

CATHAY LIFE INSURANCE CO., LTD.
BALANCE SHEETS
(Expressed in thousands of dollars)
December 31, 1999, 2000 and 2001

	1999	2000	2001	2001
	NT\$	NT\$	NT\$	US\$
Assets				
Current Assets				
Cash and cash equivalents (Notes 2, 4)	\$231,074,429	\$231,360,874	\$173,490,638	\$4,957,017
Short-term investments (Notes 2, 5)	176,868,925	191,089,839	215,705,693	6,163,196
Notes receivable	18,781,515	22,138,848	19,335,753	552,466
Notes receivable-related parties (Note 18)	80,508	218	23,607	675
Tax refund receivable	606,250	606,250	0	0
Interest receivable	7,761,345	9,642,703	10,700,400	305,734
Other accounts receivable	712,372	2,315,060	2,072,423	59,214
Prepayments	182,314	214,963	378,251	10,807
Premiums paid for others (Note 6)	8,506,747	10,698,216	13,117,896	374,808
Sub-total	<u>444,574,405</u>	<u>468,066,971</u>	<u>434,824,661</u>	<u>12,423,917</u>
Exchange Bills Negotiated, Discounted and Loans (Notes 2, 7)				
Policy loans for life insurers	135,551,634	161,297,250	173,451,836	4,955,908
Short-term secured loans	285,675	109,051	88,704	2,534
Medium-term secured loans	10,620,201	12,061,248	12,030,573	343,741
Long-term secured loans	232,577,937	276,029,419	295,735,633	8,449,831
Sub-total	<u>379,035,447</u>	<u>449,496,968</u>	<u>481,306,746</u>	<u>13,752,014</u>
Funds, Long-Term Investments, and Receivable				
Long-term investments in stocks (Notes 2, 8)	4,756,636	8,620,868	10,688,524	305,395
Long-term investments in bonds (Notes 2, 9)	12,940,779	10,150,379	91,497,578	2,614,291
Investments in real estate (Notes 2, 10)	74,449,244	80,848,805	88,142,927	2,518,441
Sub-total	<u>92,146,659</u>	<u>99,620,052</u>	<u>190,329,029</u>	<u>5,438,127</u>
Property and Equipment (Notes 2,11)				
Land	4,876,937	4,883,740	5,012,785	143,227
Buildings and Structures	10,026,053	9,993,656	10,086,291	288,188
Communication and transportation equipment	163,358	149,510	135,846	3,881
Other equipment	1,949,996	2,768,997	3,356,997	95,917
Sub-total	<u>17,016,344</u>	<u>17,795,903</u>	<u>18,591,919</u>	<u>531,213</u>
Less: Accumulated depreciation	(3,693,279)	(3,952,641)	(4,373,984)	(124,975)
Construction in progress and prepayment for equipment	314	18,700	129,100	3,689
Sub-total	<u>13,323,379</u>	<u>13,861,962</u>	<u>14,347,035</u>	<u>409,927</u>
Other Assets				
Non-operating assets (Notes 2, 23)	2,709,145	2,778,384	2,438,193	69,665
Guarantee deposits paid (Notes 2, 19)	521,943	1,138,091	1,280,603	36,590
Overdue receivables (Notes 2, 12)	3,775,145	3,543,974	6,028,864	172,258
Temporary payments and suspense accounts	561,066	109,639	125,435	3,584
Deferred income tax assets (Notes 2, 16)	291,015	0	412,011	11,772
Sub-total	<u>7,858,314</u>	<u>7,570,088</u>	<u>10,285,106</u>	<u>293,869</u>
Total Assets	<u><u>\$936,938,204</u></u>	<u><u>\$1,038,616,041</u></u>	<u><u>\$1,131,092,577</u></u>	<u><u>\$32,317,854</u></u>

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

CATHAY LIFE INSURANCE CO., LTD.
BALANCE SHEETS - (Continued)
(Expressed in thousands of dollars)
December 31, 1999, 2000 and 2001

	1999	2000	2001	2001
	NT\$	NT\$	NT\$	US\$
Liabilities & Stockholders' Equity				
Current Liabilities				
Notes payable	\$1,960	\$1,757	\$1,674	\$48
Accounts payable-related parties (Note 18)	594,633	103,126	31,996	914
Collections for others	181,577	182,756	161,082	4,602
Accrued expenses	3,505,549	3,782,595	2,846,420	81,329
Income taxes payable	1,329,684	3,771,357	487,897	13,940
Commissions payable	967,509	1,390,862	750,131	21,433
Dividends payable	380,174	339,237	321,057	9,173
Life insurance proceeds payable	366	1,951	274	8
Other payable	117,573	182,301	907,023	25,916
Accounts collected in advance	493,991	878,226	1,336,885	38,198
Sub-total	<u>7,573,016</u>	<u>10,634,168</u>	<u>6,844,439</u>	<u>195,561</u>
Long-term Liabilities				
Reserve for land revaluation increment tax	3,726	3,726	3,726	106
Sub-total	<u>3,726</u>	<u>3,726</u>	<u>3,726</u>	<u>106</u>
Other Liabilities				
Unearned premium reserve (Note 2)	10,680,526	12,082,673	13,527,642	386,515
Reserve for life insurance (Note 2)	816,559,151	918,296,669	1,017,789,468	29,080,530
Special claim reserve (Note 2)	21,329,512	14,598,225	16,117,648	460,517
Claims reserve (Note 2)	321,763	229,805	266,322	7,610
Deferred income tax liabilities (Notes 2, 16)	0	135,346	0	0
Guarantee deposits received	1,301,385	1,400,852	1,282,097	36,632
Temporary receipts and suspense accounts	303,123	394,471	414,734	11,850
Sub-total	<u>850,495,460</u>	<u>947,138,041</u>	<u>1,049,397,911</u>	<u>29,983,654</u>
Total Liabilities	<u>858,072,202</u>	<u>957,775,935</u>	<u>1,056,246,076</u>	<u>30,179,321</u>
Stockholders' Equity				
Capital stock				
Common stock (Note 13)	48,202,089	53,986,340	58,386,158	1,668,224
Capital surplus	117,487	126,519	130,494	3,729
Retained earnings (Note 14)				
Legal reserve	9,730,987	11,222,160	12,195,156	348,443
Unappropriated retained earnings	20,815,439	15,820,997	11,461,899	327,492
Equity adjustment (Notes 2, 8)				
Cumulative translation adjustments	0	1,573	6,657	190
Treasury stock (Notes 2, 15)	0	(317,483)	(7,333,863)	(209,545)
Total Stockholders' Equity	<u>78,866,002</u>	<u>80,840,106</u>	<u>74,846,501</u>	<u>2,138,533</u>
Total Liabilities and Stockholders' Equity	<u>\$936,938,204</u>	<u>\$1,038,616,041</u>	<u>\$1,131,092,577</u>	<u>\$32,317,854</u>

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF INCOME
(Expressed in thousands of dollars, except earning per share)
Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	2001
	NT\$	NT\$	NT\$	US\$
Operating Revenues(Note 2)				
Premiums income	\$183,722,103	\$205,017,987	\$221,005,179	\$6,314,614
Reinsurance commission earned	174,264	161,010	181,908	5,198
Claims recovered from reinsurers	399,546	285,288	278,913	7,969
Recovered premiums reserve	77,890,821	83,751,234	100,085,518	2,859,668
Recovered special claim reserve	0	6,731,287	0	0
Recovered claims reserve	259,958	321,763	229,805	6,566
Handling fee earned	5,940	7,936	9,279	265
Interest Income	46,139,391	46,959,943	46,578,346	1,330,848
Gain on disposal of investments	6,448,098	12,603,537	0	0
Gain on long-term investments	110,585	117,377	255,273	7,294
Gain on investments-real estate	4,266,162	4,764,889	5,249,807	149,999
Gain on foreign exchange	0	1,353,153	1,816,429	51,899
Other operating Income	0	0	15,670,907	447,753
Sub-total	<u>319,416,868</u>	<u>362,075,404</u>	<u>391,361,364</u>	<u>11,182,073</u>
Operating Costs(Note 2)				
Insurance expenses	(580,151)	(606,765)	(594,783)	(16,994)
Brokerage expenses	(21,355,056)	(23,256,740)	(22,775,442)	(650,746)
Commissions expenses	(44,944)	(41,309)	(48,674)	(1,391)
Insurance claims payment	(91,383,285)	(98,339,912)	(115,296,796)	(3,294,288)
Provision for premiums reserve	(166,876,648)	(186,890,737)	(201,023,285)	(5,743,687)
Provision for special claim reserve	(2,663,957)	0	(1,519,423)	(43,413)
Contribution to the stabilization funds	(183,542)	(204,840)	(220,848)	(6,310)
Provision for claims reserve	(321,763)	(229,805)	(266,322)	(7,610)
Handling fee paid	(914,797)	(1,117,227)	(1,572,218)	(44,922)
Interest expenses	(77,221)	(69,199)	(69,169)	(1,976)
Provision for securities trading losses reserve	0	(22,677,388)	0	0
Loss on disposal of investments	0	0	(16,512,600)	(471,802)
Loss on foreign exchange	(1,092,208)	0	0	0
Provisions expenses	(2,307,524)	0	(2,019,870)	(57,712)
Sub-total	<u>(287,801,096)</u>	<u>(333,433,922)</u>	<u>(361,919,430)</u>	<u>(10,340,851)</u>
Operating Gross Profit	<u>31,615,772</u>	<u>28,641,482</u>	<u>29,441,934</u>	<u>841,222</u>
Operating Expenses (Note 2)				
Marketing expenses	(6,765,415)	(7,051,981)	(7,847,697)	(224,226)
Administrative and general expenses	(6,871,364)	(6,953,473)	(7,419,029)	(211,978)
Operating Income	<u>17,978,993</u>	<u>14,636,028</u>	<u>14,175,208</u>	<u>405,018</u>
Non-Operating Revenues				
Gain on disposal of property and equipment	8,932	12,043	5,299	151
Miscellaneous income	113,282	2,426,216	343,780	9,823
Sub-total	<u>122,214</u>	<u>2,438,259</u>	<u>349,079</u>	<u>9,974</u>
Non-Operating Expenses				
Loss on disposal of property and equipment	(26,508)	(13,672)	(2,661)	(76)
Miscellaneous expenses	(248)	(1,845)	(62,349)	(1,782)
Sub-total	<u>(26,756)</u>	<u>(15,517)</u>	<u>(65,010)</u>	<u>(1,858)</u>
Income from Continuing				
Operations before income taxes	18,074,451	17,058,770	14,459,277	413,134
Income Taxes (Notes 2, 16)	(3,156,024)	(7,319,774)	(3,859,810)	(110,283)
Net Income	<u>\$14,918,427</u>	<u>\$9,738,996</u>	<u>\$10,599,467</u>	<u>\$302,851</u>
Earnings Per Share (expressed in dollars) (Note 17)	<u>\$2.76</u>	<u>\$1.64</u>	<u>\$1.81</u>	<u>\$0.05</u>

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CASH FLOWS
(Expressed in thousands of dollars)
Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	2001
	NT\$	NT\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Year	\$14,918,427	\$9,738,996	\$10,599,467	\$302,851
Adjustments:				
Loss (gain) on bad debt	2,307,524	(1,500,680)	2,019,870	57,712
Depreciation	1,128,822	1,484,462	1,587,959	45,372
Provision for reserve for operations	169,862,367	187,120,705	202,809,030	5,794,709
Recovered unearned premium reserve	(10,176,917)	(10,680,526)	(12,082,673)	(345,229)
Recovered reserve for life insurance	(67,027,470)	(72,267,187)	(86,586,240)	(2,473,963)
Recovered special claim reserve	0	(6,731,287)	0	0
Recovered claims reserve	(259,958)	(321,763)	(229,805)	(6,566)
Applicant terminates the insurance contract income	(686,434)	(803,521)	(1,416,606)	(40,476)
Provision loss (gain) on short-term investments	0	22,677,388	(15,670,907)	(447,753)
Loss (gain) on disposal of property and equipment	17,576	1,629	(2,639)	(76)
Loss (gain) on disposal of investments	(58,223)	0	(2,598)	(74)
Loss (gain) on disposal of real estate	(68,826)	2,125	2,184	62
Amortization long-term investments in bonds	93,892	33,908	33,784	965
Unrealized loss (gain) on long-term investments	0	(6,063)	4,661	133
Effects of exchange rate changes	19,693	(16,510)	(50,038)	(1,430)
Decrease (increase) in short-term investments	(30,776,607)	(33,863,668)	(8,944,947)	(255,577)
Decrease (increase) in notes receivable	(3,051,644)	(2,816,413)	3,254,913	93,000
Decrease (increase) in notes and accounts receivable-related parties	(80,508)	80,290	(23,388)	(668)
Decrease (increase) in prepayments	(96,324)	(32,649)	(163,288)	(4,666)
Decrease (increase) in prepaid pension	389,016	852,674	1,058,864	30,254
Decrease (increase) in other current assets	(1,107,088)	(5,675,515)	(2,628,490)	(75,102)
Decrease (increase) in temporary payments and suspense accounts	(360,630)	451,427	(15,796)	(451)
Decrease (increase) in deferred income tax assets	(291,015)	291,015	(412,011)	(11,772)
Increase (decrease) in notes payable	1,960	(203)	(83)	(2)
Increase (decrease) in accounts payable-related parties	511,337	(491,507)	(71,130)	(2,032)
Increase (decrease) in accrued expenses	130,583	3,143,657	(4,862,042)	(138,920)
Increase (decrease) in other accounts payable	(44,000)	23,791	179,461	5,128
Increase (decrease) in accounts collected in advance	13,776	(98,412)	(39,613)	(1,132)
Increase (decrease) in other current liabilities	27,504	1,179	(21,674)	(619)
Increase (decrease) in temporary receipts and suspense accounts	(31,330)	91,348	20,263	579
Increase (decrease) in deferred income tax liabilities	(473,583)	617,993	362,926	10,370
Net Cash Provided by (Used in) Operating Activities	<u>74,831,920</u>	<u>91,306,683</u>	<u>88,709,414</u>	<u>2,534,627</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange payable	0	0	527,080	15,060
Decrease (increase) in policy loans for life insurers	(20,143,081)	(25,745,616)	(12,154,585)	(347,284)
Decrease (increase) in secured loans	(38,318,576)	(42,657,956)	(19,853,729)	(567,266)
Acquisition of long-term investments in stocks	(7,763,966)	(4,134,739)	(83,538,523)	(2,386,884)
Proceeds from disposal of long-term investments in stocks	258,223	0	54,848	1,567
Disposal of investments in real estate	111,990	15,236	16,902	483
Acquisition of investments in real estate	(12,302,721)	(7,448,696)	(8,460,007)	(241,722)
Disposal of property and equipment	27,379	35,988	26,972	771
Acquisition of property and equipment	(520,211)	(1,028,889)	(950,566)	(27,160)
Decrease (increase) in non-operating assets	0	(921,913)	(718,673)	(20,534)
Decrease (increase) in guarantee deposits paid	17,815	(616,147)	(142,513)	(4,072)
Decrease (increase) in overdue receivables	(2,424,142)	(867,018)	(4,758,041)	(135,948)
Net Cash Provided by (Used in) Investing Activities	<u>(81,057,290)</u>	<u>(83,369,750)</u>	<u>(129,950,835)</u>	<u>(3,712,989)</u>

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CASH FLOWS-(Continued)
(Expressed in thousands of dollars)
Years Ended December 31, 1999, 2000 and 2001

	1999	2000	2001	2001
	NT\$	NT\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	(12,083)	99,467	(118,755)	(3,393)
Remuneration paid to directors and supervisors	(8,100)	(8,100)	(8,100)	(231)
Bonus to employees	(219,644)	(210,569)	(154,258)	(4,407)
Cash dividends	(6,287,229)	(7,230,313)	(5,393,258)	(154,097)
Treasury stock acquired	0	(317,483)	(11,004,482)	(314,423)
Net Cash Provided by (Used in) Financing Activities	<u>(6,527,056)</u>	<u>(7,666,998)</u>	<u>(16,678,853)</u>	<u>(476,551)</u>
Effects of Exchange Rate Changes	(19,693)	16,510	50,038	1,430
Increase(decrease) in Cash and Cash Equivalents	(12,772,119)	286,445	(57,870,236)	(1,653,483)
Cash and Cash Equivalents at the Beginning of Year	<u>243,846,548</u>	<u>231,074,429</u>	<u>231,360,874</u>	<u>6,610,500</u>
Cash and Cash Equivalents at the End of Year	<u><u>\$231,074,429</u></u>	<u><u>\$231,360,874</u></u>	<u><u>\$173,490,638</u></u>	<u><u>\$4,957,017</u></u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the year	\$19,027	\$6,708	\$4,461	\$127
Less: Capitalization of interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Interest paid (excluding capitalized interest)	<u><u>\$19,027</u></u>	<u><u>\$6,708</u></u>	<u><u>\$4,461</u></u>	<u><u>\$127</u></u>
Income tax paid	<u><u>\$2,874,079</u></u>	<u><u>\$3,996,843</u></u>	<u><u>\$7,207,830</u></u>	<u><u>\$205,944</u></u>

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Expressed in thousands of dollars)
Years Ended December 31, 1999, 2000 and 2001

Summary	Capital Stock		Retained Earnings		Cum.. Trans. Adj.	Treasury Stock	Total
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Retained Earnings			
Balance on January 1, 1999	\$41,914,860	\$110,788	\$8,231,308	\$20,205,592	\$0	\$0	\$70,462,548
Appropriations and Distributions for 1998							
Legal reserve			1,499,679	(1,499,679)			0
Cash dividends				(6,287,229)			(6,287,229)
Remuneration paid to directors and supervisors				(8,100)			(8,100)
Bonus paid to employees				(219,644)			(219,644)
Stock dividends	6,287,229			(6,287,229)			0
Net Income after tax for the year ended Dec.31, 1999				14,918,427			14,918,427
Capital surplus from disposal of property and equipment		6,699		(6,699)			0
Balance on Dec. 31, 1999	<u>\$48,202,089</u>	<u>\$117,487</u>	<u>\$9,730,987</u>	<u>\$20,815,439</u>	<u>\$0</u>	<u>\$0</u>	<u>\$78,866,002</u>
Balance on January 1, 2000	\$48,202,089	\$117,487	\$9,730,987	\$20,815,439	\$0	\$0	\$78,866,002
Appropriations and Distributions for 1999							
Legal reserve			1,491,173	(1,491,173)			0
Cash dividends				(7,230,313)			(7,230,313)
Remuneration paid to directors and supervisors				(8,100)			(8,100)
Bonus paid to employees				(210,569)			(210,569)
Stock dividends	5,784,251			(5,784,251)			0
Cumulative translation adjustments					1,573		1,573
Treasury stock acquired						(317,483)	(317,483)
Net Income after tax for the year ended Dec.31, 2000				9,738,996			9,738,996
Capital surplus from disposal of property and equipment		9,032		(9,032)			0
Balance on Dec. 31, 2000	<u>\$53,986,340</u>	<u>\$126,519</u>	<u>\$11,222,160</u>	<u>\$15,820,997</u>	<u>\$1,573</u>	<u>(\$317,483)</u>	<u>\$80,840,106</u>

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)
(Expressed in thousands of dollars)
Years Ended December 31, 1999, 2000 and 2001

Summary	Capital Stock		Retained Earnings				Cumulative translation adjustments		Treasury Stock		Total			
	Common Stock		Capital Surplus		Legal Reserve		Unappropriated Retained Earnings							
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2001	\$53,986,340	\$1,542,511	\$126,519	\$3,615	\$11,222,160	\$320,642	\$15,820,997	\$452,041	\$1,573	\$45	(\$317,483)	(\$9,071)	\$80,840,106	\$2,309,784
Appropriations and Distributions for 2000														
Legal reserve					972,996	27,801	(972,996)	(27,801)						
Cash dividends							(5,393,258)	(154,098)					(5,393,258)	(154,098)
Remuneration paid to directors and supervisors							(8,100)	(231)					(8,100)	(231)
Bonus paid to employees							(154,258)	(4,407)					(154,258)	(4,407)
Stock dividends	5,393,258	154,098					(5,393,258)	(154,097)					0	0
Treasury stock to write off	(993,440)	(28,385)					(2,994,662)	(85,564)			3,988,102	113,949	0	0
Change in the investment percentage							(38,058)	(1,088)					(38,058)	(1,088)
Cumulative translation adjustments									5,084	145			5,084	145
Treasury stock acquired											(11,004,482)	(314,423)	(11,004,482)	(314,423)
Net Income after tax for the year ended Dec.31, 2001							10,599,467	302,851					10,599,467	302,851
Capital surplus from disposal of property and equipment			3,975	114			(3,975)	(114)					0	0
Balance on Dec. 31, 2001	\$58,386,158	\$1,668,224	\$130,494	\$3,729	\$12,195,156	\$348,443	\$11,461,899	\$327,492	\$6,657	\$190	(\$7,333,863)	(\$209,545)	\$74,846,501	\$2,138,533

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of dollars unless otherwise stated)
December 31, 1999, 2000 and 2001

1. ORGANIZATION OF BUSINESS SCOPE

CATHAY LIFE INSURANCE CO., LTD. (the “Company”) was incorporated on October 23 1962, in Taiwan, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“R.O.C.”). The Company mainly engaged in the business of life insurance. On December 31, 2001, the Company became the subsidiary of CATHAY FINANCIAL HOLDING CO., LTD. by adapting the stock conversion method under the “Financial Holding Company Law and other pertinent laws of the R.O.C.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) *Cash and Cash Equivalents*

Cash includes cash on hand, unrestricted bank deposits, and all highly liquid investments with less than three-month to maturity.

(2) *Short-term Investments*

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

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

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

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

(3) *Allowance for Bad and Doubtful Debts*

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

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(4) *Long - Term Investments*

A. Long-term Investments in Stocks

Long-term investments in listed companies for which the Company's ownership interest is less than 20% of the voting stocks, and 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, for which the Company's ownership interest accounted for less than 20% of the common stocks, 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 has significant operational influence.

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

An invested company ("investee") is considered to be the Company's subsidiary if the Company owns more than 50% of the investee's voting stock. Consolidated financial statements should include all subsidiaries; except for subsidiaries that have different business nature from that of the Company or when compared to the Company's, each account items in the total assets and operating income of these subsidiaries are less than 10% of it. If total assets or operating income of those unconsolidated subsidiaries are more than 30% of the corresponding amount of the Company's, these subsidiaries should be included in the Company's consolidated financial statements until the percentage mentioned above subsides to 20% or less.

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

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B. Long-Term Investments in Bonds

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

(5) *Investments in Real Estate*

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

Depreciation is calculated by the straight-line method based on the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC government (the “Government”).

(6) *Property and Equipment*

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

Depreciation on depreciable assets are recognized on a straight-line method, based on the useful lives prescribed by the Executive Yuan. When the economic useful lives have expired, properties and equipment, which are still in use, are depreciated based on the residual value.

(7) *Deferred Charges*

According to formula set by the Ministry of Finance, the Company appropriated a “Stabilization fund “ and a counter account “Stabilization fund reserve”. These two accounts would not be listed in the financial statements due to their offsetting nature.

From 1993 to Dec.31 2001, an amount of \$1,441,813 has been appropriated to this fund.

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(8) *Guaranteed Depository Insurance Payment*

According to Article 141 of the Insurance Law of the Republic of China, amount equal to 15% of the Company's stockholder's equity should be deposited in the Central Bank of China as the "Guaranteed Depository Insurance". The amount was deposited in the form of bond.

(9) *Reserve for Operating:*

A. Unearned Premium Reserve:

Unearned Premium Reserve Fund that contains the portion of the premium that has been paid in advance for insurance that has not yet been provided.

B. Special Claim Reserve:

Insurance company should set up the special claim reserve to avoid the unexpected loss for each type of insurance business with one-year term or less than one-year term. The specified calculation method is regulated by MOF.

C. Claims Reserve:

Monetary fund established to pay for claims that the insurance company is aware of (claims incurred or future claims) but that the insurance company has not yet settled. This reserve is critical since it is an accurate indication of a company's liabilities. This reserve does not take into account INCURRED BUT NOT REPORTED LOSSES (IBNR).

D. Reserve for Life Insurance:

Specification by MOF regarding (a) the minimum assumptions that must be used in reserve calculations as they pertain to the maximum interest rate that can be assumed; (b) the mortality table that can be used (the more conservative the table, the higher the death rates that will be shown which exceed the death rates actually expected); and (c) the reserve valuation that must be used.

(10) *Insurance Premiums Income and Expenses*

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

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

(11) Pension Plan

The Company established a pension plan for all employees. Pension plan benefits are based primarily on participants' compensation and the number of years of credited service.

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

(12) Foreign-currency Transactions

A. Translations of Foreign Currency Transactions

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

B. Translation of Foreign Subsidiaries' Statements

Financial statements of foreign subsidiaries accounted for by the equity method are translated into New Taiwan Dollars as follows: All assets and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the

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exchange rate ruling on the balance sheet date. Stockholders' equity items are translated on the historical rate basis except the beginning balance of retained earnings, which is posted directly from the balance of the last year. Statements of income items are translated by the weighted-average exchange rate for the year. Differences arising from a translation are reported as "Cumulative Translation Adjustments" in the section of stockholders' equity as a separate item.

When the financial statements of the foreign operation are translated into domestic currency, the foreign currency financial statements should be first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result as if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion will be recognized in the current period because it affects directly the cash flows of the foreign operation.

(13) Income Taxes

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

Deferred income tax assets and liabilities are classified as current or noncurrent in accordance with the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or noncurrent based on the length of the expected realizable or reversible period.

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

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(14) Capital Expenditure Expenses

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

(15) Treasury Stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is debited for the cost of the shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus-treasury stock. If the disposal price is lower than cost, the difference is debited to capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus-treasury stock. If the capital surplus-treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus-treasury stock.

(16) Derivative Financial Products Transaction

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

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represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of the forward contracts are credited or charged to current income in the year of settlement.

The premium for an option 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 premium for the purpose of speculation is included in the current earnings.

3. CHANGES IN ACCOUNTING AND ITS EFFECTS: None

4. CASH AND CASH EQUIVALENTS

	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cash on hand	\$743,928	\$469,026	\$467,677	\$13,362
Cash in banks	2,118,492	4,267,074	8,396,040	239,894
Time deposits	200,388,595	208,270,313	146,286,296	4,179,728
Cash equivalents	27,823,414	18,354,461	18,340,625	524,033
Total	\$231,074,429	\$231,360,874	\$173,490,638	\$4,957,017

5. SHORT-TERM INVESTMENTS

	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Common stock and				
Beneficiary certificates	\$62,526,100	\$88,150,295	\$104,403,195	\$2,983,034
Oversea investments	0	1,927,584	52,038,412	1,486,854

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Appoint purpose trust fund	34,749,530	37,144,042	47,860,377	1,367,478
Corporate bonds	10,989,025	11,720,339	12,176,568	347,912
Government bonds	2,942,176	4,128,151	3,797,971	108,517
Financial debentures	1,315,500	340,000	2,340,000	66,859
Short-term notes	92,170,008	88,711,277	18,436,276	526,766
Sub-Total	204,692,339	232,121,688	241,052,799	6,887,420
Less: Cash equivalents	(27,823,414)	(18,354,461)	(18,340,625)	(524,033)
Allowance for				
valuation loss	0	(22,677,388)	(7,006,481)	(200,191)
Total	\$176,868,925	\$191,089,839	\$215,705,693	\$6,163,196

6. PREMIUMS PAID FOR OTHERS

If insurance applicants could not meet their insurance installments after their second installment, the Ministry of Finance ruled that applicants can make written statements, requesting the Company to pay the premium and interests payable by using the Company's "policy value reserve" prior the due date of installment payments or before the insurance contract's termination date. However, applicants may also choose to inform the Company by written statements, not to pay such installments.

7. LOANS

(1) Policy Loans for Life Insurers

Loans upon policies issued by Cathay Life Insurance Co., Ltd.

(2) Secured Loans

	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Short-term secured loans	\$291,505	\$110,153	\$89,600	\$2,560
Less: Allowance for				
bad debts	(5,830)	(1,102)	(896)	(26)
Sub-total	285,675	109,051	88,704	2,534
Medium-term secured				
loans	10,836,940	12,183,079	12,152,094	347,213

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Less: Allowance for bad				
debts	(216,739)	(121,831)	(121,521)	(3,472)
Sub-total	<u>10,620,201</u>	<u>12,061,248</u>	<u>12,030,573</u>	<u>343,741</u>
Long-term secured loans	237,324,426	278,817,595	298,722,862	8,535,183
Less: Allowance for bad				
debts	(4,746,489)	(2,788,176)	(2,987,229)	(85,352)
Sub-total	<u>232,577,937</u>	<u>276,029,419</u>	<u>295,735,633</u>	<u>8,449,831</u>
Total	<u>\$243,483,813</u>	<u>\$288,199,718</u>	<u>\$307,854,910</u>	<u>\$8,796,106</u>

Secured loans are loans on government bonds, stock, corporate bonds and real estate. Loans with terms for less than one year are short-term loans; loans with terms for more than one year but less than seven years are medium-term loans; loans with terms for more than seven years are long-term loans.

8. LONG-TERM INVESTMENTS

(A) Prepaid Long-Term Investments

	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$39,700	\$0	\$0	\$0

(B) Long-term Investments in Stocks

Investee	December 31			
	1999(NT\$) Book Value	2000(NT\$) Book Value	2001(NT\$) Book Value	2001(US\$) Book Value
A. Under the equity method:				
WK Technology Fund I	\$300,000	\$304,750	\$313,048	\$8,945
Cathay Insurance (Bermuda) Co., Ltd.	0	41,013	48,866	1,396
Cathay Venture Capital Corp.	0	150,000	148,714	4,249
Vista Technology venture Capital Corp	0	50,000	98,038	2,801
Omnitek Venture Capital Corp	0	150,000	150,413	4,298
IBT Venture Capital Corp	0	590,000	589,991	16,857
Wa Tech Venture Capital Co., Ltd.	0	0	184,098	5,260

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Cathay Securities				
Investment Trust Co., Ltd.	0	0	188,903	5,397
Symphox Information Co., Ltd.	0	0	281,531	8,044
Sub-total	300,000	1,285,763	2,003,602	57,247
B. Under the cost method:				
Central reinsurance Corp.	16,250	0	0	0
WK Technology Fund III	100,000	100,000	100,000	2,857
Taiwan Aerospace Company	260,000	260,000	260,000	7,429
Futon Ventrure Capital Corp.	20,000	20,000	0	0
TSMC-Acer Semiconductor Manufacturing Corp.	31,104	0	0	0
Koo Group				
Telecommunications Co., Ltd.	749,998	749,998	749,998	21,429
Concord III Venture Capital Co., Ltd.	89,280	89,280	89,280	2,551
Taipei Financial Center Corp.	379,736	617,236	1,441,591	41,190
Taipei Financial Center Corp. Preferred stock	237,500	0	0	0
Investar Dayspring V.C. Inc.	200,000	200,000	200,000	5,715
FAT Venture Capital Co., Ltd.	50,000	50,000	50,000	1,429
Concord IV Venture Capital Co., Ltd.	50,000	50,000	50,000	1,429
WK Technology Fund V	100,000	100,000	100,000	2,857
WK Technology Fund IV	96,000	96,000	127,200	3,634
Yi Hua Venture Capital Investment Corp	100,000	100,000	100,000	2,857
Wa Tech Venture Capital Co., Ltd.	64,098	64,098	0	0
Super Tech Venture Capital Corp.	100,000	100,000	100,000	2,857
CDIB & Partners Investment Holding Corp.	500,000	500,000	500,000	14,286
Alex-Tech Machinery Industrial Co., Ltd.	21,000	21,000	21,000	600
Quanta Display Inc.	750,000	750,000	813,282	23,237
R.O.C. Venture Capital, Ltd.	151,970	151,970	151,970	4,342
National Venture Capital Co., Ltd.	100,000	100,000	100,000	2,857
WK Technology Fund VII	200,000	200,000	200,000	5,714
Capital Venture Fund II Corp	50,000	50,000	50,000	1,429
Fu Yu Venture Capital Investment Co., Ltd.	0	200,000	200,000	5,714
Concord VII Venture Capital Co., Ltd.	0	100,000	100,000	2,857
Allied Material Technology Corp	0	98,400	98,400	2,812

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New Century InfoComm Tech Co., Ltd.	0	1,268,000	1,268,000	36,230
Deltamac (Taiwan) Co., Ltd.	0	15,200	15,200	434
Srsuntour Co., Ltd.	0	62,000	62,000	1,771
Titan I Venture Capital Co., Ltd.	0	150,000	150,000	4,286
Harbinger Venture Capital Corp.	0	200,000	200,000	5,714
Prosperity Venture Capital Corp.	0	100,000	100,000	2,857
Taiwan ultra capacity Corp.	0	25,000	0	0
KGEx.com Co., Ltd.	0	175,000	175,000	5,000
United Venture Corp.	0	50,000	50,000	1,429
Atech Technology Co., Ltd.	0	3,750	0	0
BioCare Corp.	0	12,000	12,000	343
Megic Corp.	0	18,000	18,000	514
WK Technology Fund VIII	0	200,000	200,000	5,714
Hua Chih Venture Capital Corp.	0	60,000	60,000	1,714
Jih Sun Venture Capital Investment Co.	0	80,000	80,000	2,286
Formosa Epitaxy Inc.	0	20,500	20,500	586
ACME Precision Co., Ltd.	0	3,500	0	0
Win Semiconductors Corp.	0	47,600	47,600	1,360
Sintek Photronic Corp.	0	75,000	75,000	2,143
National Aerospace Fasteners Corp.	0	0	38,000	1,086
Kinik Precision Grinding Co., Ltd.	0	0	6,000	171
Vita Genomics Inc.	0	0	87,500	2,500
TurboComm Tech. Inc	0	0	50,000	1,429
Tong Hsing Electronic Ind.Ltd.	0	0	27,144	776
China Technology Venture Capital Corp.	0	0	50,000	1,429
Daiwa Securities SMBC-Cathay Co., Ltd.	0	0	259,200	7,406
Applied Vacuum Coating Technologies Co., Ltd.	0	0	6,150	176
TaiGen Biotechnology	0	0	8,250	236
Darly 3 Venture Ltd.	0	0	10,000	286
Sub-total	4,416,936	7,333,532	8,678,265	247,958
Add: Cumulative translation adjustments	0	1,573	6,657	190
Total	\$4,716,936	\$8,620,868	\$10,688,524	\$305,395

1. Changes in long-term investments in stocks under the equity method are summarized in the following table:

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	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Balance at January 1	\$0	\$300,000	\$1,285,763	\$36,737
Add: Investment income				
(losses) by equity				
method recognized	0	6,063	(6,924)	(198)
Increment of				
investments	300,000	979,700	762,821	21,795
Unrealized valuation				
loss in long-term				
invest company by				
investment				
percentage				
recognized	0	0	(38,058)	(1,087)
Balance of December 31	<u>\$300,000</u>	<u>\$1,285,763</u>	<u>\$2,003,602</u>	<u>\$57,247</u>

2. The investment income (losses) recognized by the equity method for the years ended December 31, 1999, 2000 and 2001 are listed below:

<u>Investee</u>	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
WK Technology Fund VI	\$0	\$4,750	\$8,298	\$237
Cathay Insurance				
(Bermuda) Co., Ltd.	0	1,313	7,853	224
Symphox Information Co.,				
Ltd.	0	0	(18,469)	(528)
Cathay Securities				
Investment Trust Co.,				
Ltd.	0	0	(1,762)	(50)
Cathay Venture Capital				
Corp.	0	0	(1,286)	(37)
Vista Technology Venture				
Capital Corp.	0	0	(1,962)	(56)
Omnitek Venture Capital				
Corp.	0	0	413	12
IBT Venture Capital Corp	0	0	(9)	0
Wa Tech Venture Capital				
Co., Ltd.	0	0	0	0
Total	<u>\$0</u>	<u>\$6,063</u>	<u>(\$6,924)</u>	<u>(\$198)</u>

- (1). Not all of the Company's invested companies, under the equity method, can provide its audited financial statements in time for the Company's year-end consolidation. If the Company owns less than 50% interest of such investee, the

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investee's investment income or loss for the year will be deferred until the following year. That is, the Company will recognize in the following year, the investment income or loss from such investee by the percentage of shares invested. Associated companies, under the equity method, sometimes could not provide timely audited financial statement. Thus, the share interests of the associated company's profits and losses usually carry forward into the Company consolidated financial statements the following year.

- (2). The Company holds over 50% of Cathay Insurance (Bermuda) Co., Ltd. and Symphox Information Co., Ltd. However, these two subsidiaries' financial reports were not consolidated because each account items in their total assets and operation revenues contributed less than 10% to the Company's.
- (3). The investment income (losses) were recognized based current year's audited financial statements of Cathay Insurance (Bermuda) 、Cathay Securities Investment Trust 、Cathay Venture Capital Corp and Symphox Information Co., Ltd.

9. LONG-TERM INVESTMENTS IN BONDS

Long-term investments in bonds constitute government bonds and corporate bonds as of Dec.31, 1999, 2000 and 2001. They are deposited in The Central Bank of China as Capital Guarantee Deposits.

10. INVESTMENTS IN REAL ESTATE

<u>Item</u>	December 31, 1999			
	Cost(NT\$)	Revaluation Surplus(NT\$)	Accumulated Depreciation(NT\$)	Net Value(NT\$)
Investments in real estate	\$72,771,326	\$3,990	(\$7,048,368)	\$65,726,948
Construction	5,976,913	0	0	5,976,913
Prepayments for buildings and land	2,745,383	0	0	2,745,383
Total	\$81,493,622	\$3,990	(\$7,048,368)	\$74,449,244

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December 31, 2000				
<u>Item</u>	Cost(NT\$)	Revaluation Surplus(NT\$)	Accumulated Depreciation(NT\$)	Net Value(NT\$)
Investment in real estate	\$79,848,011	\$3,990	(\$8,107,018)	\$71,744,983
Construction	9,069,327	0	0	9,069,327
Prepayments for buildings and land	34,495	0	0	34,495
Total	\$88,951,833	\$3,990	(\$8,107,018)	\$80,848,805

December 31, 2001								
Item	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investment in real estate	\$80,122,298	\$2,289,274	\$5,264	\$150	(9,181,685)	(\$262,341)	\$70,945,877	\$2,027,083
Construction	17,197,050	491,358	0	0	0	0	17,197,050	491,358
Total	\$97,319,348	\$2,780,632	\$5,264	\$150	(\$9,181,685)	(\$262,341)	\$88,142,927	\$2,518,441

- (1) The real estate investments mainly engage in the business of to building rentals.
- (2) As of December 31,1999, 2000 and 200, investments in real estate were pledged.
Please refer to note 19, "Pledged Assets" for details.

11. PROPERTY AND EQUIPMENT

December 31, 1999				
<u>Item</u>	Cost(NT\$)	Revaluation Surplus(NT\$)	Accumulated Depreciation(NT\$)	Net Value(NT\$)
Land	\$4,874,153	\$2,784	\$0	\$4,876,937
Buildings and structures	10,026,053	0	(2,231,565)	7,794,488
Communication and transportation equipment	163,358	0	(56,976)	106,382
Other equipment	1,949,996	0	(1,404,738)	545,258
Sub-total	17,013,560	2,784	(3,693,279)	13,323,065
Construction in progress	300	0	0	300
Prepayment for equipment	14	0	0	14
Total	\$17,013,874	\$2,784	(\$3,693,279)	\$13,323,379

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Item	December 31, 2000			
	Cost(NT\$)	Revaluation Surplus(NT\$)	Accumulated Depreciation(NT\$)	Net Value(NT\$)
Land	\$4,880,956	\$2,784	\$0	\$4,883,740
Buildings and structures	9,993,656	0	(2,449,013)	7,544,643
Communication and transportation equipment	149,510	0	(50,837)	98,673
Other equipment	2,768,997	0	(1,452,791)	1,316,206
Sub-total	17,793,119	2,784	(3,952,641)	13,843,262
Construction in progress	17,800	0	0	17,800
Prepayment for equipment	900	0	0	900
Total	\$17,811,819	\$2,784	(\$3,952,641)	\$13,861,962

Item	December 31, 2001							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,011,275	\$143,184	\$1,510	\$43	\$0	\$0	\$5,012,785	\$143,227
Buildings and structures	10,086,291	288,188	0	0	(2,634,436)	(75,272)	7,451,855	212,916
Communication and transportation equipment	135,846	3,881	0	0	(47,878)	(1,368)	87,968	2,513
Other equipment	3,356,997	95,917	0	0	(1,691,670)	(48,335)	1,665,327	47,582
Sub-total	18,590,409	531,170	1,510	43	(4,373,984)	(124,975)	14,217,935	406,238
Construction in progress	128,500	3,672	0	0	0	0	128,500	3,672
Prepayment for equipment	600	17	0	0	0	0	600	17
Total	\$18,719,509	\$534,859	\$1,510	\$43	(\$4,373,984)	(\$124,975)	\$14,347,035	\$409,927

No property or equipment is pledged as collateral. The insurance coverage on property and equipment and real estate investments are recorded in book value.

12. OVERDUE RECEIVABLES

	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Overdue receivables	\$5,140,448	\$4,833,570	\$8,491,358	\$242,617
Less: Allowance for bad and doubtful debts	(1,365,303)	(1,289,596)	(2,462,494)	(70,359)
Total	\$3,775,145	\$3,543,974	\$6,028,864	\$172,258

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13. CAPITAL STOCK AND CAPITAL INCREMENT

- (1) As of Dec.31, 1999, 2000 and 2001, the total authorized shares were 4,820,208,901, 5,398,633,969 and 5,838,615,765, respectively, with par value of 10 dollars each.
- (2) On May 22, 2001, the Company declared a \$5,393,258 stock dividend. Consequently, the R.O.C SFC approved the appropriation and issuance of shares in July 11, 2001.
- (3) The Company reported to repurchase 39,344,000 shares of common stocks as treasury stocks for employee stock options. However, on August 8, 2001, Company's Board of Directors decided to write off the 39,344,000 shares of treasury stocks
- (4) On Oct. 29,2001, the Board of Directors voted unanimously to write off 60,000,000 shares of treasury stocks on Nov. 15, 2001.
- (5) On April 18, 2000, the stockholders declared a stock dividend distribution of \$5,784,251 from retained earnings. The R. O. C. SFC approved the decision on May 18, 2000.
- (6) On May 18, 1999, the stockholders declared a stock dividend distribution of \$6,287,229 from retained earnings. The R. O. C. SFC approved the decision on June 24, 1999.

14. RETAINED EARNINGS

- (1) Legal reserve

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

- (2) Unappropriated Retained Earnings

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

B. According to related regulations if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends following the year of

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the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

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

15. TREASURY STOCK

The reason	Jan. 1, 2001	Increase	Decrease	(shares) Dec. 31, 2001
Transferred it to employees	5,376,000	151,551,000	0	156,927,000
For the purpose to conserve the credit and stockholders' equity of Cathay Life Insurance Co., Ltd.	0	99,344,000	99,344,000	0
Total	5,376,000	250,895,000	99,344,000	156,927,000

- (1) Pursuant to the Securities and Exchange Law of the R.O.C., the outstanding issued shares a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limitation on repurchase of shares cannot exceed the total sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of Dec. 31, 2001, the maximum shares of treasury stock allowed to repurchase are 250,895,000 of shares at \$11,004,482. As of Dec. 31, 2001, the Company's treasury stock holdings reached 156,927,000 shares \$7,333,863.

- (2) Treasury stock of the Company was converted into common stock of CATHAY FINANCIAL HOLDING CO., LTD. on Dec 31 2001, on the basis of conservative principle and the R.O.C. GAAP No.30, par value of these converted stocks is equal to that of the issued common stocks of CATHAY FINANCIAL HOLDING CO., LTD. These common stocks are under the guidance of the "Financial Holding Company Law" of the R.O.C. article 31 and the "Securities and Exchange Law" of the R.O.C. article 28-2 and article 38.

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16. ESTIMATED INCOME TAXES

(1) *Income tax expenses include the following:*

	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Income before Taxes	\$18,074,451	\$17,058,770	\$14,459,277	\$413,134
Adjustments				
Interest income of tax on a separate basis	(7,484,634)	(6,016,727)	(4,226,339)	(120,756)
Loss (gain) on disposal of investments	(3,616,741)	(9,404,237)	19,356,685	553,064
Gain on disposal of land	(68,826)	(2,481)	(2,440)	(70)
Loss (gain) on market price loss (recovery) of short-term investments	0	22,677,388	(15,670,907)	(447,753)
Unrealized exchange loss (gain)	1,597,921	(1,369,663)	(1,766,391)	(50,470)
Bad debts exceeding law-allowed limit	1,066,630	(3,125,448)	910,411	26,013
Cash Dividend	(884,071)	(888,346)	(1,513,649)	(43,248)
Decrease in payment pension expense return	389,016	852,674	1,058,864	30,254
Others	35,322	17,067	37,479	1,071
Taxable Income	9,109,068	19,798,997	12,642,990	361,239
Times ; Taxes Rate; Less:				
Progressive difference	25% – 10	25% – 10	25% – 10	—
Sub-Total	2,277,257	4,949,739	3,160,737	90,309
Add: Tax on a separate basis	1,496,934	1,203,343	845,268	24,151
Beginning deferred income tax assets	1,044,223	1,678,167	614,840	17,567
Beginning deferred income tax liabilities	1,525,263	1,370,945	1,599,375	45,698
Less: Income tax credit	(41,407)	(75,160)	(81,806)	(2,337)
Ending deferred income tax assets	(1,678,167)	(614,840)	(892,355)	(25,497)
Ending deferred income tax liabilities	(1,655,918)	(1,525,263)	(1,370,945)	(39,171)
Sub-Total	2,968,185	6,986,931	3,875,114	110,720
Add: Extra 10% Income Tax on Undistributed Retained Earnings	185,618	332,843	0	0
Underestimation (overestimation) of prior year income tax	2,221	0	(15,304)	(437)
Total Income Tax expenses	<u>\$3,156,024</u>	<u>\$7,319,774</u>	<u>\$3,859,810</u>	<u>\$110,283</u>

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

	December 31			
	1999 (NT\$)	2000 (NT\$)	2001 (NT\$)	2001(US\$)
A.Total deferred tax liabilities	\$1,525,263	\$1,370,945	\$1,599,375	\$45,698
Total deferred tax assets	1,678,167	614,840	892,355	25,497
B. Temporary differences:				
Employee benefits	\$118,360	\$121,053	\$116,972	\$3,342
Unrealized exchange gains				
(Losses)	(1,404,974)	(2,774,637)	(4,541,028)	(129,747)
bad debts exceeding				
law-allowed limit	4,592,618	1,467,170	2,377,580	67,933
Taxable temporary				
difference from recognition				
of pension expense	(2,709,145)	(1,856,471)	(797,607)	(22,789)
Other	14,757	18,466	16,004	457
C. Deferred tax assets-current	\$612,612	\$72,900	\$16,226	\$464
Deferred tax liabilities-				
current	(750,723)	(693,659)	(1,135,257)	(32,437)
Net offset balance of				
deferred tax assets				
(liabilities)-current	(\$138,111)	(\$620,759)	(\$1,119,031)	(\$31,973)
D. Deferred tax				
assets-noncurrent	\$1,065,555	\$541,940	\$876,129	\$25,033
Deferred tax Liabilities-				
noncurrent	(774,540)	(677,286)	(464,118)	(13,261)
Net offset balance of				
deferred tax assets				
(liabilities) - noncurrent	\$291,015	(\$135,346)	\$412,011	\$11,772

(3) The Company's income tax returns, up until 1998, have been reviewed and approved by the Tax Authorities.

(4) Tax imputation related information:

	December 31			
	1999 (NT\$)	2000 (NT\$)	2001 (NT\$)	2001(US\$)
Balance of imputation				
credit account	\$2,477,294	\$1,014,296	\$3,655,177	\$104,437

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	1999 (Actual)	2000(Actual)	2001(Estimate)
Imputation credit account ratio (stock dividends)	24.83%	34.56%	33.33%
	1999 (Actual)	2000 (Actual)	2001(Estimate)
Imputation credit account ratio (cash dividends)	26.98%	36.44%	—

(5) Related Information on Undistributed Earnings

December 31				
Year	December 31, 1999 (NT\$)	December 31, 2000 (NT\$)	December 31, 2001 (NT\$)	December 31, 2001 (US\$)
Prior to 1997	\$5,208,807	\$5,208,807	\$866,407	\$24,755
After 1998	15,606,632	10,612,190	10,595,492	302,737
Total	\$20,815,439	\$15,820,997	\$11,461,899	\$327,492

17. EARNINGS PER SHARE

December 31				
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Net income (a)	\$14,918,427	\$9,738,996	\$10,599,467	\$302,851
Year-end outstanding number of shares	4,820,208,901	5,398,633,969	5,838,615,765	5,838,615,765
Weighted average outstanding number of shares(b)	4,820,208,901	5,397,677,981	5,870,563,751	5,870,563,751
Adjusted weighted average outstanding number of shares (c)	5,398,633,969	5,937,959,765	5,870,563,751	5,870,563,751
Earnings per share (a) / (b) (dollars)	\$3.09	\$1.80	\$1.81	\$0.05
Adjusted earnings per share (a) / (c) (dollars)	\$2.76	\$1.64	\$1.81	\$0.05

The following table summarizes the changes in weighted-average of the outstanding number of shares:

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(Shares)	1999	2000	2001
Shares at the beginning of year	4,191,486,001	4,820,208,901	5,398,633,969
Stock Dividends, 2001	0	539,325,796	539,325,796
Stock Dividends, 2000	578,425,068	578,425,068	0
Stock Dividends, 1999	628,722,900	0	0
Less: The treasury stock in 6/14, 2001 ~ 9/28, 2001	0	0	(22,442,622)
The treasury stock in 10/25, 2000 ~ 11/16, 2000	0	0	(5,376,000)
The treasury stock in 10/2, 2001 ~ 2/18, 2001	0	0	(39,577,392)
Total	<u>5,398,633,969</u>	<u>5,937,959,765</u>	<u>5,870,563,751</u>

For details related to the increase and decrease of capital, please refer to note 12.

18. RELATED PARTY TRANSACTIONS

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Investees accounted for under the equity method
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Tong Tai Insurance Co., Ltd.	Affiliate
San-Ching Building Management & Maintenance Co., Ltd.	Affiliate
Lin Yuan Investment Co., Ltd.	Their representative is the same with the Company's general manager
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
The Cathay Life Charity Foundation	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an second immediate family of the Company chairman
Cathay Insurance (Bermuda) Co., Ltd.	The invested Company is measured by equity method

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Symphox Information Co., Ltd. The invested Company is measured by equity method

Cathay Securities Investment Trust Co., Ltd. The invested Company is measured by equity method

(2) *Transactions with Related Parties*

A. Property Transactions (From related parties):

(1) Transactions between the Company and related parties are mainly transactions of real estate, constructions, and lease. Terms of transaction are based on market surveys, contracts of both parties, and public biddings.

Name	1999	
	Item	NT\$
San Ching Engineering Co., Ltd.	The construction build or extend:	
	Taichung Gungyi Rd. Buildings	\$267,685
	Hsinyi District Base	1,288,100
	Banchiau Office Buildings	149,878
	Hsihchu Nanmen Section	43,133
	Tainan Shopping Center	424,561
	Shijr Sec. Base	177,491
	Danshuei Education Center	151,869
	Dashi Group Residence	44,045
	Fushing Sec. 2 House of Taipei City	294,134
	Other	15,183
Wan Pao Development Co., Ltd.	Jung Chin Jiashin Sec. Of Tainan City	2,330,323
Cathay Real Estate Development Co., Ltd.	Shijr Chih Hsing Sec.	293,459
	Danshuei Hai On Sec.	1,696,155
	Other	20
	Total	\$7,176,036

Name	2000	
	Item	NT
San Ching Engineering Co., Ltd.	The construction build or extend:	

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	Taichung Gungyi Rd. Building	\$482,541
	Lin Yuan Financial Building	723,050
	Banchiau Office Building	194,828
	Banchian Lin Yuan General Hospital	119,415
	Danshuei Hsia Kuan	52,643
	Taianan Shopping Center	712,783
	Cathay General Hospital of Hsinchu	102,638
	Shijr medical Treatment Dormitory	14,151
	Nanton Building	10,392
	Linden Hotel of Tainan	18,114
	Other	27,216
Cathay Real Estate		
Development Co., Ltd.	Other	672
	Total	<u>\$2,458,443</u>

		2001	
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Kaohsing International		
	Business Building	\$118,856	\$3,396
	Lin Yuan Financ Building	1,282,609	36,647
	Banchian Lin Yuan General Hospital	100,686	2,877
	Tainan Shopping Center	3,226,802	92,197
	Cathay General Hospital of Hsinchu	290,231	8,292
	Taitung Building	116,048	3,316
	Other	198,175	5,662
	Total	<u>\$5,333,407</u>	<u>\$152,387</u>

- a. The total amount of construction contracts for real estate transaction in 1999, 2000 and 2001 between the Company and San Ching Engineering Co., Ltd. is \$10,549,525, \$11,840,090 and \$16,867,961 respectively. On Dec 31 1999, Dec 31 2000 and Dec 31 2001, \$4,288,346, \$4,966,188, and \$10,589,904 (US\$302,577) was paid respectively according to schedule of construction contracts.
- b. In 1999, 2000, and 2001, the Company did not sell any property it previously purchased.

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(2) The Company did not sell any real estates to related parties in 1999,2000 and 2001.

(3) Real-Estate Rental Income (From related parties)

Name	Rental income			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay Real Estate Development Co., Ltd.	\$49,757	\$34,680	\$32,941	\$941
San Ching engineering Co., Ltd.	28,468	22,814	21,018	601
Tong Tai Insurance Co., Ltd.	38,923	43,004	44,404	1,269
Cathay United Bank	121,258	119,445	145,408	4,155
Cathay General Holding	3,154	6,135	8,217	235
Cathay Securities Investment Trust Co., Ltd.	154,185	158,123	156,481	4,471
Symphox Information Co., Ltd.	0	3,207	31,947	913
Lin Ynan Investment Co., Ltd.	133	135	118	3
Total	<u>\$395,878</u>	<u>\$387,543</u>	<u>\$440,534</u>	<u>\$12,588</u>

Name	Guarantee deposits received			
	December 31 1999 (NT\$)	December 31 2000 (NT\$)	December 31 2001 (NT\$)	December 31 2001 (US\$)
Cathay Real Estate Development Co., Ltd.	\$12,386	\$12,386	\$12,386	\$354
San Ching Engineering Co., Ltd.	7,075	7,075	6,828	195
Tong Tai Insurance Co., Ltd.	9,495	10,115	10,589	302
Cathay United Bank	30,186	32,158	34,195	977
Cathay General Hospital	107	2,241	1,983	57
Cathay Securities Investment Trust Co., Ltd.	0	1,614	2,060	59
Symphox Information Co., Ltd.	0	82	70	2
Lin Ynan Investment Co., Ltd.	16	16	16	1
Total	<u>\$59,265</u>	<u>\$65,687</u>	<u>\$68,127</u>	<u>\$1,947</u>

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

(4) Real-Estate Rental Expense (From related parties)

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Name	Rental Expense			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay Real Estate Development Co., Ltd.	\$30,439	\$28,207	\$28,548	\$816

Name	Guarantee Deposits paid			
	Dec. 31,1999 (NT\$)	Dec. 31, 2000 (NT\$)	Dec. 31, 2001 (NT\$)	Dec. 31, 2001 (US\$)
Cathay Real Estate Development Co., Ltd.	\$402,355	\$402,249	\$402,362	\$11,496

According to previously signed contracts, lease terms with third parties are usually 3 years; rental payments are paid monthly.

(5) Disposal of Property and Equipment information:

Name	Item	2000	
		Amount (NT\$)	(Loss) Gains (NT\$)
San-Ching Building Management & maintenance Co., Ltd.	Transportation Equipment	\$720	(\$9)
	Miscellaneous Equipment	136	29

1999 & 2001 year: None.

(6) Acquisition of other Equipment

Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Symphox Information Co., Ltd.	\$0	\$0	\$63,931	\$1,827

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B. Acquisition of in investments

Name	Item	2001		
		Stocks (In thousands)	Cost (NT\$)	(US\$)
Cathay Real Estate Development Co., Ltd.	Taipei Financial Center Corp.	\$61,724	\$729,573	\$20,846
	Daiwa Securities SMBC-Cathay Co., Ltd.	20,000	259,200	7,406

1999 & 2000 Year: None.

C. Cash In Bank

Name	Item	1999			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposit	\$2,922,600	\$2,635,150	5.65% ~ 5.00%	\$132,238
	Cash In Bank	1,297,379	208,633	2%	2,274

Name	Item	2000			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposit	\$7,040,400	\$4,133,550	4.80% ~ 5.65%	\$142,358
	Cash In Bank	15,381,141	3,578,035	2.00%	24,695

Name	Item	2001			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposit	\$12,189,050	\$7,757,750	2.40% ~ 5.25%	\$277,407
	Cash In Bank	17,468,701	6,072,759	1.15% ~ 2.00%	40,690

Name	Item	2001			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time Deposit	\$348,269	\$221,656	2.40% ~ 5.25%	\$7,926
	Cash In Bank	499,120	173,512	1.15% ~ 2.00%	1,163

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D.Regular Secured Loans

1999				
Name	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	\$1,180,525	\$1,176,059	8.20% ~ 7.825%	\$93,201

2000				
Name	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	\$1,176,059	\$1,175,179	7.825% ~ 7.575%	\$89,289

2001				
Name	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	\$1,175,179	\$1,174,594	7.575% ~ 5.21%	\$84,370

December 31, 2001				
Name	Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay General Hospital	\$33,578	\$33,561	7.575% ~ 5.21%	\$2,411

E. Note Receivable

December 31				
Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay General Hospital	\$80,508	\$0	\$23,607	675
Symphox Information Co., Ltd.	0	218	0	
Total	\$80,508	\$218	\$23,607	675

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F. Temporary Payments and Suspense

Name	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay Financial Holding Co., Ltd.	\$0	\$0	\$81,378	\$2,325

G. Accounts Payable-related Parties

Name	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
San Ching Engineering Co., Ltd.	\$53,339	\$86,651	\$4,983	\$142
Cathay Real Estate Development Co., Ltd.	520,063	1,094	320	9
Tong Tai insurance Co., Ltd.	21,231	14,634	24,253	693
San-Ching Building Management & Maintenance Co., Ltd.	0	0	1,018	29
Symphox Information Co., Ltd.	0	747	1,422	41
Total	<u>\$594,633</u>	<u>\$103,126</u>	<u>\$31,996</u>	<u>\$914</u>

H. Accounts Collected in Advance

Name	December 31,			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Tong Tai insurance Co., Ltd.	\$1,875	\$1,842	\$1,905	\$55
Other	2,084	1,706	712	20
Total	<u>\$3,959</u>	<u>\$3,548</u>	<u>\$2,617</u>	<u>\$75</u>

I. Insurance Expense

Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Tong Tai Insurance Co., Ltd.	<u>\$106,988</u>	<u>\$122,360</u>	<u>\$110,851</u>	<u>\$3,167</u>

Insurance Expenses contain mainly of premium on property and equipment, cash, and public accident. Among the premium collected in 1999, 2000, and 2001, of \$11,517, \$14,420 and 14,373 were payments for fidelity guarantee insurance.

CATHAY LIFE INSURANCE CO., LTD.
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J. Reinsurance Income

Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$0	\$18,967	\$21,727	\$621

Starting from April 1, 2000, CATHAY INSURANCE (Bermuda) CO., LTD receive life insurance business transferred from RGA and casualty insurance business transferred from Central Reinsurance Co., Ltd. Both companies transferred about 90% of the above-mentioned insurance business to the Company.

K. Reinsurance Expense

Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Cathay Insurance (Bermuda) Co., Ltd.	\$0	\$6,049	\$12,813	\$366

L. Indemnity Income

Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Tong Tai Insurance Co., Ltd.	\$9,588	\$22,658	\$13,102	\$374

Indemnity Income contains mainly claims on insured property and equipment, cash, and public accident. Among the claims received in 1999, 2000 and 2001, \$5,213, \$19,632 and \$10,122, respectively, are claims on employees' fidelity guarantee insurance.

M. Guarantee Deposit Insurance Payment

Name	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Wan Pao Development Co., Ltd.	\$0	\$600,000	\$600,000	\$17,143

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Guaranteed Deposit Insurance Payment is deposited to Wan Pao Development Co., Ltd. This amount will be paid back without interest when the buildings constructed by the Company obtain the "User License".

N. Donations

Name	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
The Cathay Life Chairty Foundation	\$300,000	\$0	\$20,000	\$571

O. Other Expense (Marketing Expense)

	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Symphox Information Co., Ltd.	\$0	\$7,493	\$142,633	\$4,075

P. Repairs And Maintenances (Administrative and general expense)

	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
San-Ching Building Management & Maintenance Co., Ltd.	\$0	\$144,687	\$840,969	\$24,028
Cathay Real Estate Development Co., Ltd.	0	0	263	8
Total	\$0	\$144,687	\$841,232	\$24,036

19. PLEDGED ASSETS

Item	December 31			
	1999(NT\$)	2000(NT\$)	2001(NT\$)	2001(US\$)
Investment In Real Estate	\$1,368,846	\$1,339,879	\$0	\$0
Long-term Investment in Bonds	7,542,128	8,328,995	9,045,139	258,440
Time Deposits	75,250	721,550	730,850	20,882
Total	\$8,986,224	\$10,390,424	\$9,775,989	\$279,322

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
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As of Dec.31 in 1999, 2000 and 2001, the Company pledged its investments in real estate and time deposits as collateral to the renters. Guaranteed deposits of \$3,294, \$1,794 and \$900 were received from these renters. According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guaranteed deposit.

20. OTHER IMPORTANT MATTERS AND CONTINGENT LIABILITIES

As of Dec.31 in 1999, 2000 and 2001, signed sales contracts and construction contracts of approximately \$0, \$16.195 and \$12.548 billion dollars, respectively, are still in progress and remain open projects. About \$0, \$8.477 and \$7.517 billion dollars have been paid for during the above three years.

21. SERIOUS DAMAGES: None

22. SUBSEQUENT EVENETS

Chiu-Te Liu, the General Manager of the Company was promoted from his position to the Vice-President on Jan.14, 2002.

In addition, Tiao-Kuei Huang was promoted from Vice-General Manager to General Manager.

23. OTHER IMPORTANT EVENTS

(1) PENSION RELATED INFORMATION

1. Pension funded status:

	Year Ended December 31			
	1999	2000	2001	2001
	(NT\$)	(NT\$)	(NT\$)	(US\$)
(1) Vested benefit obligation	(5,908,179)	(6,336,912)	(4,275,960)	(122,174)
(2) Non-vested benefit obligation	(370,685)	(342,356)	(2,770,200)	(79,151)
(3) Accumulated benefit obligation	(6,278,864)	(6,679,268)	(7,046,160)	(201,325)
(4) Additional benefits based on future salaries	(3,369,436)	(3,391,763)	(1,723,336)	(49,239)
(5) Projected benefit obligation	(9,648,300)	(10,071,031)	(8,769,496)	(250,564)
(6) Vested benefit	(8,163,447)	(8,113,637)	(6,885,074)	(196,722)
(7) Fair value of plan assets	10,277,377	8,836,662	8,607,006	245,921
(8) Funded status = (5) + (7)	629,077	(1,234,369)	(162,490)	(4,643)

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
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(9) Unrecognized transitional net benefit obligation (net assets)	(4,165,688)	(3,786,989)	(3,408,290)	(97,382)
(10) Unrecognized prior service cost	620,802	569,068	517,334	14,781
(11) Unrecognized pension gain and loss	5,624,954	6,308,761	3,851,053	110,033
(12) Additional accrued pension liability	0	0	0	0
(13) Accrued pension liability /prepaid pension cost				
=(8)+(9)+(10)+(11)+(12)	<u>\$2,709,145</u>	<u>\$1,856,471</u>	<u>\$797,607</u>	<u>\$22,789</u>

2. Actuarial assumptions

	Year Ended December 31,		
	1999	2000	2001
(1) Discount rate	6.25%	6.25%	4.50%
(2) Rate of increase in future salaries	6.00%	6.00%	3.00%
(3) Expected return on pension plan Assets	6.25%	6.25%	4.50%

(2) FINANCIAL INSTRUMENTS RELATED INFORMATION

(a) Derivative Financial Instruments related information

1. Credit and Market Risk

The Company entered forward contracts with financial institutions, which are with good credit. In addition, the Company entered contracts with many financial institutions to reduce risk. Losses occurred from exchange rate fluctuation can be offset by hedging forward contracts.

2. Cash Flow and Demand

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

3. Forward Contract

(1) Receivables and payables occurred from forward contract should be offset.

The differences between receivables and payables should be accounted for in other receivables/payables.

(2) As of Dec.31 in 1999, 2000 and 2001, the Company has forward exchange contracts of approximately \$0, \$0 and \$1,096,000,000 USD, respectively.

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(b) Non Derivative Financial Instruments related information :

The book value of Non Derivative Financial Instruments as of Dec. 31, 1999, 2000 and 2001, is the same as the estimated fair market value:

Item	Dec. 31, 1999	
	Book Value	Market Value
Shot-term Investment	\$176,868,925	\$185,899,615

(3) DISCRETIONARY ACCOUNT MANAGMENT

Item	December 31, 2001			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,818,459	\$51,957	\$1,915,431	\$54,728
Short-term securities	675,434	19,299	675,434	19,299
Time deposit	100,000	2,857	100,000	2,857
Cash in bank	564,218	16,121	564,218	16,121
Net other assets less				
liabilities	3,046	87	3,046	87
Total	\$3,161,157	\$90,321	\$3,258,129	\$93,092

1999 & 2000 Year: None.

(4) MATERAL CONTRACT: None

24. INFORMATION FOR INVESTMENT IN MAINLAND CHINA: None

25. SEGMENT INFORMATION: None.