002.

The Corporation was a state-owned enterprise. On July 9, 2002, the MOF, the major shareholder of the Corporation released 69,388 thousand shares for public sale and the sale was completed at the same date. Thus, the ownership of the MOF decreased to 48.12%. According to Article 11 of "Enforcement Rules of Statute of Privatization of Government-Owned Enterprises" the Corporation became a privately owned corporation on July 11, 2002, effectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statements

The financial statements are prepared in accordance with accounting practices accepted in the insurance industry, the regulations governing the preparation of financial statements of public companies, and accounting principles generally accepted in the Republic of China (ROC). Furthermore, the Corporation was a state-owned enterprise before July 10, 2002. Its accounting practices are primarily based on the Uniform Regulations of Accounting Systems for the Financial Institutions Governed (Uniform Regulations) issued by the Directorate General of Budget Accounting and Statistics Executive Yuan.

The Corporation's annual financial statements are audited by the Ministry of Audit of the Control Yuan, ROC (the "MOA"), determine the extent of the Corporation's compliance with the budget approved by the Legislative Yuan. After privatization, the Corporation no longer requires to be compliant with related regulations for state-owned enterprises.

Cash equivalents

Short-term bills with original maturities of less than three months are classified as cash equivalents.

Short-term investments

Short-term investments are stated at the lower of cost (bond costs represent original cost after adjustment of premium or discount) or market method. When the aggregate market value is lower than the total carrying value, an allowance for decline in market value is recognized. Any recovery of the market value to the extent of the original cost is recognized as income. Cost of bonds sold is determined using the specific identification method while cost of all other types of short-term investments is determined using the moving-average method.

Allowance for doubtful accounts

Allowance for doubtful accounts is provided at 1% of the ending balances of the accrued claims recoverable from reinsurers, accounts with reinsurers and other accounts receivable (which includes accrued reinsurance commissions and overriding commissions) that are not overdue. The amounts saved arising from reduced business tax rate are recorded, in compliance with regulations, as part of allowance for doubtful accounts.

The entire amount of overdue receivable from reinsurers is covered by an allowance.

Real estate investments

Investments in real estate are stated at cost less accumulated depreciation.

Depreciation on buildings is computed using the straight-line method over estimated service lives ranging from 10 years to 60 years.

Upon disposal of real estate, cost and related accumulated depreciation are removed from the accounts and resulting gain or loss is credited or charged to income.

Long-term investments

Long-term investments for which the Corporation exercises no significant influence on the investees are accounted for by cost method. The investment in listed stock is stated at the lower of cost or market value. An allowance for decline in value is provided when the carrying value of the investment (with quoted market price) exceeds the market value. Such provision for decline in value is shown as part of stockholders' equity, when the decline in value is considered temporary. The allowance for decline in value and the account shown in the stockholder's equity is adjusted for any recovery in the market value. The carrying value of investments in unlisted stocks are reduced to reflect an other than temporary decline in value with the reduction charged to current income.

Costs of shares of stock sold are determined using the moving-average method.

When long-term investments in listed stocks are transferred to short-term investments, the new cost is carried at market price and a loss is recognized if the market price of the long-term investments is below the book value of such investments.

Property and equipment

Property and equipment are stated at cost (or cost plus revaluation increment) less accumulated depreciation. Reserve for land revaluation increment tax is presented as long-term liabilities. Major renewals and betterment are capitalized, while maintenance and repairs are charged to current year income.

Depreciation is computed using the straight-line method over these estimated service lives - buildings, 10 to 60 years; machinery and equipment 4 to 6 years; transportation equipment, 5 to 15 years; and other equipment, 3 to 10 years.

When items of property and equipment are retired or disposed of, their cost, cost plus revaluation increment and related accumulated depreciation are removed from the accounts, and resulting gain or loss is credited or charged to current income.

Reinsurance revenues and costs

Reinsurance revenues (premiums written) and the related estimated costs (reinsurance premiums ceded) are recognized upon receipt of the billings from the reinsurers.

Operating reserves

The unearned premium reserve related to insurance policy (period exceeding one year), including long-term fire insurance, engineering insurance and consumer's credit insurance is calculated based on criteria stipulated in Article 8 of Enforcement Rules of the Insurance Law that was issued by the MOF. On the other hand, the unearned premium reserve related to other insurance policy (period under one year) is calculated in accordance with "The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry" issued by MOF.

The contingency reserve related to compulsory Automobile and Motorcycle Liability Insurance is determined in accordance with "The Regulation of Various Insurance Reserves Conducting Compulsory Automobile and Motorcycle Insurance" issued by MOF. The contingency reserve related to residence earthquake insurance is determined in accordance with Article 8 of "Regulations Governing Taiwan Residential Earthquake Insurance Pool and Risk Transfer Scheme". The contingency reserve attributable to other types of insurance contracts is calculated in accordance with "The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry".

The contingency and claims reserve is calculated in accordance with "The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry".

Pension cost

Pension cost is recognized on the basis of actuarial calculations of pension obligation.

Income tax

The Corporation adopted interperiod and intraperiod tax allocation. Deferred income taxes are recognized for tax effects of temporary differences, and unused tax

credits. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent accounts according to the classifications of their related assets and liabilities. Those which cannot be related to the assets or liabilities in the financial statement are classified as current or noncurrent based on the expected length of anticipated reversal.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the shareholders have approved the retention of the earnings.

Foreign-currency transactions

The foreign currency amounts of transactions that are denominated in foreign currencies during a quarter are converted into New Taiwan dollars at rates in the end of the preceding quarter. Gains or losses, resulting from the application of different foreign exchange rates when foreign-currency receivables and payables are settled, are credited or charged to income on the settlement date. Foreign currency monetary assets and liabilities are converted into at exchange rates prevailing at the balance sheet date. All exchange differences arising from conversion are included in the current income.

Long-term foreign investments accounted for by cost method, at year-end, the balances are restated at the prevailing exchange rates and the resulting differences are recorded as translation adjustments if the translated amount is lower than cost.

Translation of financial statements

The accounts of the Singapore Branch, which are prepared using Singapore dollars as the functional currency, are translated into New Taiwan dollars using the following exchange rates: (a) income and expense - prevailing exchange rate at the end of the preceding quarter; (b) assets and liabilities - balance sheet date rate; and (c) accumulated loss and registered capital - historical rate. The difference resulting from the above translation process is reported as cumulative translation adjustments under stockholders' equity.

Forward exchange transactions

Forward exchange contracts for hedging purposes are recorded at the spot rate on the contract date. The foreign-currency amount of each contract multiplied by the difference between the spot rate and the contracted forward rate is amortised over the contract period. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

At year-end, the balances of forward exchange receivables or payables are translated based on prevailing exchange rates and the resulting gains or losses are credited or charged to income. For those attributable to foreign long-term investments are recorded as translation adjustments under stockholders equity. The net forward contract receivable or payable is presented either as an asset or a liability in the balance sheet.

3. THE ADJUSTMENTS OF FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2001 have been audited by the MOA. The adjustments were as follows:

	As Previously Reported in Conformity with Generally Accepted Accounting Principles (GAAP) and Relevant <u>Regulations</u>	<u>Adjustments</u>	<u>As Adjusted</u>
<u>Balance sheet</u>			
Asset			
Net property and equipment	\$ 448,616	(\$ 194)	\$ 448,422
Miscellaneous asset	89,671	(435)	89,236
Liability			
Accrued expenses	34,223	497	34,720
Other current liabilities	137,139	(291)	136,848
Stockholders' equity			
Retained earnings	499,142	(874)	498,268
Cumulative translation adjustments	(1,035)	39	(996)
<u>Income statement</u>			
Operating expenses	345,354	965	346,319
Nonoperating expenses	3,591	200	3,791
Income tax	105,081	(291)	104,790
Net income	261,063	(874)	260,189

4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Time deposits	\$ 3,836,568	\$ 3,827,173
Negotiable certificates of deposit	1,175,202	1,394,229
Commercial paper	858,356	2,511,092
Treasury bills	666,419	-
Checking accounts	44,251	24,322
Demand deposits	6,707	3,985
Cash on hand	<u>280</u>	<u>291</u>
	<u>\$ 6,587,783</u>	<u>\$ 7,761,092</u>

Negotiable certificates of deposit, commercial paper and treasury bills as of December 31, 2002 were contracted to be resold for \$2,703,055 in January 2003.

5. SHORT-TERM INVESTMENTS

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Bonds	\$ 5,816,415	\$ 4,094,559
Open-end mutual fund	711,433	644,263
Listed stocks	<u>434,345</u>	<u>190,005</u>
	<u>\$ 6,962,193</u>	<u>\$ 4,928,827</u>

The market values of the investments were as follows:

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Bonds	\$ 5,990,599	\$ 4,208,798
Open-end mutual fund	665,612	624,559
Listed stocks	<u>346,843</u>	<u>149,971</u>
	<u>\$ 7,003,054</u>	<u>\$ 4,983,328</u>

The above market values are based on the following: (a) bonds - reference prices published by the ROC Over-the-Counter Securities Exchange at the end of year; (b) open-end mutual funds - net asset values as of the end of year; (c) listed stocks - average closing prices for December.

Government bonds of \$450,000 as of December 31, 2002 and 2001, respectively, are pledged and mainly deposited as operations guarantee with the Central Bank.

6. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Accounts with reinsurers	\$ 754,017	\$ 877,374
Accrued income	93,919	87,500
Accrued claims recoverable from reinsurers	37,522	45,472
Other	<u>21,487</u>	<u>68,080</u>
	906,945	1,078,426
Less - allowance for doubtful accounts	(<u>20,689</u>)	(<u>18,070</u>)
	<u>\$ 886,256</u>	<u>\$ 1,060,356</u>

7. INVESTMENTS IN REAL ESTATE

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Cost		
Land	\$ 311,804	\$ 311,804
Buildings	<u>68,591</u>	<u>68,591</u>
	380,395	380,395
Less - accumulated depreciation	(<u>14,171</u>)	(<u>12,804</u>)
	<u>\$ 366,224</u>	<u>\$ 367,591</u>

8. LONG-TERM INVESTMENTS

	December 31			
	2002		2001	
	Amount	% of Owner- ship	Amount	% of Owner- ship
UBS callable daily range accrual note	\$ 173,900	-	\$ -	-
Taishin International Bank - II (preferred stocks)	74,430	0.31	74,430	0.31
Asian Hull Syndicate, Ltd.	191	7.14	192	7.14
China Television Co., Ltd.	-	-	<u>83,751</u>	0.53
	<u>248,521</u>		<u>158,373</u>	
Less - allowance for loss	-		<u>61,875</u>	
	<u>\$ 248,521</u>		<u>\$ 96,498</u>	

In November 2002, the investment in shares of China Television Co., Ltd. had been classified under short-term investments and recognized a loss of \$66,238.

9. PROPERTY AND EQUIPMENT

	December 31	
	2002	2001
Cost	\$ 214,810	\$ 213,408
Revaluation increment		
Land	272,065	272,065
Buildings	<u>8,412</u>	<u>8,412</u>
	<u>495,287</u>	<u>493,885</u>
Accumulated depreciation		
Buildings	20,074	18,889
Machinery and equipment	13,051	9,877
Transportation equipment	5,346	4,821
Other equipment	<u>12,892</u>	<u>11,876</u>
	<u>51,363</u>	<u>45,463</u>
Net	<u>\$ 443,924</u>	<u>\$ 448,422</u>

The land and buildings were revalued in 1976 and 1996. Such revaluation resulted in the recognition of: (a) additional carrying value of property and equipment amounting to \$280,477, (b) reserve for land revaluation increment tax of \$150,869 (which is payable upon disposal of land) and (c) capital surplus \$129,608.

10. OTHER ASSETS

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Reserve for earthquake insurance	\$ 12,004	\$ -
Deferred income tax assets (Note 12)	7,155	80,516
Guarantee deposits paid	5,459	5,572
Deferred pension cost	-	1,671
Other	<u>1,216</u>	<u>1,477</u>
	<u>\$ 25.834</u>	<u>\$ 89.236</u>

11. PENSION AND TERMINATION BENEFITS

The Corporation has several pension plans. The retirement and separation benefits are based on regulations issued by the MOF. The information on the plans is as follows:

- a. Plan Applicable to Civil Service Eligible Employees. The retirement and termination benefits were based on years of service and final monthly salary upon retirement. The Corporation established the following funds to cover benefit payments as follows:

<u>Description</u>	<u>Funding</u>
Pre-1980 Civil Service Employees Fund	Contributed from 1980 to 1996 equivalent to 3% of the monthly salaries of civil service eligible employees.
Post-1980 Civil Service Employees Fund	Funded by contribution (from 1980 to 1996) equivalent to 4.00% to 8.50% of the monthly salaries of civil service eligible employees. Starting 1996, additional contribution is made based on actuarial calculations.
1996 Civil Service Employees Fund	Funded by contribution (from 1996 to present) based on actuarial calculations.

All the foregoing funds are, starting in 1999, administered by the civil service eligible employees pension fund committee (the "Committee").

- b. Plan Applicable to Non-civil Service Eligible Employees. The retirement and termination benefits are based on years of service and salary upon retirement. The plan was unfunded until April 2000. The Corporation makes monthly contribution, equal to 15% of wages, to the Non-civil Service Eligible Employees Fund. Such fund is administered by the non-civil service eligible employees pension fund committee and deposited in the committee's name with the Central Trust of China. The costs of the retirement and termination benefits were accrued as follows: (i) from inception to 1997 - 4% of salaries and wages, and (ii) from 1997 to present - based on actuarial calculations.

By year 2000, the benefit obligation payable to employees in the event of a privatization was computed in accordance with the relevant privatization rule and an additional \$240,690 of benefit payment was provided pursuant to such rules.

The privatization of the Corporation was completed on July 11, 2002. The original committee returned the Non-civil Service Eligible Employees Fund to all employees and the rest was closed by the Corporation. After privatization, employees pension fund is administered by the committee and the contribution is adjust to 8% of wages.

Pension information is summarized as follows:

	<u>Years Ended December 31</u>	
	<u>2002</u>	<u>2001</u>
Service cost	\$ 14,549	\$ 13,455
Interest cost	3,822	4,434
Projected return on plan assets	(2,054)	(2,025)
Amortization of unrecognized net actuarial losses and unrecognized net transition obligation	<u>1,121</u>	<u>1,162</u>
Net pension cost	<u>\$ 17,438</u>	<u>\$ 17,026</u>

The reconciliation between the retirement fund and pension liabilities follows:

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Benefit obligations		
Vested benefit obligation	\$ 809	\$ 54,094
Nonvested benefit obligation	<u>4,441</u>	<u>21,022</u>
Accumulated benefit obligation (ABO)	5,250	75,116
Additional benefits based on future salaries	<u>1,957</u>	<u>19,811</u>
Projected benefit obligation	7,207	94,927
Fair value of plan assets	(<u>4,808</u>)	(<u>47,191</u>)
Funded status	2,399	47,736
Unrecognized net transition obligation	(1,957)	152
Unrecognized prior service cost	-	(16,042)
Unrecognized net actuarial losses	-	(2,029)
Additional liability recognized representing the excess of the ABO over the fair value of the plan assets	<u>-</u>	<u>1,671</u>
Accrued pension liability	<u>\$ 442</u>	<u>\$ 31,488</u>
Vested benefits	<u>\$ 809</u>	<u>\$ 66,940</u>
Actuarial assumptions of benefit obligations:		
Discount rate	3.0%	4.5%
Rate of salary increase	3.5%	3.0%
Expected rate of return on plan assets	3.0%	4.5%

The changes in the fund are summarized as follows:

	<u>Years Ended December 31</u>	
	<u>2002</u>	<u>2001</u>
Changes in the pension fund		
Retirement fund		
Balance, beginning of year	\$ 145,842	\$ 123,377
Contributions	13,507	17,387
Interest income	1,940	5,079
Benefits paid	(156,481)	(1)
Balance, end of year	<u>\$ 4,808</u>	<u>\$ 145,842</u>
Balance consists of:		
Post-1980 Civil Service Employees Fund	\$ -	\$ 98,651
Non-civil Service Eligible Employees Fund	4,808	1,234
Pre-1980 Civil Service Employees Fund	-	4,471
1996 Civil Service Employees Fund	-	41,486
	<u>\$ 4,808</u>	<u>\$ 145,842</u>
Changes in accrued pension cost (recorded as accrued pension liabilities):		
Balance, beginning of year	\$ 272,178	\$ 277,616
Provision for pension cost	-	1,671
Reversal of deferred pension cost	(1,671)	(7,109)
Pension paid	(219,477)	-
Reclassified to other payables	(50,588)	-
Balance, end of year	<u>\$ 442</u>	<u>\$ 272,178</u>

12. INCOME TAX

a. Income tax expense consisted of the following:

	<u>Years Ended December 31</u>	
	<u>2002</u>	<u>2001</u>
Income tax expense - current	\$ 10,376	\$ 29,799
Income tax expense - deferred	73,283	46,342
Tax benefit on income tax credit	(139)	(266)
Separately taxed on short-term bills	15,297	28,915
Other	(6)	-
	<u>\$ 98,811</u>	<u>\$ 104,790</u>

- b. Reconciliation between income tax expense computed based on income before tax at statutory tax rate and total income tax expense is as follows:

	<u>Years Ended December 31</u>	
	<u>2002</u>	<u>2001</u>
Income tax expense computed based on income before income tax at statutory tax rate of 25%	\$ 101,912	\$ 91,235
Add (less) tax effects of:		
Temporary differences:		
Accrued pension cost (paid)	(74,583)	1,998
Provision (reversal of allowance) for loss on short-term investments	-	(38,872)
Other	1,300	(9,468)
Permanent differences:		
Separately taxed on interest income	(19,123)	(36,144)
Tax-exempt loss (gain) on sales of marketable securities	(16,582)	10,390
Realized loss on long-term investments	16,559	-
Other	(2,805)	(77)
Income tax (10%) on undistributed earnings	<u>3,698</u>	<u>10,737</u>
Income tax payable	<u>\$ 10,376</u>	<u>\$ 29,799</u>

- c. Deferred income tax assets (liabilities) as of December 31, 2002 and 2001 consisted of the following:

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Current deferred income tax assets (liabilities)		
Unrealized exchange gain	(<u>\$ 2,781</u>)	(<u>\$ 2,858</u>)
Non-current deferred income tax assets		
Allowance for doubtful accounts	\$ 7,155	\$ 5,933
Accrued pension cost	-	74,583
	<u>\$ 7,155</u>	<u>\$ 80,516</u>

The related information under the Integrated Income Tax System is as follows:

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Balance of Imputation Credit Account (ICA)	<u>\$ 47,370</u>	<u>\$ 108,590</u>

The projected income tax credit ratio on the earnings as of December 31, 2002 and the actual tax credit ratio on the earnings as of December 31, 2001 were 13.88% and 33.33%. The tax credits allocable to stockholders are based on the balance of ICA on the dividend distribution date. As a result, the tax credit ratio as of the dividend distribution date may differ from the credit as of December 31, 2002.

The unappropriated earning as of December 31, 2002 and 2001, respectively included earnings of \$1,514 which were generated prior to July 1, 1998.

Income tax returns through 2001 have been examined and approved by the MOA and tax authorities.

13. STOCKHOLDERS' EQUITY

Under related regulations, capital surplus arising from revaluation increment on property and equipment can only be used to offset a deficit.

Under the Company Law, the legal reserve should be made until the reserve equals the aggregate par value of the Corporation's outstanding capital stock. This reserve may be used to offset a deficit. Also when the reserve has reached 50% of the aggregate par value of the Corporation's outstanding capital stock, up to 50% thereof may be declared as dividends.

The Corporation's Articles of Incorporation requires the appropriation of legal reserve equivalent to 10% of annual net income less any deficit. In addition, a special reserve should be provided as described below. The disposition of the remainder, if any, is determined by the board of directors and submitted to stockholders for approval. An approved stock dividend declaration is subject to approval by the MOF. The appropriation of earnings shall be resolved by shareholders in the following year and given effect to the financial statements of that year.

As prescribed by the SFC regulations, a special reserve equal to the net debit balance in the stockholders' equity shall be appropriated from the current year's earnings and unappropriated earnings generated in the prior years. The special reserve appropriation arising from the foregoing is not available for dividends.

Under the Integrated Income Tax System, non-corporate shareholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated starting July 1, 1998.

On June 25, 2002, the Corporation's shareholders' meeting resolved year 2001's appropriation of earnings. The appropriation was revised due to adjustments amounting to \$874 charged to net income made by the MOA and shown as follows:

Appropriation of legal reserve	\$ 26,019
Appropriation of special reserve	9,446
Cash dividends (\$0.7 per share)	<u>210,000</u>
	<u>\$ 245,465</u>

Due to the revision of Article of 238 of the Company Law, the Corporation's stockholders' meeting decided to transfer capital surplus arising from gain on disposal of property and equipment of \$17,540 to retained earnings.

In 2002, the Corporation's shareholders decided not to distribute bonus to employees and remuneration to directors and supervisors. The information on bonus to employees and remuneration to directors and supervisors is not disclosed.

Year 2002's appropriation of earnings has not been proposed by board of directors as of auditor's report date.

The information about appropriation of earnings determined by the board of directors and resolved by the shareholders' meeting can be accessed through the Market Observation Post System on the web site of Taiwan Stock Exchange.

14. EARNINGS PER SHARE

The numerator and denominators used in computing earnings per share (EPS) were as follows:

	<u>Numerator (Amounts)</u>		<u>Denominator (Shares in Thousands)</u>	<u>EPS (in Dollars)</u>	
	<u>Pretax</u>	<u>After Tax</u>		<u>Pretax</u>	<u>After Tax</u>
<u>2002</u>					
Basic EPS					
Net income of common stockholders	<u>\$ 407,687</u>	<u>\$ 308,876</u>	<u>300,000</u>	<u>\$ 1.36</u>	<u>\$ 1.03</u>
<u>2001</u>					
Basic EPS					
Net income of common stockholders	<u>\$ 364,979</u>	<u>\$ 260,189</u>	<u>300,000</u>	<u>\$ 1.22</u>	<u>\$ 0.87</u>

15. PLEDGED ASSETS

The Corporation has provided the following assets as security on standby letter of credit issued by banks and as statutory deposits related to its insurance operations.

	<u>December 31</u>	
	<u>2002</u>	<u>2001</u>
Time deposits	\$ 270,625	\$ 270,625
Government bonds	<u>450,000</u>	<u>450,000</u>
	<u>\$ 720,625</u>	<u>\$ 720,625</u>

16. CONTINGENCY

The Corporation was notified in January 2001 by the Deutsche Rückversicherung AG that has filed a lawsuit against a reinsurance contracts carried out from 1974 to 1976. Deutsche Rückversicherung AG requested the Corporation to pay the amount of £ 94,334, US\$1,748,821 and Can\$4,477 and the interest incurred plus legal cost.

This case is quite complicated because it involves contractual liabilities and “time bar” issues. The Corporation appointed a lawyer in UK to defend the Corporation’s position on the case. The trial of this matter has been fixed for twelve days commencing April 29, 2003. The management does not believe that the outcome of this legal proceeding will significantly affect the net income in future periods since the balance of the contingency fund reserve is sufficient to absorb the maximum amount claimed.

17. FINANCIAL INSTRUMENTS

a. Derivative financial instruments

1) Contract amount, nominal amount and credit risk

(In Thousand Dollars)			
<u>December 31, 2002</u>			
	<u>Contract Amount (Nominal Amount)</u>		<u>Credit Risk</u>
<u>Financial Instruments</u>			
Forward exchange contracts	US\$ 5,000	US\$	-

The Corporation is exposed to credit risk in the event of nonperformance of the counterparties to forward contracts on maturity. In order to manage this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, no material losses resulting from counterparty defaults are anticipated.

2) Market risk

The Corporation entered into forward exchange contracts to hedge the effect of foreign currency fluctuation. Thus, gain or loss arising from exchange rate fluctuations will approximately be offset with those hedged items. The potential market risk is insignificant.

3) Liquidation risk, cash flow risk and uncertainty of amount and term of future cash demand

As of December 31, 2002, the Corporation has entered into forward exchange contracts and cash inflow of NT\$174,175 and outflow US\$5,000 would be expected within one year.

The Corporation has sufficient operating capital to meet cash demand, and the exchange rate of forward exchange contracts are fixed, so there is no material fund raising risk and cash flow risk.

4) Purpose of derivative financial instruments and related strategies

The Corporation held the derivative financial instruments completely for purpose other than trading. The Corporation entered into forward contracts to hedge the effect of foreign currency fluctuations on net assets and net liabilities. The purpose of hedging strategies is to hedge market risk the Corporation is exposed. The Corporation has designated hedging instruments as highly negative correlations with the fair value of the hedged item and periodically evaluates the effectiveness of the instruments.

5) Other information

The net forward exchange receivables and payable are offset and the difference is presented either as a current asset or a current liability. As of December 31, 2002, the net amount of \$275 were shown as a current asset.

b. Fair value of non-derivative financial instruments

	December 31			
	2002		2001	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Assets				
Financial assets - with fair values approximating carrying amounts	\$8,079,915	\$8,079,915	\$9,415,094	\$9,415,094
Short-term investments	6,962,193	7,003,054	4,928,827	4,983,328
Long-term investments - with market price	-	-	83,751	21,876
Liabilities				
Financial liabilities - with fair values approximating carrying amounts	693,745	693,745	671,203	671,203

The Corporation adopts the following methods and assumptions for the estimates of fair value of its financial instruments:

- a. The carrying amount of cash and cash equivalents, receivables, pledged time deposits, payables and accounts with reinsurers approximate their fair values because of the short maturities of these instruments.
- b. Short-term investments - please refer to Note 5.
- c. Except investments in China Television Co., Ltd., long-term investments with no quoted market price are not disclosed.
- d. Fair value of guarantee deposits paid and received and reserve funds held by ceding companies are estimated at their carrying amounts.

The fair value of certain financial instruments and all nonfinancial instruments are excluded from fair value shown above. Accordingly, the aggregate fair value presented does not represent the underlying fair value of the Corporation.

18. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFC for the Corporation and investees:

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Securities held: Table I.
- d. Securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table II.
- e. Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estates at prices of at least NT\$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and related information of investees on which the Corporation exercises significant influence: None.
- j. Derivative financial transactions: Note 17.
- k. Investment in Mainland China: None.

19. SEGMENT INFORMATION

The Corporation is only engaged in reinsurance.

CENTRAL REINSURANCE CORPORATION
SECURITIES HELD
December 31, 2002
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 2)	
Central Reinsurance Corporation	Asian Hull Syndicate, Ltd.	-	Long-term investments	400	191	7.14%	\$ 1,293	Note 2
	Taishin International Bank II (preferred stock)	-	Long-term investments	7,443,000	74,430	0.31%	-	
	UBS callable daily range accrual note	-	Long-term investments	-	173,900	-	-	

Note 1: The information on short-term investments are not required to be disclosed.

Note 2: The market values or net assets value are based on the latest net asset value of the investee.

CENTRAL REINSURANCE CORPORATION

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Years Ended December 31, 2002

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Units (Thousand)	Amount	Units (Thousand)	Amount	Units (Thousand)	Amount	Carrying Value	Gain on Disposal	Units (Thousand)	Amount
Central Reinsurance Corporation	UBS callable daily range accrual note	Long-term investments	UBS AG	-	-	\$ -	-	\$ 173,900	-	\$ -	\$ -	\$ -	-	\$ 173,900

Note: The information on short-term investments are not required to be disclosed.