

Cathay Century Insurance Co., Ltd.
Financial Statements
Together with
Review Report
As of March 31, 2004 and 2003

Name of the company: Cathay Century Insurance Co., Ltd.

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Review report

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

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. as of March 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our review.

We conducted our reviews in accordance with generally accepted auditing standards in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries to persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China
April 13, 2004

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 review such financial statements are those generally accepted and applied in the Republic of China.

Cathay Century Insurance Co., Ltd.
Balance sheets
(Expressed in thousands of dollars)
As of March 31, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current assets						
Cash and cash equivalents (Notes 2, 4)	\$4,091,290	\$123,978	37.08	\$4,292,420	\$123,523	43.87
Short-term investments (Notes 2, 5)	2,106,033	63,819	19.09	1,955,691	56,279	19.98
Notes receivable (Note 2)	146,556	4,441	1.33	178,177	5,127	1.82
Interest receivable	26,108	791	0.24	36,837	1,060	0.38
Premiums receivable (Notes 2, 6)	718,297	21,767	6.51	599,303	17,246	6.12
Claims recoverable from reinsurers (Note 2)	171,785	5,206	1.56	231,794	6,670	2.37
Due from reinsurers and ceding companies	113,205	3,430	1.03	185,607	5,341	1.90
Other accounts receivable (Note 2)	119,750	3,629	1.08	15,420	444	0.16
Deferred income tax assets-current (Notes 2,15)	51,152	1,550	0.46	44,849	1,291	0.46
Prepayments	2,383	72	0.02	2,287	66	0.02
Subtotal	<u>7,546,559</u>	<u>228,683</u>	<u>68.40</u>	<u>7,542,385</u>	<u>217,047</u>	<u>77.08</u>
Exchange bills negotiated, discounted and loans (Notes 2, 7)						
Short-term secured loans	0	0	0.00	18,864	543	0.20
Medium-term secured loans	408,548	12,380	3.70	480,565	13,829	4.91
Long-term secured loans	367,597	11,139	3.33	434,706	12,510	4.44
Subtotal	<u>776,145</u>	<u>23,519</u>	<u>7.03</u>	<u>934,135</u>	<u>26,882</u>	<u>9.55</u>
Funds, long-term investments, and receivable (Notes 2, 8)						
Long-term investments in stocks						
Under the equity method	234,968	7,120	2.13	159,776	4,598	1.63
Under the cost method	165,780	5,024	1.50	225,000	6,475	2.30
Long-term investments in bonds	1,786,453	54,135	16.19	401,445	11,552	4.10
Subtotal	<u>2,187,201</u>	<u>66,279</u>	<u>19.82</u>	<u>786,221</u>	<u>22,625</u>	<u>8.03</u>
Property and equipment (Notes 2, 9)						
Communication and transportation equipment	18,234	553	0.17	14,590	420	0.15
Other equipment	149,855	4,541	1.36	143,351	4,125	1.46
Subtotal	<u>168,089</u>	<u>5,094</u>	<u>1.53</u>	<u>157,941</u>	<u>4,545</u>	<u>1.61</u>
Less: Accumulated depreciation	<u>(115,613)</u>	<u>(3,503)</u>	<u>(1.05)</u>	<u>(93,190)</u>	<u>(2,682)</u>	<u>(0.95)</u>
Subtotal	<u>52,476</u>	<u>1,591</u>	<u>0.48</u>	<u>64,751</u>	<u>1,863</u>	<u>0.66</u>
Intangible assets						
Computer software cost (Note 2)	9,582	290	0.09	5,138	148	0.05
Subtotal	<u>9,582</u>	<u>290</u>	<u>0.09</u>	<u>5,138</u>	<u>148</u>	<u>0.05</u>
Other assets						
Guarantee deposits paid	16,815	510	0.15	14,540	419	0.15
Overdue receivables (Note 2)	64,056	1,941	0.58	57,168	1,645	0.58
Temporary payments and suspense accounts	16,088	487	0.15	11,433	329	0.12
Securities serving as deposits paid-bonds (Notes 10,18)	359,058	10,881	3.25	363,987	10,475	3.72
Funds held by ceding companies	8	0	0.00	49	1	0.00
Deferred charges	6,059	184	0.05	5,542	159	0.06
Deferred income tax assets-noncurrent(Notes2,15)	14	0	0.00	40	1	0.00
Subtotal	<u>462,098</u>	<u>14,003</u>	<u>4.18</u>	<u>452,759</u>	<u>13,029</u>	<u>4.63</u>
Total assets	<u>\$11,034,061</u>	<u>\$334,365</u>	<u>100.00</u>	<u>\$9,785,389</u>	<u>\$281,594</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Balance sheets - (continued)
(Expressed in thousands of dollars)
As of March 31, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Liabilities & stockholders' equity						
Current liabilities						
Collections for others	\$6,790	\$206	0.06	\$6,491	\$187	0.07
Accrued expenses	155,522	4,713	1.41	114,858	3,305	1.17
Income taxes payable (Notes 2, 15)	87,861	2,662	0.80	102,525	2,950	1.05
Commissions payable	3,818	116	0.03	6,141	177	0.06
Claims outstanding	2,383	72	0.02	1,565	45	0.02
Due to reinsurers and ceding companies	168,806	5,115	1.53	206,815	5,951	2.11
Other payable	414,289	12,554	3.76	426,550	12,275	4.36
Subtotal	839,469	25,438	7.61	864,945	24,890	8.84
Long-term liabilities						
Accrued pension liabilities (Notes 2, 22)	8,966	272	0.08	8,067	232	0.08
Subtotal	8,966	272	0.08	8,067	232	0.08
Other liabilities						
Unearned premiums reserve (Notes 2,11)	3,774,238	114,371	34.21	3,509,073	100,981	35.86
Special claim reserve (Notes 2, 11)	2,351,670	71,263	21.31	1,959,889	56,400	20.03
Claims reserve (Notes 2, 11)	619,699	18,779	5.62	584,686	16,825	5.98
Temporary receipts and suspense accounts	64,716	1,961	0.59	31,022	893	0.32
Funds held for reinsurers	185	5	0.00	284	8	0.00
Subtotal	6,810,508	206,379	61.73	6,084,954	175,107	62.19
Total liabilities	7,658,943	232,089	69.42	6,957,966	200,229	71.11
Stockholders' equity						
Capital stock						
Common stock (Note 12)	2,317,006	70,212	21.00	2,317,006	66,676	23.68
Capital surplus	430	13	0.00	0	0	0.00
Retained earnings (Note 13)						
Legal reserve	161,475	4,893	1.46	138,025	3,972	1.41
Unappropriated retained earnings	894,920	27,119	8.11	370,220	10,654	3.78
Equity adjustment						
Cumulative translation adjustments	1,287	39	0.01	2,172	63	0.02
Total stockholders' equity	3,375,118	102,276	30.58	2,827,423	81,365	28.89
Total liabilities and stockholders' equity	\$11,034,061	\$334,365	100.00	\$9,785,389	\$281,594	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of income
(Expressed in thousands of dollars, except earning per share)
For the three-month periods ended March 31, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Operating revenues (Note 2)						
Premiums income	\$2,098,235	\$63,583	33.65	\$1,828,962	\$52,632	31.65
Reinsurance commission earned	84,571	2,563	1.36	83,348	2,399	1.44
Claims recovered from reinsurers	259,218	7,855	4.16	272,722	7,848	4.72
Recovered unearned premium reserve	3,601,016	109,122	57.76	3,352,667	96,480	58.02
Recovered special claim reserve	18,187	551	0.29	169,612	4,881	2.93
Recovered claims reserve	10,173	308	0.16	9,520	274	0.16
Handling fee earned	10	0	0.00	24	1	0.00
Interest income	50,416	1,528	0.81	51,231	1,474	0.89
Gain on trading bills and securities	113,030	3,425	1.81	9,847	283	0.17
Gain on long-term equity investment	76	2	0.00	883	25	0.02
Subtotal	<u>6,234,932</u>	<u>188,937</u>	<u>100.00</u>	<u>5,778,816</u>	<u>166,297</u>	<u>100.00</u>
Operating costs (Note 2)						
Reinsurance premiums ceded	(760,330)	(23,040)	(12.19)	(714,914)	(20,573)	(12.37)
Commissions expenses	(27,365)	(829)	(0.44)	(34,304)	(986)	(0.59)
Insurance claims payment	(765,367)	(23,193)	(12.28)	(853,154)	(24,551)	(14.76)
Provision for unearned premiums reserve	(3,774,238)	(114,371)	(60.53)	(3,509,073)	(100,981)	(60.72)
Provision for special claim reserve	(107,090)	(3,246)	(1.72)	(91,817)	(2,642)	(1.59)
Contribution to the stabilization funds	(3,999)	(121)	(0.06)	(3,466)	(100)	(0.06)
Provision for claims reserve	(12,213)	(370)	(0.20)	(10,173)	(293)	(0.18)
Handling fee paid	(60,366)	(1,829)	(0.97)	(36,135)	(1,040)	(0.63)
Interest expenses	0	0	0.00	(20)	(1)	0.00
Agent expenses	(770)	(23)	(0.01)	(406)	(12)	(0.01)
Subtotal	<u>(5,511,738)</u>	<u>(167,022)</u>	<u>(88.40)</u>	<u>(5,253,462)</u>	<u>(151,179)</u>	<u>(90.91)</u>
Operating gross profit	<u>723,194</u>	<u>21,915</u>	<u>11.60</u>	<u>525,354</u>	<u>15,118</u>	<u>9.09</u>
Operating expenses (Note 2)						
Marketing expenses	(305,382)	(9,254)	(4.90)	(287,666)	(8,278)	(4.98)
Administrative and general expenses	(58,744)	(1,780)	(0.94)	(60,139)	(1,730)	(1.04)
Operating income	<u>359,068</u>	<u>10,881</u>	<u>5.76</u>	<u>177,549</u>	<u>5,110</u>	<u>3.07</u>
Non-operating revenues						
Gain on foreign exchange	79	2	0.00	82	2	0.00
Gain on disposal of property and equipment	184	6	0.00	0	0	0.00
Miscellaneous income	12,308	373	0.20	260	8	0.01
Subtotal	<u>12,571</u>	<u>381</u>	<u>0.20</u>	<u>342</u>	<u>10</u>	<u>0.01</u>
Non-operating expenses						
Loss on foreign exchange	(6,122)	(186)	(0.10)	(693)	(20)	(0.01)
Subtotal	<u>(6,122)</u>	<u>(186)</u>	<u>(0.10)</u>	<u>(693)</u>	<u>(20)</u>	<u>(0.01)</u>
Income from continuing operations before income taxes	<u>365,517</u>	<u>11,076</u>	<u>5.86</u>	<u>177,198</u>	<u>5,100</u>	<u>3.07</u>
Income taxes (Notes 2, 15)	<u>(63,257)</u>	<u>(1,917)</u>	<u>(1.01)</u>	<u>(41,480)</u>	<u>(1,194)</u>	<u>(0.72)</u>
Net income	<u>\$302,260</u>	<u>9,159</u>	<u>4.85</u>	<u>\$135,718</u>	<u>\$3,906</u>	<u>2.35</u>
Earnings per share before tax (expressed in dollars) (Note 16)	<u>\$1.58</u>	<u>\$0.05</u>		<u>\$0.76</u>	<u>\$0.02</u>	
Earnings per share after tax (expressed in dollars) (Note 16)	<u>\$1.30</u>	<u>\$0.04</u>		<u>\$0.59</u>	<u>\$0.02</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the three-month periods ended March 31, 2004 and 2003

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative		Total	
	Common stock				Legal reserve	Unappropriated			translation adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2003	\$2,317,006	\$66,676	\$0	\$0	\$138,025	\$3,972	\$234,503	\$6,748	\$2,172	\$63	\$2,691,706	\$77,459
Net income after tax for the three-month period ended March 31, 2003							135,718	3,906			135,718	3,906
Rounding							(1)	0			(1)	0
Balance on March 31, 2003	\$2,317,006	\$66,676	\$0	\$0	\$138,025	\$3,972	\$370,220	\$10,654	\$2,172	\$63	\$2,827,423	\$81,365
Balance on January 1, 2004	\$2,317,006	\$70,212	\$430	\$13	\$161,475	\$4,893	\$592,660	\$17,960	\$1,287	\$39	\$3,072,858	\$93,117
Net income after tax for the three-month period ended March 31, 2004							302,260	9,159			302,260	9,159
Balance on March 31, 2004	\$2,317,006	\$70,212	\$430	\$13	\$161,475	\$4,893	\$894,920	\$27,119	\$1,287	\$39	\$3,375,118	\$102,276

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of cash flows
(Expressed in thousands of dollars)
For the three-month periods ended March 31, 2004 and 2003

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income	\$302,260	\$9,159	\$135,718	\$3,906
Adjustments:				
Loss on bad debt	0	0	23,894	688
Amortizations	1,000	30	1,033	30
Depreciation	4,829	146	6,034	173
Provision for reserve for operations	3,893,541	117,986	3,611,063	103,915
Recovered unearned premium reserve	(3,601,016)	(109,122)	(3,352,667)	(96,480)
Recovered special claim reserve	(18,187)	(551)	(169,612)	(4,881)
Recovered claims reserve	(10,173)	(308)	(9,520)	(274)
Gain on disposal of property and equipment	(184)	(6)	0	0
Investment gains recognized by equity method				
smaller (excess) of cash dividends received	(76)	(2)	(883)	(25)
Effects of exchange rate changes	6,042	183	611	18
Decrease (increase) in short-term investments	(40,930)	(1,240)	107,362	3,090
Decrease (increase) in notes receivable	41,758	1,265	(7,261)	(209)
Decrease (increase) in interest receivable	190	6	(5,485)	(158)
Decrease (increase) in premiums receivable	(194,477)	(5,893)	(174,689)	(5,027)
Decrease (increase) in claims recoverable from reinsurers	37,350	1,132	3,747	108
Decrease (increase) in due from reinsurers and ceding companies	73,987	2,242	91,016	2,619
Decrease (increase) in other accounts receivable	(96,320)	(2,919)	1,530	44
Decrease (increase) in prepayments	180	6	577	17
Decrease (increase) in deferred income tax assets-current	507	15	63	2
Decrease (increase) in deferred income tax assets-non current	0	0	8	0
Decrease (increase) in overdue receivables	(44,709)	(1,355)	(21,411)	(616)
Decrease (increase) in temporary payments and suspense accounts	(1,169)	(35)	2,921	84
Increase (decrease) in collections for others	1,899	58	(6,110)	(176)
Increase (decrease) in accrued expenses	(79,524)	(2,410)	(57,162)	(1,645)
Increase (decrease) in income taxes payable	54,692	1,657	36,946	1,063
Increase (decrease) in commissions payable	(117)	(3)	(2,236)	(64)
Increase (decrease) in dividend and bonus payable	(1,441)	(44)	(3,755)	(108)
Increase (decrease) in claims outstanding	(2,354)	(71)	(66,437)	(1,912)
Increase (decrease) in other payable	21,513	652	102,992	2,964
Increase (decrease) in accrued pension liabilities	382	12	399	11
Increase (decrease) in temporary receipts and suspense accounts	47,883	1,451	(32,674)	(940)
Increase (decrease) in loss reserve	32,351	980	53,218	1,531
Net cash provided by (used in) operating activities	429,687	13,021	269,230	7,748

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of cash flows - (continued)
(Expressed in thousands of dollars)
For the three-month periods ended March 31, 2004 and 2003

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash flows from investing activities				
Decrease (increase) in medium-term secured loans	74	2	3,720	107
Decrease (increase) in long-term secured loans	(1,902)	(58)	3,306	95
Disposal of long-term investments in stocks	33,600	1,018	0	0
Decrease (increase) in long-term investments in bonds	49,825	1,510	(121,110)	(3,485)
Disposal of property and equipment	503	15	0	0
Acquisition of property and equipment	(2,118)	(64)	(3,210)	(92)
Acquisition of intangible assets	(3,321)	(100)	(27)	(1)
Decrease (increase) in guarantee deposits paid	7	0	(72)	(2)
Decrease (increase) in securities serving as deposits paid-bonds	1,226	37	1,212	35
Decrease (increase) in funds held by ceding companies	99	3	96	3
Net cash provided by (used in) investing activities	<u>77,993</u>	<u>2,363</u>	<u>(116,085)</u>	<u>(3,340)</u>
Cash flows from financing activities				
Paid other payable for acquisition of property and equipment in prior period	0	0	(16,479)	(474)
Increase (decrease) in funds held for reinsurers	(99)	(3)	(409)	(12)
Net cash provided by (used in) financing activities	<u>(99)</u>	<u>(3)</u>	<u>(16,888)</u>	<u>(486)</u>
Effects of exchange rate changes	(6,042)	(183)	(611)	(18)
Increase (decrease) in cash and cash equivalents	501,539	15,198	135,646	3,904
Cash and cash equivalents at the beginning of period	3,589,751	108,780	4,156,774	119,619
Cash and cash equivalents at the end of period	<u>\$4,091,290</u>	<u>\$123,978</u>	<u>\$4,292,420</u>	<u>\$123,523</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$0	\$0	\$20	\$1
Less: capitalization of interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Interest paid (excluding capitalized interest)	<u>\$0</u>	<u>\$0</u>	<u>\$20</u>	<u>\$1</u>
Income tax paid	<u>\$8,059</u>	<u>\$244</u>	<u>\$4,463</u>	<u>\$128</u>
Partial cash investing and financing activities:				
Equipment	\$2,118	\$64	\$3,260	\$94
Other payable at the period-end	<u>0</u>	<u>0</u>	<u>(50)</u>	<u>(2)</u>
Cash paid	<u>\$2,118</u>	<u>\$64</u>	<u>\$3,210</u>	<u>\$92</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2003 were NT\$33.00 and NT\$34.75 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Notes to financial statements
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

1. Organization of Business Scope

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engaged in the business of property and casualty insurance. On April 22, 2002, the Company became the subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On June 28, 2002, the Company changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

2. Summary of Significant Accounting Policies

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

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

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

(2) Cash and cash equivalents

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

(3) Short-term investments

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

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

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

When market value is available, 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.

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

(4) Allowance for bad and doubtful debts

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

(5) Long – term investments

A. Long-term investments in stocks

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

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

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

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

B. Long-term investments in bonds

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

(6) Property and equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed currently. Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the accounts. The gain or loss resulting from disposal of property and equipment is classified as non-operating gain or loss. Depreciation on depreciable assets is calculated on a straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. When their economic useful lives have expired, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

(7) Deferred charges

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

(8) Reserve for operations

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

(9) Insurance premiums income and expenses

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

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

(10) Contribution to the stabilization funds

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

(11) Pension plan

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

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

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

(12) Guaranteed depository insurance payment

According to Article 141 of the Insurance Law of the ROC, an amount equal to 15% of the Company’s capital stock should be deposited in the Central Bank of China as the “Guaranteed Depository Insurance”. The amount was deposited in the form of a bond.

(13) Foreign-currency transactions

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

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income.

(14) Income taxes

The Company adopted SFAS No. 22, “Accounting for Income Taxes”, which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year’s income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In Accordance with article 49 of Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on its inappropriate retained earnings under the Integrated Income Tax System. If there is any tax effects due to adopt forgoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

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

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

(15) Capital expenditure expenses

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

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(16) Derivative financial products transaction

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

(17) Convenience translation into US dollars

The financial statements are stated in NT dollars. Conversion of the March 31, 2004 and 2003 NT dollar amounts into U.S. dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.00 and NT\$34.75 to US\$1.00 effective on March 31, 2004 and 2003, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects: None

4. Cash and cash equivalents

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$8,730	\$264	\$9,534	\$274
Cash in banks	343,055	10,395	209,116	6,018
Time deposits	3,560,132	107,883	3,644,525	104,879
Cash equivalents	179,373	5,436	429,245	12,352
Total	<u>\$4,091,290</u>	<u>\$123,978</u>	<u>\$4,292,420</u>	<u>\$123,523</u>
Interest rate of time deposits	<u>0.75% ~ 1.70%</u>	<u>0.75% ~ 1.70%</u>	<u>1.30%~2.55%</u>	<u>1.30%~2.55%</u>
Interest rate of cash equivalents	<u>0.95% ~ 0.975%</u>	<u>0.95% ~ 0.975%</u>	<u>1.18%~1.20%</u>	<u>1.18%~1.20%</u>

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5. Short- term investments

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$6,927	\$228,587	\$6,587
Less: Allowance for valuation loss	(18,112)	(549)	(99,455)	(2,862)
Sub-total	210,475	6,378	129,132	3,716
Common stock and beneficiary certificates	1,108,090	33,579	1,024,524	29,483
Appoint purpose trust fund	18,791	569	3,927	113
Corporate bonds	565,498	17,136	598,108	17,212
Financial debentures	203,179	6,157	200,000	5,755
Short-term notes	179,373	5,436	429,245	12,352
Sub-total	2,074,931	62,877	2,255,804	64,915
Less : Cash equivalents	(179,373)	(5,436)	(429,245)	(12,352)
Sub-total	1,895,558	57,441	1,826,559	52,563
Total	<u>\$2,106,033</u>	<u>\$63,819</u>	<u>\$1,955,691</u>	<u>\$56,279</u>

6. Premiums receivable

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$723,007	\$21,909	\$603,088	\$17,355
Less: Allowance for bad debts	(4,710)	(142)	(3,785)	(109)
Net	<u>\$718,297</u>	<u>\$21,767</u>	<u>\$599,303</u>	<u>\$17,246</u>

7. Secured loans

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$0	\$0	\$22,000	\$633
Less: Allowance for bad debts	(0)	(0)	(3,136)	(90)
Sub-total	0	0	18,864	543
Medium-term secured loans	507,578	15,381	560,462	16,128
Less: Allowance for bad debts	(99,030)	(3,001)	(79,897)	(2,299)
Sub-total	408,548	12,380	480,565	13,829
Long-term secured loans	456,701	13,839	506,979	14,590
Less: Allowance for bad debts	(89,104)	(2,700)	(72,273)	(2,080)
Sub-total	367,597	11,139	434,706	12,510
Total	<u>\$776,145</u>	<u>\$23,519</u>	<u>\$934,135</u>	<u>\$26,882</u>
Interest rate	<u>2.48%~5.00%</u>	<u>2.48%~5.00%</u>	<u>3.50%~7.00%</u>	<u>3.50%~7.00%</u>

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

8. Long- term investments

A. Long- term investments in stocks (Book value):

Investee	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$221,332	\$6,707	\$143,177	\$4,120
Vista Technology Venture Capital Corp.	13,636	413	16,599	478
Subtotal	<u>234,968</u>	<u>7,120</u>	<u>159,776</u>	<u>4,598</u>
b. Under the cost method:				
Koo Group Telecommunications Co., Ltd.	90,780	2,751	150,000	4,317
KGEX. Com Co., Ltd.	75,000	2,273	75,000	2,158
Subtotal	<u>165,780</u>	<u>5,024</u>	<u>225,000</u>	<u>6,475</u>
Total	<u>\$400,748</u>	<u>\$12,144</u>	<u>\$384,776</u>	<u>\$11,073</u>

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

	For the three-month periods ended March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Balance of January 1	\$234,892	\$7,118	\$158,893	\$4,573
Investment income (loss) by equity method recognized	76	2	883	25
Balance of March 31	<u>\$234,968</u>	<u>\$7,120</u>	<u>\$159,776</u>	<u>\$4,598</u>

d. The investment gains (losses) recognized by the equity method for the three-month periods ended March 31, 2004 and 2003 are listed below :

Investee	For the three-month periods ended March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$

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Cathay Venture Capital Corp.	\$76	\$2	\$883	\$25
Total	\$76	\$2	\$883	\$25

- e. If the Company holds less than 50% of an investee company's outstanding common stock and is not able to obtain the investee's financial statements for the current year when the Company closed its books, the investee's investment gains (losses) for the year can be deferred to recognize till the following year. As the treatment for investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investee could not provide timely reviewed financial statement for the three-month period ended March 31, 2004.
- f. The investment unrealized gains of Cathay Venture Capital Corp. for the three-month periods ended March 31, 2004 and 2003 were recognized by the equity method based on unreviewed financial statements in the same period.
- g. The Company invested Koo Group Telecommunications Co., Ltd was signed into contract and merged with Far Eastone Telecommunications Co., Ltd. in October 7, 2003 with the agreement of partial cash and partial stock as value consideration, the Company book entry other account receivable 33,600 thousands in cash transaction for the period.

B. Long- term investments in bonds

Investee	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$1,786,453	\$54,135	\$401,445	\$11,552
Interest rate	4.00%~6.00%	4.00%~6.00%	5.50%~6.00%	5.5%~6.00%

9. Property and equipment

Item	March 31, 2004					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$18,234	\$553	\$7,686	\$233	\$10,548	\$320
Other equipment	149,855	4,541	107,927	3,270	41,928	1,271
Total	\$168,089	\$5,094	\$115,613	\$3,503	\$52,476	\$1,591

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Item	March 31, 2003					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$14,590	\$420	\$5,957	\$172	\$8,633	\$248
Other equipment	143,351	4,125	87,233	2,510	56,118	1,615
Total	<u>\$157,941</u>	<u>\$4,545</u>	<u>\$93,190</u>	<u>\$2,682</u>	<u>\$64,751</u>	<u>\$1,863</u>

10. Securities serving as deposits paid

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Government bonds	\$359,058	\$10,881	\$363,987	\$10,475
Interest rate	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%

Government bonds is according to Article 141 of the Insurance Law of the ROC, amount equal to 15% of the Company's stockholder's equity should be deposited in the Central Bank of China as the "Guarantee Depository Insurance Payment".

11. Reserves for operations and liabilities

	January 1, 2004		Provision		Recovered		March 31, 2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$3,601,016	\$109,122	\$3,774,238	\$114,371	\$3,601,016	\$109,122	\$3,774,238	\$114,371
Special claim reserve	2,262,767	68,568	107,090	3,246	18,187	551	2,351,670	71,263
Claims reserve	585,308	17,737	585,319	17,737	550,928	16,695	619,699	18,779
Total	<u>\$6,449,091</u>	<u>\$195,427</u>	<u>\$4,466,647</u>	<u>\$135,354</u>	<u>\$4,170,131</u>	<u>\$126,368</u>	<u>\$6,745,607</u>	<u>\$204,413</u>

12. Capital stock and capital increment

As of March 31, 2004 and 2003, the numbers of issued shares, par value of NT\$10, were 231,700,560.

13. Retained earnings

(1) Legal reserve

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the

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issued share capital. This legal reserve can be used only to cover deficits but not for cash dividends distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

(2) Unappropriated retained earnings

A. According to the Company Law 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 added to the legal reserve. In addition to distributing stock interest and 2% as bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

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

14. Personnel, depreciation, depletion and amortizations

Item	For the three-month period ended March 31,2004			For the three-month period ended March 31,2003		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	115,160	115,160	-	172,942	172,942
Labor & health insurance expenses	-	8,106	8,106	-	7,531	7,531
Pension expenses	-	8,722	8,722	-	7,576	7,576
Other expenses	-	49,494	49,494	-	48,450	48,450

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Depreciation	-	4,829	4,829	-	6,034	6,034
Depletion	-	-	-	-	-	-
Amortizations	-	1,000	1,000	-	1,033	1,033

Item	For the three-month period ended March 31, 2004 (US\$)			For the three-month period ended March 31, 2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	3,490	3,490	-	4,976	4,976
Labor & health Insurance expenses	-	246	246	-	217	217
Pension expenses	-	264	264	-	218	218
Other expenses	-	1,500	1,500	-	1,394	1,394
Depreciation	-	146	146	-	173	173
Depletion	-	-	-	-	-	-
Amortizations	-	30	30	-	30	30

The total number of employee is 791 on March 31, 2004

15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the three-month periods ended March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$365,517	\$11,076	\$177,198	\$5,100
Adjustments				
Interest income of tax on a separate basis	(1,890)	(57)	(954)	(28)
Losses (gains) on market price loss (recovery) of short-term investments	(34,499)	(1,046)	(6,767)	(195)
Bad debts exceeding legal limit	(1,993)	(60)	(197)	(6)
Losses (gains) on trading securities	(78,531)	(2,380)	(3,079)	(89)
Investment losses (gains) recognized by equity method	(76)	(2)	(883)	(25)
Unrealized exchange loss (gain)	1,258	38	0	0
Others	5	0	(48)	(1)
Taxable Income	249,791	7,569	165,270	4,756
Time; Taxes Rate; Less: Progressive difference	25% - 10	-	25% - 10	-
Subtotal	62,438	1,892	41,307	1,189
Extra 10% income tax on undistributed retained earnings	5,319	161	-	-

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Less: Tax Effects under integrated Income Tax Systems	(5,319)	(161)	-	-
Income tax credit	(65)	(2)	(89)	(3)
Tax on a separate basis	378	12	191	6
Deferred income tax expenses (benefits)	506	15	71	2
Total income tax expenses	<u>\$63,257</u>	<u>\$1,917</u>	<u>\$41,480</u>	<u>\$1,194</u>

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

	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	<u>\$51,166</u>	<u>\$1,550</u>	<u>\$44,889</u>	<u>\$1,292</u>
Total deferred income tax liabilities	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
B. Temporary differences:				
Employee benefits	\$101	\$3	\$397	\$11
Bad debts exceeding legal limit	204,507	6,197	179,099	5,154
Others	57	2	57	2
Total	<u>\$204,665</u>	<u>\$6,202</u>	<u>\$179,553</u>	<u>\$5,167</u>
C. Deferred income tax assets-current	\$51,152	\$1,550	\$44,849	\$1,291
Deferred income tax liabilities-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred income tax-current	<u>\$51,152</u>	<u>\$1,550</u>	<u>\$44,849</u>	<u>\$1,291</u>
D. Deferred income tax assets – non-current	\$14	\$0	\$40	\$1
Deferred income tax liabilities –non-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred income tax – non-current	<u>\$14</u>	<u>\$0</u>	<u>\$40</u>	<u>\$1</u>

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

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Law of income tax credits	The credits items	The amount of income tax credit		The remaining balance		Expiry year
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$65	\$2	\$0	\$0	2008

(4) The Company's income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2001.

(5) Information related to tax imputation:

	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$177,123	\$5,367	\$184,686	\$5,315
Imputation credit account ratio	March 31, 2004 (Estimate)		March 31, 2003 (Estimate)	
	29.89%		29.82%	

(6) Information relating of undistributed earnings:

Year	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$0	\$0
After 1998	592,660	17,959	234,503	6,748
Total	\$592,660	\$17,959	\$234,503	\$6,748

Net income after tax for the three months ended March 31, 2004 and 2003 does not classify as undistributed earnings generated since 1998.

16. Earnings per share

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	For the three-month periods ended March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$365,517	\$11,076	\$177,198	\$5,100
Net income after taxes (B)	\$302,260	\$9,159	\$135,718	\$3,906
Outstanding number of shares at year-end	231,700,560	231,700,560	231,700,560	231,700,560
Adjusted weighted average outstanding number of shares(C)	231,700,560	231,700,560	231,700,560	231,700,560
Earnings per share before tax (A)/(C) (dollars)	\$1.58	\$0.05	\$0.76	\$0.02
Earnings per share (B)/(C) (dollars)	\$1.30	\$0.04	\$0.59	\$0.02

17. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank Co., Ltd. (merged)	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Seaward Futures Corp.	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Wu Ming-Yang	Senior Manager

(2) Transactions with related parties

A. Premium revenues

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Name	For the three-month period ended March 31, 2004			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd	\$79	\$2	\$0	\$0
Cathay Life Insurance Co., Ltd.	105,646	3,201	2,388	72
Cathay United Bank Co., Ltd. (merged)	43,894	1,330	6,827	207
Cathay Real Estate Development Co., Ltd.	376	11	348	11
Cathay General Hospital	1,475	45	264	8
Seaward Leading Ltd.	901	27	1,299	39
Others	95	3	65	2
Total	\$152,466	\$4,619	\$11,191	\$339

Name	For the three-month period ended March 31, 2003			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$142	\$4	\$0	\$0
Cathay Life Insurance Co., Ltd.	\$121,775	\$3,504	\$3,968	\$114
Cathay United Bank Co., Ltd.	10,766	310	3,006	86
Cathay Real Estate Development Co., Ltd.	341	10	309	9
Cathay General Hospital	1,676	48	1,804	52
Others	242	7	107	3
Total	\$134,942	\$3,883	\$9,194	\$264

B. Insurance claims payment

Name	For the three-month period ended March 31,			
	2004		2003	
	Insurance Claims Payment		Insurance Claims Payment	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$657	\$20	\$380	\$11
Cathay United Bank Co., Ltd.	112	3	133	4
Total	\$769	\$23	\$513	\$15

C. Rents (To related parties)

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Name	For the three-month period ended March 31, 2004					
	Rents		Guarantee Deposits		Prepaid Rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$13,712	\$416	\$13,199	\$400	\$2,324	\$70

Name	For the three-month period ended March 31, 2003					
	Rents		Guarantee Deposits		Prepaid Rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$13,129	\$378	\$12,894	\$371	\$2,157	\$62

D. Cash in bank

Name	Nature	March 31, 2004		
		Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$306,935	0.35%	\$0
	Time Deposit	\$235,900	0.85%~1.55%	\$573

Name	Nature	March 31, 2004		
		Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$9,301	0.35%	\$0
	Time Deposit	\$7,148	0.85%~1.55%	\$17

Name	Nature	March 31, 2003		
		Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$136,402	0.25%~0.50%	\$0
	Time Deposit	\$785,000	1.85%~2.35%	\$3,711

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Name	Nature	March 31, 2003		
		Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$3,925	0.25%~0.50%	\$0
	Time Deposit	\$22,590	1.85%~2.35%	\$107

E. Secured loans

For the three-month period ended March 31, 2004				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$		NT\$
Wu Ming-Yang	\$2,374	\$1,737	2.48%	\$17

For the three-month period ended March 31, 2004				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$		US\$
Wu Ming-Yang	\$72	\$53	2.48%	\$1

For the three-month period ended March 31, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$		NT\$
Wu Ming-Yang	\$3,309	\$2,477	3.67%	\$27

For the three-month period ended March 31, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$		US\$
Wu Ming-Yang	\$95	\$71	3.67%	\$1

F. Handling fee paid

Name	For the three-month period ended March 31,				
	2004		2003		
	Handling Fee Paid	Handling Fee Paid	Handling Fee Paid	Handling Fee Paid	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$782	\$24	\$914	\$26	

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

G. Integrated marketing expense and accrued expense

Name	For the three-month period ended March 31, 2004			
	Integrated marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$124,722</u>	<u>\$3,779</u>	<u>\$68,460</u>	<u>\$2,075</u>

2003: none

18. Pledged assets

Item	March 31,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Government bonds	<u>\$359,058</u>	<u>\$10,881</u>	<u>\$363,987</u>	<u>\$10,475</u>

(1) According to Article 141, the Insurance Law of ROC the Company should deposited government bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guarantee deposits.

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

19. Other important matters and contingent liabilities

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in both years 2001 and 2000 tax returns, amounting to NT\$2,474(US\$75) and NT\$7,690(US\$233), respectively, were rejected by the Tax Authority as being able to offset income tax payable. The Company disputed the above tax assessments and had filed for reinvestigation.

B. By the date of March 31, 2004, the Company had made some significant rental contracts, and based on which, we estimate that the rents for the following 5 years should be as below:

Year	Amount	Amount
	NT\$	US\$
April 01, 04 ~March 31, 05	<u>\$55,349</u>	<u>\$1,677</u>

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

April 01, 05 ~March 31, 06	56,848	1,723
April 01, 06 ~March 31, 07	58,508	1,773
April 01, 07 ~March 31, 08	60,219	1,825
April 01, 08 ~March 31, 09	61,980	1,878
Total	\$292,904	\$8,876

20. Serious damages: None

21. Subsequent events: None

22. Other important events

A. Pension related information

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

B. Financial instruments related information

(a) Derivative financial instruments related information :

1. Credit and market risk

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

2. Cash flow and demand

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

3. Forward contract

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

- (1) Receivables and payables resulting from forward contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.
- (2) As of March 31, 2004 and 2003, the Company has forward exchange contracts of approximately US\$54,000 and US\$11,600 respectively in notional value.

(b) Non derivative financial instruments related information :

Except for the item listed in the following table, the book value of non derivative financial instruments as of March 31, 2004 and 2003, is the same as the estimated fair market value:

Item	March 31,			
	2004		2004	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term Investment	\$2,106,033	\$2,228,385	\$63,819	\$67,527

Item	March 31,			
	2003		2003	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term Investment	\$ 1,955,691	\$1,971,233	\$56,279	\$56,726

C. Discretionary account management

Item	March 31, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$3,229	\$98	\$3,240	\$98
Cash in bank	54,725	1,658	54,725	1,658
Net other assets less liabilities	(48)	(1)	(48)	(1)
Total	\$57,906	\$1,755	\$57,917	\$1,755

Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars unless otherwise stated)
As of March 31, 2004 and 2003

Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$27,125	\$781	\$25,086	\$722
Cash in bank	20,680	595	20,680	595
Net other assets less liabilities	(37)	(1)	(37)	(1)
Total	\$47,768	\$1,375	\$45,729	\$1,316

D. Material contract: None

23. Information for investment in Mainland China: None

24. Segment Information:

According to the ROC SFAS No. 23 “Interim Financial Reporting and Disclosures”, the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 20 “Disclosures of Segment Financial Information”.