

**CATHAY LIFE INSURANCE CO., LTD.  
FINANCIAL STATEMENTS  
TOGETHER WITH  
REVIEW REPORT  
AS OF MARCH 31, 2004 AND 2003**

**Name of the company: Cathay Life Insurance Co., Ltd.**

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## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Review Report	2
Balance Sheets as of March 31, 2004 and 2003	3-4
Statements of Income for the three Months ended March 31, 2004 and 2003	5
Statements of Changes in Stockholders' Equity for the three Months ended March 31, 2004 and 2003	6
Statements of Cash Flows for the three Months ended March 31, 2004 and 2003	7-8
Notes to Financial Statements	9-49



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## REVIEW REPORT

To: Board Of Directors  
Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life 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.

Except as explained in the following paragraph, 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.

As disclosed in Note 7 to the financial statements, we did not review the financial statements of the investee companies. The related amount (thousands of dollars) of long-term investments for these companies under the equity method were NT\$780,640 (US\$23,655) and NT\$693,020 (US\$19,943) as of March 31, 2004 and 2003, respectively. The related amount of investment gain were NT\$7,238(US\$219) and NT\$9,972 (US\$287) for the periods ended March 31, 2004 and 2003.

Based on our review, with the exception of the matters described in the third paragraph, 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 14, 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 LIFE INSURANCE CO., LTD.**  
**BALANCE SHEETS**  
(Expressed in thousands of dollars)  
As of March 31, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Notes 2, 4)	\$137,338,227	\$4,161,764	9.12	\$160,016,587	\$4,604,794	12.15
Short-term investments (Notes 2, 5)	402,450,910	12,195,482	26.74	304,476,810	8,761,923	23.12
Notes receivable	10,251,081	310,639	0.68	13,305,661	382,897	1.01
Notes receivable-related parties (Note 18)	2	0	0.00	35,001	1,007	0.00
Accounts receivable-related parties (Note 18)	1,177,049	35,668	0.08	0	0	0.00
Tax refund receivable	83,609	2,534	0.00	15,029	432	0.00
Interest receivable	10,526,642	318,989	0.70	10,802,592	310,866	0.82
Other accounts receivable	14,865,006	450,455	0.99	2,679,238	77,100	0.21
Prepayments	91,986	2,787	0.01	305,729	8,798	0.02
Subtotal	576,784,512	17,478,318	38.32	491,636,647	14,147,817	37.33
<b>Exchange Bills Negotiated, Discounted and</b>						
<b>Loans (Notes 2, 6)</b>						
Policy loans	182,466,369	5,529,284	12.12	183,156,734	5,270,697	13.91
Short-term secured loans	66,075	2,002	0.01	102,492	2,950	0.01
Medium-term secured loans	9,462,051	286,729	0.63	9,397,948	270,445	0.71
Long-term secured loans	279,264,231	8,462,552	18.55	307,557,345	8,850,571	23.35
Subtotal	471,258,726	14,280,567	31.31	500,214,519	14,394,663	37.98
<b>Funds, Long-Term Investments, and</b>						
<b>Receivable</b>						
<b>Long-term investments in stocks (Notes 2, 7)</b>						
Under the equity method	2,139,411	64,831	0.14	2,084,622	59,989	0.16
Under the cost method	44,042,948	1,334,635	2.93	56,362,328	1,621,937	4.28
<b>Allowance for valuation loss on long-term</b>						
<b>investments in stocks</b>						
	(19,419)	(589)	0.00	(9,458)	(272)	0.00
Long-term investments in bonds (Notes 2, 8)	261,448,267	7,922,675	17.37	141,309,523	4,066,461	10.73
Investments in real estate (Notes 2, 9)	100,761,068	3,053,366	6.69	93,959,827	2,703,880	7.13
Subtotal	408,372,275	12,374,918	27.13	293,706,842	8,451,995	22.30
<b>Property and Equipment (Notes 2, 10)</b>						
Land	5,225,247	158,341	0.35	5,566,747	160,194	0.43
Buildings and Construction	11,442,532	346,743	0.76	10,818,088	311,312	0.82
Communication and transportation equipment	124,820	3,783	0.01	145,400	4,184	0.01
Other equipment	4,275,284	129,554	0.28	4,082,973	117,496	0.31
Subtotal	21,067,883	638,421	1.40	20,613,208	593,186	1.57
Less: Accumulated depreciation	(5,643,598)	(171,018)	(0.38)	(5,184,253)	(149,187)	(0.39)
<b>Construction in progress and prepayment for</b>						
<b>equipment</b>						
	111,413	3,376	0.01	704,518	20,274	0.05
Subtotal	15,535,698	470,779	1.03	16,133,473	464,273	1.23
<b>Other Assets</b>						
Non-operating assets (Note 2)	2,396,786	72,630	0.16	3,430,317	98,714	0.26
Guarantee deposits paid (Notes 2, 19)	1,546,698	46,869	0.10	273,727	7,877	0.02
Overdue receivables (Notes 2, 11)	1,297,752	39,326	0.08	2,815,199	81,013	0.21
Temporary payments and suspense accounts	412,815	12,509	0.03	134,140	3,860	0.01
Securities serving as deposits paid-bonds (Notes 2, 8,19)	7,927,253	240,220	0.53	7,724,837	222,297	0.59
Deferred income tax assets (Notes 2, 16)	277,518	8,410	0.02	457,034	13,152	0.04
Investment-linked products assets (Note 2)	19,432,998	588,879	1.29	383,097	11,025	0.03
Subtotal	33,291,820	1,008,843	2.21	15,218,351	437,938	1.16
<b>Total Assets</b>	<b>\$1,505,243,031</b>	<b>\$45,613,425</b>	<b>100.00</b>	<b>\$1,316,909,832</b>	<b>\$37,896,686</b>	<b>100.00</b>

(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 LIFE INSURANCE CO., LTD.**  
**BALANCE SHEETS - (Continued)**  
**(Expressed in thousands of dollars)**  
**As of March 31, 2004 and 2003**

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Notes payable	\$1,575	\$48	0.00	\$1,707	\$49	0.00
Accounts payable-related parties (Note 18)	81,576	2,472	0.00	93,636	2,695	0.01
Collections for others	133,917	4,058	0.01	139,628	4,018	0.01
Accrued expenses	1,370,674	41,536	0.09	1,454,109	41,845	0.11
Taxes payable	568,393	17,224	0.04	3,793,944	109,178	0.29
Commissions payable	725,737	21,992	0.05	833,214	23,977	0.06
Dividends payable	125,445	3,801	0.01	171,050	4,922	0.01
Life insurance proceeds payable	967	29	0.00	1,825	52	0.00
Other payable	311,321	9,434	0.02	792,215	22,798	0.06
Deferred income tax liabilities- current (Notes 2, 16)	1,075,917	32,604	0.07	1,214,028	34,936	0.09
Accounts collected in advance	188,276	5,705	0.01	338,422	9,739	0.03
Subtotal	<u>4,583,798</u>	<u>138,903</u>	<u>0.30</u>	<u>8,833,778</u>	<u>254,209</u>	<u>0.67</u>
<b>Long-term Liabilities</b>						
Reserve for land revaluation increment tax	3,726	113	0.00	3,726	108	0.00
Accrued pension liability (Notes 2,23)	907,995	27,515	0.06	121,955	3,509	0.01
Subtotal	<u>911,721</u>	<u>27,628</u>	<u>0.06</u>	<u>125,681</u>	<u>3,617</u>	<u>0.01</u>
<b>Other Liabilities</b>						
<b>Reserve for operations and liabilities (Note 2)</b>						
Unearned premium reserve	8,910,456	270,014	0.59	9,566,414	275,293	0.73
Reserve for life insurance	1,356,970,259	41,120,311	90.15	1,209,621,962	34,809,265	91.85
Special reserve	16,024,312	485,585	1.07	11,706,379	336,874	0.89
Claims reserve	341,114	10,336	0.02	315,542	9,080	0.02
<b>Miscellaneous liabilities</b>						
Guarantee deposits received	1,310,959	39,726	0.09	1,306,646	37,601	0.10
Temporary receipts and suspense accounts	760,546	23,047	0.05	499,836	14,384	0.04
Investment-linked products liabilities (Note 2)	19,432,998	588,879	1.29	383,097	11,025	0.03
Subtotal	<u>1,403,750,644</u>	<u>42,537,898</u>	<u>93.26</u>	<u>1,233,399,876</u>	<u>35,493,522</u>	<u>93.66</u>
Total Liabilities	<u>1,409,246,163</u>	<u>42,704,429</u>	<u>93.62</u>	<u>1,242,359,335</u>	<u>35,751,348</u>	<u>94.34</u>
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock (Note 12)	50,686,158	1,535,944	3.37	50,686,158	1,458,594	3.85
Capital surplus	5,200	158	0.00	3,048	88	0.00
<b>Retained earnings (Notes 13,16)</b>						
Legal reserve	14,552,065	440,972	0.97	13,254,705	381,430	1.01
Special reserve	6,249,135	189,368	0.41	0	0	0.00
Unappropriated retained earnings	24,521,028	743,061	1.63	17,939,081	516,232	1.36
<b>Equity adjustment (Notes 2, 7)</b>						
Unrealized valuation losses on long-term equity investment	(19,419)	(589)	0.00	(9,458)	(272)	0.00
Cumulative conversion adjustments	2,701	82	0.00	10,826	312	0.00
Treasury stock (Notes 2, 14)	0	0	0.00	(7,333,863)	(211,046)	(0.56)
Total Stockholders' Equity	<u>95,996,868</u>	<u>2,908,996</u>	<u>6.38</u>	<u>74,550,497</u>	<u>2,145,338</u>	<u>5.66</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$1,505,243,031</u>	<u>\$45,613,425</u>	<u>100.00</u>	<u>\$1,316,909,832</u>	<u>\$37,896,686</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 LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF INCOME**  
(Expressed in thousands of dollars, except earning per share)  
For the Three Months Ended March 31, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues (Note 2)						
Premiums income	\$59,789,426	\$1,811,801	52.37	\$55,323,731	\$1,592,050	56.48
Reinsurance commission earned	11,460	347	0.01	125	4	0.00
Claims recovered from reinsurers	87,343	2,647	0.08	27,777	799	0.03
Recovered premiums reserve	23,835,117	722,276	20.88	27,340,591	786,780	27.91
Handling fees earned	100,529	3,046	0.09	2,504	72	0.00
Interest Income	13,037,640	395,080	11.42	11,809,930	339,854	12.06
Gain on disposal of investments	10,123,634	306,777	8.87	2,171,686	62,494	2.22
Gain on long-term equity investments	7,238	219	0.00	9,972	287	0.01
Gain on investments-real estate	1,084,872	32,875	0.95	1,146,402	32,990	1.17
Investment-linked products revenues (Note 2)	6,086,012	184,425	5.33	118,172	3,401	0.12
Subtotal	<u>114,163,271</u>	<u>3,459,493</u>	<u>100.00</u>	<u>97,950,890</u>	<u>2,818,731</u>	<u>100.00</u>
Operating Costs (Note 2)						
Insurance expenses	(147,657)	(4,475)	(0.13)	(1,254)	(36)	0.00
Brokerage expenses	(4,724,612)	(143,170)	(4.14)	(5,215,090)	(150,074)	(5.32)
Commissions expenses	(110,272)	(3,342)	(0.10)	(25,610)	(737)	(0.03)
Insurance claims payment	(29,694,893)	(899,845)	(26.01)	(28,328,148)	(815,199)	(28.92)
Provision for premiums reserve	(60,186,617)	(1,823,837)	(52.72)	(53,780,082)	(1,547,628)	(54.91)
Provision for special reserve	(2,644,322)	(80,131)	(2.32)	(551,058)	(15,858)	(0.56)
Contribution to the stabilization funds	(59,635)	(1,807)	(0.05)	(55,406)	(1,594)	(0.06)
Provision for claims reserve	(11,263)	(341)	(0.01)	(37,461)	(1,078)	(0.04)
Handling fees paid	(124,089)	(3,760)	(0.11)	(482,039)	(13,872)	(0.49)
Interest expenses	(6,016)	(182)	0.00	(4,904)	(141)	0.00
Provision for securities trading losses reserve	0	0	0.00	(64,331)	(1,851)	(0.07)
Provisions expenses	0	0	0.00	(421,271)	(12,123)	(0.43)
Other operating Cost	(843,359)	(25,556)	(0.74)	(92,777)	(2,670)	(0.09)
Investment-linked products expenses (Note 2)	(6,086,012)	(184,425)	(5.33)	(118,172)	(3,401)	(0.12)
Subtotal	<u>(104,638,747)</u>	<u>(3,170,871)</u>	<u>(91.66)</u>	<u>(89,177,603)</u>	<u>(2,566,262)</u>	<u>(91.04)</u>
Operating Gross Profit	<u>9,524,524</u>	<u>288,622</u>	<u>8.34</u>	<u>8,773,287</u>	<u>252,469</u>	<u>8.96</u>
Operating Expenses (Note 2)						
Marketing expenses	(662,022)	(20,062)	(0.58)	(656,284)	(18,886)	(0.67)
Administrative and general expenses	(2,405,261)	(72,887)	(2.10)	(2,238,127)	(64,407)	(2.29)
Operating Income	<u>6,457,241</u>	<u>195,673</u>	<u>5.66</u>	<u>5,878,876</u>	<u>169,176</u>	<u>6.00</u>
Non-Operating Revenues & Gains						
Gains on foreign exchange	0	0	0.00	142,932	4,113	0.15
Gains on disposal of property and equipment	1,061	32	0.00	352	10	0.00
Miscellaneous income	432,583	13,109	0.38	229,337	6,600	0.23
Subtotal	<u>433,644</u>	<u>13,141</u>	<u>0.38</u>	<u>372,621</u>	<u>10,723</u>	<u>0.38</u>
Non-Operating Expenses & Losses						
Losses on foreign exchange	(166,908)	(5,058)	(0.15)	0	0	0.00
Losses on disposal of property and equipment	(471)	(14)	0.00	(393)	(11)	0.00
Miscellaneous expenses	(1,030)	(31)	0.00	(5,725)	(165)	0.00
Subtotal	<u>(168,409)</u>	<u>(5,103)</u>	<u>(0.15)</u>	<u>(6,118)</u>	<u>(176)</u>	<u>0.00</u>
Income from Continuing						
Operations before income taxes	6,722,476	203,711	5.89	6,245,379	179,723	6.38
Income Taxes benefit(expense) (Notes 2, 16)	19,044	577	0.02	(1,279,901)	(36,832)	(1.31)
Net Income	<u>\$6,741,520</u>	<u>\$204,288</u>	<u>5.91</u>	<u>\$4,965,478</u>	<u>\$142,891</u>	<u>5.07</u>
Before income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$1.34</u>	<u>\$0.04</u>		<u>\$1.27</u>	<u>\$0.04</u>	
After income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$1.34</u>	<u>\$0.04</u>		<u>\$1.01</u>	<u>\$0.03</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 LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Expressed in thousands of dollars)**  
**For the Three Months Ended March 31, 2004 and 2003**

Summary	Retained Earnings										Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Unrealized Valuation Losses on Long-term Equity Investment		Cumulative Conversion Adjustments		Treasury Stock		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2003	\$50,686,158	\$1,458,594	\$3,048	\$88	\$13,254,705	\$381,430	\$0	\$0	\$12,973,603	\$373,341	(\$935,733)	(\$26,927)	\$10,829	\$312	(\$7,333,863)	(\$211,046)	\$68,658,747	\$1,975,792
Unrealized valuation losses on long-term equity investment											926,275	26,655					926,275	26,655
Cumulative conversion adjustments													(3)	0			(3)	0
Net Income after Tax for the first quarter									4,965,478	142,891							4,965,478	142,891
Balance on March 31, 2003	\$50,686,158	\$1,458,594	\$3,048	\$88	\$13,254,705	\$381,430	\$0	\$0	\$17,939,081	\$516,232	(\$9,458)	(\$272)	\$10,826	\$312	(\$7,333,863)	(\$211,046)	\$74,550,497	\$2,145,338
Balance on January 1, 2004	\$50,686,158	\$1,535,944	\$5,200	\$158	\$14,552,065	\$440,972	\$6,249,135	\$189,368	\$17,788,827	\$539,055	(\$19,419)	(\$589)	\$4,341	\$132	(\$3,032,966)	(\$91,908)	\$86,233,341	\$2,613,132
Cumulative conversion adjustments													(1,640)	(50)			(1,640)	(50)
Disposal of treasury stock									(9,319)	(282)					3,032,966	91,908	3,023,647	91,626
Net Income after Tax for the first quarter									6,741,520	204,288							6,741,520	204,288
Balance on March 31, 2004	\$50,686,158	\$1,535,944	\$5,200	\$158	\$14,552,065	\$440,972	\$6,249,135	\$189,368	\$24,521,028	\$743,061	(\$19,419)	(\$589)	\$2,701	\$82	\$0	\$0	\$95,996,868	\$2,908,996

(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 LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of dollars)  
**For the Three Months March 31, 2004 and 2003**

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Year	\$6,741,520	\$204,288	\$4,965,478	\$142,891
Adjustments:				
Recovered bad debts	(15,312)	(464)	0	0
Loss (gain) on bad debts	0	0	421,271	12,123
Depreciation	561,640	17,019	550,899	15,853
Provision for reserve for operation	62,842,202	1,904,309	54,368,601	1,564,564
Recovered unearned premium reserve	(561,101)	(17,003)	(4,514,050)	(129,901)
Recovered reserve for life insurance	(22,238,895)	(673,906)	(22,214,631)	(639,270)
Applicant terminates the insurance contract income	(1,035,121)	(31,367)	(611,910)	(17,609)
Provision loss on short-term investment	0	0	64,331	1,851
Loss (gain) on disposal of property and equipment	(559)	(17)	40	1
Loss (gain) on disposal of investment	(519)	(16)	(1,916,742)	(55,158)
Loss (gain) on disposal of real estate	2,639	80	177	5
Amortization long-term investments in bond	15,125	458	8,545	246
Unrealized loss (gain) on long-term investments	(7,239)	(219)	(9,972)	(287)
Effects of exchange rate change:	166,908	5,058	2,329	67
Decrease (increase) in short-term investment	(7,836,684)	(237,475)	(24,666,558)	(709,829)
Decrease (increase) in notes receivable	5,005,180	151,672	6,358,232	182,971
Decrease (increase) in notes and accounts receivable-related parties	(1,129,350)	(34,223)	1,110	32
Decrease (increase) in prepayment	(61,564)	(1,866)	(1,016)	(29)
Decrease (increase) in prepaid pension	0	0	76,930	2,214
Decrease (increase) in other current assets	30,196	916	542,132	15,601
Decrease (increase) in temporary payments and suspense accounts	(168,691)	(5,112)	(29,184)	(840)
Decrease (increase) in deferred income tax asset	(17,794)	(539)	(23,656)	(681)
Increase (decrease) in notes payable	(28)	(28)	(970)	(28)
Increase (decrease) in accounts payable-related parties	(128,165)	(3,884)	60,363	1,737
Increase (decrease) in accrued expense	(2,027,841)	(61,450)	(1,211,402)	(34,859)
Increase (decrease) in other payable	(1,156,931)	(35,059)	(865,753)	(24,914)
Increase (decrease) in accounts collected in advance	(346,801)	(10,509)	136,085	3,916
Increase (decrease) in other current liabilities	(8,780)	(266)	(40,823)	(1,175)
Increase (decrease) in accrued pension liabilities	175,504	5,318	121,955	3,509
Increase (decrease) in temporary receipts and suspense accounts	158,089	4,791	50,853	1,464
Increase (decrease) in deferred income tax liabilities	(49,326)	(1,495)	(1,979)	(57)
Net Cash Provided by (Used in) Operating Activities	<u>38,908,302</u>	<u>1,179,039</u>	<u>11,620,685</u>	<u>334,408</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivable	(7,811,001)	(236,697)	0	0
(Decrease) increase in forward exchange payable	0	0	68,102	1,960
Decrease (increase) in policy loan	1,255,029	38,031	1,374,541	39,555
Decrease (increase) in secured loan	5,920,608	179,412	1,185,942	34,128
Acquisition of long-term investments Non Subsidiary	(8,361,119)	(253,367)	(1,205,000)	(34,676)
Proceeds from disposal of long-term investment - Non Subsidiary	350,526	10,622	12,449,193	358,250
Disposal of investments in real estate	1,489,104	45,124	2,775	80
Acquisition of investments in real estate	(8,327,440)	(252,346)	(353,262)	(10,166)
Disposal of property and equipment	7,629	231	2,508	72
Acquisition of property and equipment	(79,746)	(2,416)	(178,008)	(5,123)
Decrease (increase) in non-operating asset	605,260	18,341	(69,846)	(2,010)
Decrease (increase) in guarantee deposits paid	(369,871)	(11,208)	(10,905)	(314)
Decrease (increase) in overdue receivable	78,123	2,367	58,394	1,681
Net Cash Provided by (Used in) Investing Activities	<u>(15,242,898)</u>	<u>(461,906)</u>	<u>13,324,434</u>	<u>383,437</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 LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CASH FLOWS-(Continued)**  
**(Expressed in thousands of dollars)**  
**For the Three Months March 31, 2004 and 2003**

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	(16,426)	(498)	12,245	353
Disposal of treasury stock	3,023,647	91,626	0	0
Net Cash Provided by (Used in) Financing Activities	<u>3,007,221</u>	<u>91,128</u>	<u>12,245</u>	<u>353</u>
Effects of Exchange Rate Changes	(166,908)	(5,058)	(2,329)	(67)
Increase(decrease) in Cash and Cash Equivalents	26,505,717	803,203	24,955,035	718,131
Cash and Cash Equivalents at the Beginning of Year	110,832,510	3,358,561	135,061,552	3,886,663
Cash and Cash Equivalents at the End of Year	<u>\$137,338,227</u>	<u>\$4,161,764</u>	<u>\$160,016,587</u>	<u>\$4,604,794</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the year	\$2,851	\$86	\$517	\$15
Less: Capitalization of interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Interest paid (excluding capitalized interest)	<u>\$2,851</u>	<u>\$86</u>	<u>\$517</u>	<u>\$15</u>
Income tax paid	<u>\$26,399</u>	<u>\$800</u>	<u>\$198,266</u>	<u>\$5,705</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 LIFE 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 LIFE INSURANCE CO., LTD. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became the subsidiary of CATHAY FINANCIAL HOLDING CO., LTD. (“Cathay Financial Holding”) by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC.

## **2. Summary of Significant Accounting Policies**

We prepared the financial statements 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 Personal Insurance Industries.” The summary of significant accounting policies is as follows:

### *(1) Distinguish Assets from liabilities, current and non-current*

Current assets mean assets can be liquidated or disposed within one year; assets do not belong to current assets are classified as noncurrent assets. Current liabilities mean debts must be paid-off within period of one year; debts do not belong to current liabilities are classified as noncurrent liabilities.

### *(2) Cash and Cash Equivalents*

Cash equivalents include all highly liquid investments with insignificant rate of risk and with original maturities of three months or less from the date of acquisition.

### *(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. 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.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Short-term notes are recorded at cost when acquired and stated on the balance sheet date, if the market value is available. The cost of notes, interest income, and gain or loss, either due to maturity or resulting from the sale of notes is determined by the specific identification method.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined based on the weighted-average method.

*(4) Allowance for Bad and Doubtful Debts*

Allowance for bad debts is evaluated based on the possibilities of overdue receivable and secured loan losses.

*(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 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 the Company have significant operational influence.

If changes occur in the capital structure of the invested companies causing an increase or decrease of the value of the stock, and the Company can no longer maintain its original shareholding of interest, adjustments will be made 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.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

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 are accounted for at cost, and any premium or discount is amortized based on a reasonable and systematic basis.

*(6) Investments in Real Estate*

Investments in real estate are stated at cost when acquired.

Improvement and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

Upon disposal of an item of investments in real estate, the related cost and accumulated depreciation are removed from the accounts.

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 (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is building lease and all are intended for business leasing; rents can be paid yearly, semi-yearly, quarter and lump sum.

*(7) Property and Equipment*

Property and equipment are stated at cost or cost plus appreciation. Land and asset depreciation, according to law, should be reevaluated separately, the appreciation should be listed under “capital surplus”, according to related regulation. The capital surplus is merely used for making up for the loss and for the increase of capital.

Major additions, renewals and betterment are capitalized, while repairs and maintenance are expensed currently.

Upon sale or disposal of properties and equipments, 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 is calculated using the straight-line method over, the estimated service lives prescribed by the Executive Yuan Depreciation Table. When the economic useful lives expire, property and equipment still in use are depreciated based on the residual value.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

*(8) Deferred Charges*

According to the regulation set by the ROC Ministry of Finance (the “MOF”), the Company allocated a “stabilization fund “and an offsetting account “stabilization fund reserve”. These two accounts should not be listed in the financial statements due to their offsetting nature. From 1993 to March 31, 2004, the amount of NT\$2,064,889(US\$62,572) has been appropriated to this fund.

*(9) Guaranteed Depository Insurance Payment*

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

*(10) Reserve for Operations*

Reserves for the operations are organized according to the Insurance Law. These reserves include the Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. The figures for these reserves are provided by actuaries.

The MOF passed a new regulation, stating that when the accumulated gross amount of “Special Reserve for the Loss Movement” exceeds 30% of the gross amount of “net earned premium,” its surplus should be treated as income.

In addition, according to the MOF regulation passed on December 30, 2002, the surplus from the “Special Reserve for the Loss Movement” should be placed as Special Reserve under proprietary equity after the Board of Directors has approved the surplus appropriation act. This amount may not be allocated or used for other purposes unless approved by the MOF.

The Company has a surplus of NT \$6,249,135(US\$189,368) from the “Special Reserve for the Loss Movement” in 2004.

*(11) Insurance Premiums Income and Expenses*

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

Reinsurance premiums income 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. Adjustments are made at year-end and are based on past experience.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

*(12) 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 ROC Securities and Futures Commissions ("SFC") regulations, the Company follows the ROC Statement 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.

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".

*(13) Foreign currency Transactions*

A. Conversion of foreign currency transactions

Foreign currency transactions are recorded in New Taiwan Dollars ("NT dollars") at the rate of exchange when the conversion occurs. 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 year-end exchange rate, and exchange gains or losses are credited or charged to current income.

B. Conversion of foreign subsidiaries' statements

Financial statements of foreign subsidiaries accounted for by the equity method are converted into NT dollars as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income Statements items are converted by the weighted-average exchange rate for the year. Differences arising from above conversions are reported as "Cumulative Conversion Adjustments" under stockholders' equity as a separate item.

When the financial statements of a foreign operation are converted into local currency, the foreign currency financial statements should first be converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result if the conversion is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

recognized in the current period because it directly affects the cash flows of the foreign operation.

*(14) Income Taxes*

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

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

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

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 effectively since year 2003 under the Integrated Income Tax Systems. If there is any tax effects due to adopt forgoing Integrated Income Tax System, parent company can proportion to allocate the effects on tax expense(benefit)、 deferred income tax and tax payable(tax refund receivable) among the company .

*(15) Distinguish between Capital Expenditure and Revenue Expenditure*

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.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

*(16) Treasury Stock*

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

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retired treasury stock to total issued stock. When the book value of the retired treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus. If the capital surplus 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.

*(17) Derivative Financial Products Transaction*

A. Forward exchange contract for hedging

The purpose of the forward exchange contracts held by the Company is to hedge the risks that may result from changes in currency rates. Transactions on forward exchange contracts are recognized 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. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are credited or charged to current income.

B. Currency swap (CS)

The purpose of the CS held by the Company is to hedge the risks that may result from changes in currency rates. CS transactions are recognized 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. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheets date are recognized to current income. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.

The net value of receivables and payables of the foreign currency options and forward exchange contracts is offset as an asset or a liability in the balance sheets.



**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

C. Cross-currency swap (CCS)

The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contract date. Interest's rates are determined according to the applicable interest rate within the agreed period. The difference is credited or charged to the current income.

D. Interest rate swap agreements (IRS)

The interest rate swap agreements are used for the purpose of hedging risks and are adjusted for interest revenue or expenses based on the interest difference as of agreed date of settlement.

*(18) Investment-linked products*

The company sells investment-linked products, of which the insured should pay the insurance fees according to the agreement amount less the expenses incurred by the insurers. In addition, the investment distribution is appointed or approved by the insured and then transferred to specific accounts as requested by the insurers. The value of these specific accounts is determined based on the market value of that day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

The Company establishes special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of "Personal Insurance Accounting Standards in Sale-Investment-Linked Insurance Products". The above accounts can be recorded under items "investment-linked products assets", "investment-linked products liabilities", "investment-linked products revenues", and "investment-linked products expenses", respectively.

*(19) Convenience Conversion Into U.S. 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 is 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 have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

**3. Changes in Accounting and its Effects:** None

**4. Cash and Cash Equivalents**

	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cash on hand	\$385,705	\$11,688	\$403,917	\$11,624
Cash in banks	3,296,269	99,887	6,043,588	173,916
Time deposits	62,145,581	1,883,199	92,549,841	2,663,305
Cash equivalents	71,510,672	2,166,990	61,019,241	1,755,949
Total	\$137,338,227	\$4,161,764	\$160,016,587	\$4,604,794

**5. Short-Term Investments**

	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Parent stock	\$0	\$0	\$856,726	\$24,654
Less: Allowance for valuation loss	(0)	(0)	(465,704)	(13,402)
Subtotal	0	0	391,022	11,252
Common stock and				
Beneficiary certificates	130,301,287	3,948,524	104,940,275	3,019,864
Overseas investments	173,309,314	5,251,797	89,733,413	2,582,257
Appoint purpose trust funds	51,697,757	1,566,599	49,588,812	1,427,016
Corporate bonds	7,714,171	233,763	10,806,804	310,987
Government bonds	13,963,196	423,127	14,062,517	404,677
Financial debentures	18,000,000	545,455	15,099,550	434,519
Short-term notes	78,975,857	2,393,207	85,544,550	2,461,714
Subtotal	473,961,582	14,362,472	369,775,921	10,641,034

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Less: Cash equivalents	(71,510,672)	(2,166,990)	(61,019,241)	(1,755,949)
Allowance for				
valuation loss	<u>(0)</u>	<u>(0)</u>	<u>(4,670,892)</u>	<u>(134,414)</u>
Subtotal	<u>402,450,910</u>	<u>12,195,482</u>	<u>304,085,788</u>	<u>8,750,671</u>
Total	<u>\$402,450,910</u>	<u>\$12,195,482</u>	<u>\$304,476,810</u>	<u>\$8,761,923</u>

**6. Loans**

*(1) Policy Loans*

A. Loans secured by policies issued by Cathay Life Insurance Co., Ltd.

B. Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment can make written statements, requesting the Company to pay the premium and interests payable by using the Company's "policy value reserve" prior to the due date or before the insurance contract's termination date. However, applicants may also choose to inform the Company by writing instead of paying such installments

*(2) Secured Loans*

	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$66,501	\$2,015	\$103,152	\$2,969
Less: Allowance for				
bad debts	<u>(426)</u>	<u>(13)</u>	<u>(660)</u>	<u>(19)</u>
Subtotal	<u>66,075</u>	<u>2,002</u>	<u>102,492</u>	<u>2,950</u>
Medium-term secured				
loans	9,523,199	288,582	9,460,658	272,249
Less: Allowance for bad				
debts	<u>(61,148)</u>	<u>(1,853)</u>	<u>(62,710)</u>	<u>(1,804)</u>
Subtotal	<u>9,462,051</u>	<u>286,729</u>	<u>9,397,948</u>	<u>270,445</u>
Long-term secured loans	281,144,065	8,519,517	309,728,586	8,913,053
Less: Allowance for bad				
debts	<u>(1,879,834)</u>	<u>(56,965)</u>	<u>(2,171,241)</u>	<u>(62,482)</u>
Subtotal	<u>279,264,231</u>	<u>8,462,552</u>	<u>307,557,345</u>	<u>8,850,571</u>
Total	<u>\$288,792,357</u>	<u>\$8,751,283</u>	<u>\$317,057,785</u>	<u>\$9,123,966</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

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

**7. Long-Term Investments**

(A) Long -term Investments in Stocks

<u>Investee</u>	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$11,377	\$380,209	\$10,941
Vista Technology Venture Capital Corp.	68,181	2,066	82,994	2,388
Omnitek Venture Capital Corp.	150,572	4,563	152,693	4,394
Wa Tech Venture Capital Co., Ltd.	179,871	5,451	176,034	5,066
IBT Venture Capital Corp. Cathay Insurance (Bermuda) Co., Ltd.	565,288	17,130	590,214	16,985
Symphox Information Co., Ltd.	55,359	1,677	53,071	1,527
Cathay Securities Investment Trust Co., Ltd.	255,548	7,744	255,171	7,343
Cathay Venture Capital Crop.	213,685	6,475	200,429	5,768
Lin Yuan Property Management Co., Ltd.	221,331	6,707	143,177	4,120
Cathay Securities Investment Co., Ltd.	16,140	489	34,761	1,000
Subtotal	<u>18,577</u>	<u>563</u>	<u>6,411</u>	<u>185</u>
	<u>2,119,992</u>	<u>64,242</u>	<u>2,075,164</u>	<u>59,717</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

B. Under the cost method:

Cathay Financial Holding Co., Ltd.	0	0	12,888,129	370,881
Chunghwa Telecom Co., Ltd.	33,581,819	1,017,631	33,433,070	962,103
WK Technology Fund Co., Ltd.	100,000	3,030	100,000	2,878
Taiwan Aerospace Company	110,500	3,348	260,000	7,482
Koo Group Telecommunications Co., Ltd.	401,361	12,163	749,998	21,583
Concord Venture Capital Co., Ltd.	89,280	2,706	89,280	2,569
Taipei Financial Center Corp.	1,441,591	43,685	1,441,591	41,485
InveStar Dayspring V.C. Inc.	200,000	6,061	200,000	5,755
FAT Venture Capital Co., Ltd.	50,000	1,515	50,000	1,439
Concord Venture Capital Co., Ltd.	50,000	1,515	50,000	1,439
WK Technology Fund Co., Ltd.	150,000	4,545	150,000	4,316
WK Technology Fund Co., Ltd.	127,200	3,855	127,200	3,660
Century Venture Capital Co., Ltd.	100,000	3,030	100,000	2,878
China Power Venture Capital Co., Ltd.	190,000	5,758	190,000	5,468
Super Tech Venture Capital Corp.	100,000	3,030	100,000	2,878
CDIB & Partners Investment Holding Corp.	500,000	15,152	500,000	14,388
Alex-Tech Machinery Industrial Co., Ltd.	7,008	212	21,000	604
R.O.C. Venture Capital Co., Ltd.	151,970	4,605	151,970	4,373
National Venture Capital Co., Ltd.	100,000	3,030	100,000	2,878

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

WK Technology Fund				
Co., Ltd.	200,000	6,061	200,000	5,755
Capital Venture Fund				
Corp.	50,000	1,515	50,000	1,439
Fu Yu Venture Capital				
Investment Corp.	200,000	6,061	200,000	5,755
Concord Venture				
Capital Co., Ltd.	100,000	3,030	100,000	2,878
Allied Material Technology				
Corp.	0	0	98,400	2,832
New Century InfoComm				
Tech Co., Ltd.	1,268,000	38,424	1,268,000	36,489
Srsuntour Co., Ltd.	62,000	1,879	62,000	1,784
Titan Venture Capital				
Co., Ltd.	150,000	4,545	150,000	4,316
Harbinger Venture Capital				
Corp.	200,000	6,061	200,000	5,755
Prosperity Venture Capital				
Corp.	100,000	3,030	100,000	2,878
KGEx.com Co., Ltd.	175,000	5,303	175,000	5,036
United Venture Corp.	50,000	1,515	50,000	1,439
BioCare Corp.	12,000	364	12,000	345
Megic Corp.	18,000	545	18,000	518
WK Technology Fund				
Co., Ltd.	200,000	6,061	200,000	5,755
Hua Chih Venture Capital				
Corp.	60,000	1,818	60,000	1,727
Jih Sun Venture Capital				
Investment Co., Ltd.	80,000	2,424	80,000	2,302
Formosa Epitaxy Inc.	0	0	20,500	590
Win Semiconductors Corp.	16,364	496	50,949	1,466
Kinik Precision Grinding				
Co., Ltd.	6,000	182	6,000	173
Vita Genomics Inc.	87,500	2,652	87,500	2,518
Tong Hsing Electronic Inc.				
Co., Ltd.	27,144	823	27,144	781
China Technology Venture				
Capital Corp.	50,000	1,515	50,000	1,439
Daiwa Securities				
SMBC-Cathay Co., Ltd.	259,200	7,855	259,200	7,459

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Applied Vacuum Coating Technologies Co., Ltd.	6,661	202	6,661	192
TaiGen Biotechnology Co., Ltd.	42,000	1,273	16,500	475
Cdid BioScience venture Inc.	285,000	8,636	285,000	8,201
Maxima Venture , Inc, Taiwan	221,130	6,701	126,630	3,644
Parawin Venture Capital Co., Ltd.	50,000	1,515	50,000	1,439
Darly 3 Venture Co., Ltd.	20,000	606	20,000	575
Top Taiwan Venture Capital Co., Ltd.	50,000	1,515	50,000	1,439
Cash Box Audio and Video Co., Ltd.	200,000	6,061	200,000	5,755
Richtech Technology Co., Ltd.	0	0	28,806	829
Hua Venture Capital Corp.	50,000	1,515	50,000	1,439
Shin Sheng Venture Capital Investment Corp.	50,000	1,515	50,000	1,439
Centillion Venture Capital Corp.	50,000	1,515	50,000	1,439
Harbinger Venture Capital Corp.	100,000	3,030	100,000	2,878
Unitive Semiconductor Taiwan Corp.	46,800	1,418	46,800	1,347
Honey Hope Honesty Taiwan High Speed Rail-preferred stock	0	0	55,000	1,583
	1,000,000	30,303	1,000,000	28,777
Enermax Technology Corp.	47,600	1,442	0	0
Creative Sensor Inc.	11,820	358	0	0
Tong Lung Metal Industry Co., Ltd. -preferred stock	300,000	9,091	0	0
Hsin Tao Power Corp.	640,000	19,394	0	0
CTBI Venture Capital Co., Ltd.	50,000	1,515	0	0
Subtotal	44,042,948	1,334,635	56,362,328	1,621,937
Total	\$46,162,940	\$1,398,877	\$58,437,492	\$1,681,654

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

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

	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$2,114,394	\$64,073	\$2,065,196	\$59,430
Add: Investment gains (losses) by equity method recognized	7,238	219	9,972	287
Cumulative translation adjustments	(1,640)	(50)	(4)	0
Balance on March 31,	<u>\$2,119,992</u>	<u>\$64,242</u>	<u>\$2,075,164</u>	<u>\$59,717</u>

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

<b>Investee</b>	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$45	\$1	(\$322)	(\$9)
Symphox Information Co., Ltd.	(3,077)	(93)	7,221	208
Cathay Securities Investment Trust Co., Ltd.	6,084	184	1,703	49
Cathay Venture Capital Corp.	76	2	883	25
Lin Yuan Property Management Co., Ltd.	1,011	31	3,503	101
Cathay Securities Investment Co., Ltd.	3,099	94	(3,016)	(87)
Total	<u>\$7,238</u>	<u>\$219</u>	<u>\$9,972</u>	<u>\$287</u>

- (1) It is not practicable for some investee companies under the equity method to provide timely audited financial statements. If the Company owns less than 50% interest of such investees, the recognition investment gains or losses for those investees shall be deferred to next year. That is, the Company will recognize its investment gains or losses in proportion to its equivalent stock ownership in the following year.



**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

The Company owns less than 50% voting share of the following investees: The WK Technology Fund Co., Ltd. Vista Technology Venture Capital Corp. Omnitek Venture Capital Corp. Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. for the three months ended March 31, 2004 and 2003.

- (2) The investment gains (losses) of investee companies for the three months ended March 31, 2004 and 2003 were recognized based on unreviewed financial statements. Those investee companies are Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Cathay Securities Investments Trust Co., Ltd. Cathay Venture Capital Corp., Lin Yuan Property Management Co., Ltd. and Cathay Securities Investment Co., Ltd.

### 8. Long-Term Investments in Bonds

Long-term investments in bonds consist mainly of government bonds as of March 31, 2004 and 2003. Partial Bonds are deposited in The Central Bank of China as Capital Guarantee Deposits. As of March 31, 2004 and 2003, the capital guarantee deposits amounted to \$7,927,253 (US\$240,220) and \$7,724,837 (US\$222,297), respectively, categorized under securities serving as deposits paid-bonds of other assets. Please see note 19, “Pledged Assets” for details.

### 9. Investments in Real Estate

Item	March 31, 2004							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real								
estate	\$94,101,363	\$2,851,556	\$4,747	\$144	(\$12,093,966)	(\$366,484)	\$82,012,144	\$2,485,216
Construction	10,548,924	319,665	0	0	0	0	10,548,924	319,665
Prepayments for								
buildings and land	8,200,000	248,485	0	0	0	0	8,200,000	248,485
Total	\$112,850,287	\$3,419,706	\$4,747	\$144	(\$12,093,966)	(\$366,484)	\$100,761,068	\$3,053,366

**CATHAY LIFE 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							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$93,988,166	\$2,704,695	\$5,132	\$148	(\$10,745,472)	(\$309,222)	\$83,247,826	\$2,395,621
Construction	10,711,587	308,247	0	0	0	0	10,711,587	308,247
Prepayments for buildings and land	414	12	0	0	0	0	414	12
<b>Total</b>	<b>\$104,700,167</b>	<b>\$3,012,954</b>	<b>\$5,132</b>	<b>\$148</b>	<b>(\$10,745,472)</b>	<b>(\$309,222)</b>	<b>\$93,959,827</b>	<b>\$2,703,880</b>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Real estate investment's rents can be paid yearly, semi-yearly, quarter and lump sum.
- (3) The insurance coverage on investments in real estate was stated at book value.

## 10. Property and Equipment

Item	March 31, 2004							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,223,220	\$158,279	\$2,027	\$62	\$0	\$0	\$5,225,247	\$158,341
Buildings and structures	11,442,532	346,743	0	0	(3,166,369)	(95,951)	8,276,163	250,792
Communication and transportation equipment	124,820	3,783	0	0	(58,413)	(1,770)	66,407	2,013
Other equipment	4,275,284	129,554	0	0	(2,418,816)	(73,297)	1,856,468	56,257
<b>Sub-total</b>	<b>21,065,856</b>	<b>638,359</b>	<b>2,027</b>	<b>62</b>	<b>(5,643,598)</b>	<b>(171,018)</b>	<b>15,424,285</b>	<b>467,403</b>
Construction in progress	74,194	2,248	0	0	0	0	74,194	2,248
Prepayment for equipment	37,219	1,128	0	0	0	0	37,219	1,128
<b>Total</b>	<b>\$21,177,269</b>	<b>\$641,735</b>	<b>\$2,027</b>	<b>\$62</b>	<b>(\$5,643,598)</b>	<b>(\$171,018)</b>	<b>\$15,535,698</b>	<b>\$470,779</b>

**CATHAY LIFE 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							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,565,104	\$160,147	\$1,643	\$47	\$0	\$0	\$5,566,747	\$160,194
Buildings and structures	10,818,088	311,312	0	0	(2,981,494)	(85,798)	7,836,594	225,514
Communication and transportation equipment	145,400	4,184	0	0	(55,361)	(1,593)	90,039	2,591
Other equipment	4,082,973	117,496	0	0	(2,147,398)	(61,796)	1,935,575	55,700
Sub-total	20,611,565	593,139	1,643	47	(5,184,253)	(149,187)	15,428,955	443,999
Construction in progress	503,298	14,483	0	0	0	0	503,298	14,483
Prepayment for equipment	201,220	5,791	0	0	0	0	201,220	5,791
Total	\$21,316,083	\$613,413	\$1,643	\$47	(\$5,184,253)	(\$149,187)	\$16,133,473	\$464,273

No property and equipment was pledged as collateral. The insurance coverage on property and equipment and real estate investments are stated at book value.

### 11. Overdue Receivables

	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,595,504	\$78,652	\$5,630,398	\$162,026
Less: Allowance for bad and doubtful debts	(1,297,752)	(39,326)	(2,815,199)	(81,013)
Total	<u>\$1,297,752</u>	<u>\$39,326</u>	<u>\$2,815,199</u>	<u>\$81,013</u>

### 12. Capital Stock and Capital Increment

As of March 31, 2004 and 2003, the total authorized shares were the same 5,068,615,765, with par value of NT\$10 dollars each.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

**13. Retained Earnings**

(1) Legal Reserve

Pursuant to the ROC Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficit and can not be used for the purpose of cash dividend distribution. 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 the Board of Directors.

(2) Unappropriated Retained Earnings

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. After distributing stock interests and 2% of the total remaining distribution as bonus for employees, the remainder shall be allocated in accordance with a resolution in the Board of Directors' 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 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.

C. According to the revised ROC Tax Law ("Tax Law") of 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

**14. Treasury Stock**

(1) The Company's treasury stock variation for the three months ended March 31, 2004 are as follows:

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

(Unit: thousand shares)

Reason for transfer	Jan. 1, 2004	Increase	Decrease	March 31, 2004
Transferred it to employees	51,551	0	51,551	0
Total	51,551	0	51,551	0

- (2) Pursuant to the ROC Securities and Exchange Law, the outstanding issued shares, which a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 30, 2001, the Company had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$222,238).
- (3) Treasury stock of the Company was converted into common stock of Cathay Financial Holding on December 31, 2001. As a result of this conversion, Cathay Financial Holding owned 100% of the Company's shares.
- (4) The Company had been transferred 51,551,000 shares to its employees at transferred price of NT58.83 dollars/share (US1.78dollars/share) and was approved by the SFC on March 13, 2004. After the transfer transaction, the treasury stock holdings of the Company have been reduced to 0 shares.

**15. Personnel, Depreciation, Depletion and Amortizations**

Item	For the three months ended March 31,2004 (NT\$)			For the three months ended March 31,2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	3,966,314	1,285,463	5,251,777	4,398,364	1,225,649	5,624,013
Labor & health Insurance expenses	287,653	50,050	337,703	303,714	45,383	349,097
Pension expenses	211,131	36,736	247,867	239,837	35,838	275,675
Other expenses	239,970	48,734	288,704	253,667	48,610	302,277
Depreciation	0	561,640	561,640	0	550,899	550,899
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Item	For the three months ended March 31, 2004			For the three months ended March 31, 2003		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	120,191	38,954	159,145	126,572	35,270	161,842
Labor & health Insurance expenses	8,717	1,516	10,233	8,740	1,306	10,046
Pension expenses	6,398	1,113	7,511	6,902	1,031	7,933
Other expenses	7,272	1,477	8,749	7,300	1,399	8,699
Depreciation	0	17,019	17,019	0	15,853	15,853
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

The total number of employees is 28,332 on March 31, 2004.

## 16. Estimated Income Taxes

*Income tax expenses include the following:*

	For the three months ended March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Income before Taxes	\$6,722,476	\$203,711	\$6,245,379	\$179,723
Adjustments				
Interest income of tax on a separate basis	(251,714)	(7,628)	(288,703)	(8,308)
Loss (gain) on disposal of investments	(6,740,261)	(204,250)	(1,010,895)	(29,091)
Loss (gain) on market price loss (recovery) of short-term investments	0	0	64,331	1,851
Unrealized exchange loss (gain)	166,908	5,058	(52,482)	(1,510)
Cash Dividend	0	0	(30,506)	(878)
Others	62,816	1,904	75,889	2,184
Taxable Income	(39,775)	(1,205)	5,003,013	143,971

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Times; Taxes Rate; Less:				
Progressive difference	25%-10	25%	25% - 10	25%
Add: Extra 10% Income Tax on Undistributed Retained Earnings	324,779	9,841	-	-
Less: Tax effects under integrated income tax systems	<u>(324,779)</u>	<u>(9,841)</u>	<u>-</u>	<u>-</u>
Subtotal	0	0	1,250,743	35,993
Add: Tax on a separate basis	50,343	1,526	57,742	1,662
Beginning deferred income tax assets	270,265	8,190	649,565	18,692
Ending deferred income tax liabilities	1,085,861	32,905	1,249,246	35,950
Less: Income tax credit	(2,266)	(69)	(2,949)	(85)
Beginning deferred income tax liabilities	(1,135,785)	(34,418)	(1,432,194)	(41,214)
Ending deferred income tax assets	<u>(287,462)</u>	<u>(8,711)</u>	<u>(492,252)</u>	<u>(14,166)</u>
Total Income Taxes expense (benefit)	<u>(\$19,044)</u>	<u>(\$577)</u>	<u>\$1,279,901</u>	<u>\$36,832</u>

(1) The Company's income tax returns, except for the 1999, had been filed and assessed by the Tax Authorities as the end of the 2000.

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

	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
A. Total deferred tax liabilities	\$1,085,861	\$32,905	\$1,249,246	\$35,950
Total deferred tax assets	\$287,462	\$8,711	\$492,252	\$14,166
B. Temporary differences:				
Employee benefits	\$27,553	\$835	\$59,339	\$1,708
Unrealized exchange gains (Losses)	(4,376,233)	(132,613)	(4,786,650)	(137,745)
Bad debts exceeding limit	187,498	5,682	1,667,176	47,976
Pension expense	907,995	27,515	0	0
Other	19,813	600	32,159	925
C. Deferred tax assets-current	\$9,944	\$301	\$15,986	\$460

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Deferred tax liabilities-				
current	<u>(1,085,861)</u>	<u>(32,905)</u>	<u>(1,230,014)</u>	<u>(35,396)</u>
Net offset balance of				
deferred tax assets				
(liabilities)-current	<u>(\$1,075,917)</u>	<u>(\$32,604)</u>	<u>(\$1,214,028)</u>	<u>(\$34,936)</u>
D. Deferred tax				
assets-noncurrent	\$277,518	\$8,410	\$476,266	\$13,706
Deferred tax Liabilities-				
noncurrent	<u>(0)</u>	<u>(0)</u>	<u>(19,232)</u>	<u>(554)</u>
Net offset balance of				
deferred income tax assets				
(liabilities) - noncurrent	<u>\$277,518</u>	<u>\$8,410</u>	<u>\$457,034</u>	<u>\$13,152</u>

(3) Information related to tax imputation

	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation				
credit account	<u>\$1,438,949</u>	<u>\$43,605</u>	<u>\$3,850,520</u>	<u>\$110,806</u>

	For the three months ended March 31,	
	<u>2004</u>	<u>2003</u>
Imputation credit account ratio		
( cash dividends ) - Actual June		
2, 2003	<u>-</u>	<u>30.17%</u>
Imputation credit account ratio		
( cash dividends ) - Estimate	<u>5.90%</u>	<u>-</u>

(4) Related Information on Undistributed Earnings



**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Year	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$105,651	\$3,040
After 1998	<u>17,788,827</u>	<u>539,055</u>	<u>12,867,952</u>	<u>370,301</u>
Total	<u>\$17,788,827</u>	<u>\$539,055</u>	<u>\$12,973,603</u>	<u>\$373,341</u>

Net income after tax for the three months ended March 31, 2004 and 2003 were not induced in unappropriated earnings computation since 1998.

- (5) The details of the tax credit for the Company meets the requirements of “Statute for Upgrading Industries”, are as follows:

Law of income tax deduction	The deductible items	The amount of deductible income tax	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	<u>NT\$2,266(US\$69)</u>	<u>\$0</u>	2008

**17. Earning Per Share**

	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	<u>\$6,722,476</u>	<u>\$203,711</u>	<u>\$6,245,379</u>	<u>\$179,723</u>
Net income (b)	<u>\$6,741,520</u>	<u>\$204,288</u>	<u>\$4,965,478</u>	<u>\$142,891</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,068,615,765	5,068,615,765
Weighted average outstanding number of shares (c)	5,025,562,182	5,025,562,182	4,911,688,765	4,911,688,765
Before income taxes Earnings per share (a) / (c) (dollars)	<u>\$1.34</u>	<u>\$0.04</u>	<u>\$1.27</u>	<u>\$0.04</u>
After income taxes Earnings per share (b) / (c) (dollars)	<u>\$1.34</u>	<u>\$0.04</u>	<u>\$1.01</u>	<u>\$0.03</u>

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

(Shares)	For the three months ended March 31,	
	2004	2003
Shares at the beginning of year	5,068,615,765	5,068,615,765
Less: Treasury stock	(51,551,000)	(156,927,000)
Disposal of the treasury stock	8,497,417	0
Total	<u>5,025,562,182</u>	<u>4,911,688,765</u>

## 18. Related Party Transactions

### (1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Lin Yuan Property Management Co., Ltd.	Subsidiary of the company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the company
Symphox Information Co., Ltd.	Subsidiary of the company
Cathay Securities Investment Co., Ltd.	Subsidiary of the company
Cathay Real Estate Development Co., Ltd.	Affiliate

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Cathay United Bank Co., Ltd. (Originally merged by United World Chinese Commercial Bank and Cathay United Bank, effective merged dated on October 27, 2003)	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd. (Originally merged by Seaward Insurance Agent Co., Ltd. and Cathay Life Insurance Agent Co., Ltd., effective merged date on March 25, 2004)	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay Property Insurance Agent Co., Ltd.	Affiliate
Seaward Futures Co., Ltd.	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Seaward Property Insurance Agent Co., Ltd.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Indovina Bank	Affiliate
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Cathay Venture Capital Co., Ltd.	The investee is accounted for using equity method
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
Cathay Life Charity Foundation	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
KG Telecommunication Co., Ltd.	The company is to occupy the supervisor for KG Telecommunication LTD..(resigned on Jan. 19, 2004 )
Grand Pacific Petrochemical Corporation	The ex-president of United World Chinese Commercial Bank was appointed as the vice president of the Company(resigned in year 2003 )

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

(2) *Significant Transactions with Related Parties*

A Property Transactions (From related parties):

(A) Transactions between the Company and related parties are real estate, constructions, and lease transactions. The terms of such transactions are based on market surveys, contracts of both parties.

Name	For the three months ended March 31,2004		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$2,310	\$70
	Hsinyi District Base-D	4,773	145
	Ban Ciao Building	34,878	1,057
	Cathay General Hospital	7,120	216
	Siangyang Building	5,449	165
	Huanyu Building	4,985	151
	Tucheng Office Building	13,720	416
	Jhunan Building	7,160	217
	Other	5,693	172
Cathay Real Estate Development Co., Ltd.	Tucheng office Building	116	3
	Ban Ciao Building	524	16
	Total	<u>\$86,728</u>	<u>\$2,628</u>

Name	For the three months ended March 31,2003		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$2,310	\$66
	Hsinyi District Base-D	244,248	7,029
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	1,071	31
	Tucheng office Building	233	7
	Total	<u>\$247,862</u>	<u>\$7,133</u>

a. The total amount of construction contracts for real estate on March 31, 2004 and 2003 between the Company and San Ching Engineering Co., Ltd. are \$9,576,421 (US\$290,195) and \$9,483,892 (US\$272,918) respectively. Up to March 31 in 2004 and 2003, \$10,063,975 (US\$304,969) and \$9,532,884 (US\$274,328) had been paid according to the schedule of construction contracts.

b. For the three months ended March 31, 2004 and 2003, the Company did not repurchased properties and investments that they had previously sold.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

(B) The Company sold real estate to its related parties for the three months ended March 31, 2004 as follows:

Name	Item	For the three months ended March 31, 2004			
		Sales Amount		Gain or (Loss) on Disposal of Assets	
		NT\$	US\$	NT\$	US\$
Cathay General Hospital	No 678 Sec. 2 Chung-Hwa Rd. Hsinchu	\$1,520,000	\$46,061	(\$8,390)	(\$254)

The Company did not sell any real estate to its related parties for the three months ended March, 2003.

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

Name	Rental income			
	For the three months ended March 31,			
	2004 NT\$	2004 US\$	2003 NT\$	2003 US\$
Cathay Real Estate Development Co., Ltd.	\$5,683	\$172	\$7,553	\$217
San Ching Engineering Co., Ltd.	3,603	109	5,043	145
Cathay Century Insurance Co., Ltd.	13,091	397	12,384	356
Cathay United Bank Co., Ltd.	57,468	1,741	44,517	1,281
Cathay Securities Investment Trust Co., Ltd.	2,167	66	2,272	66
Cathay Financial Holding Co., Ltd.	1,954	59	1,954	56
Cathay General Hospital	39,791	1,206	21,571	621
Symphox Information Co., Ltd.	6,434	195	7,508	216
KG Telecommunication Co., Ltd.	5,834	177	0	0
Other	1,157	35	1,061	31
Total	\$137,182	\$4,157	\$103,863	\$2,989

Name	Guarantee deposits received			
	Mar. 31, 2004	Mar. 31, 2004	Mar. 31, 2003	Mar. 31, 2003
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$176	\$12,386	\$356
San Ching Engineering Co., Ltd.	7,079	214	6,779	195
Cathay Century Insurance Co., Ltd.	13,199	400	12,894	371
Cathay United Bank Co., Ltd.	66,389	2,012	60,151	1,731
Cathay General Hospital	2,337	71	1,983	57

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Cathay Securities Investment Trust				
Co., Ltd.	2,144	65	2,144	62
KG Telecommunication Co., Ltd.	8,400	254	0	0
Other	1,459	44	1,486	43
Total	<u>\$106,803</u>	<u>\$3,236</u>	<u>\$97,823</u>	<u>\$2,815</u>

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

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

Name	Rental Expense			
	For the three months ended March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay Real Estate Development Co., Ltd.	\$7,435	\$225	\$7,859	\$226
Lin Ynan Investment Co., Ltd.	1,670	51	550	16
Total	<u>\$9,105</u>	<u>\$276</u>	<u>\$8,409</u>	<u>\$242</u>

Name	Guarantee Deposits paid			
	Mar. 31, 2004	Mar. 31, 2004	Mar. 31, 2003	Mar. 31, 2003
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,168	\$217	\$9,352	\$269
Lin Ynan Investment Co., Ltd.	1,650	50	1,650	48
Total	<u>\$8,818</u>	<u>\$267</u>	<u>\$11,002</u>	<u>\$317</u>

Lease periods and payments last 3-year in average according to the agreement Unless, buildings agreed by Cathay Real Estate Development Co., Ltd. make use of deposits and interests to offset monthly rental fees.

B. Cash In Bank

Name	Item	For the three months ended March 31, 2004			
		Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay United Bank	Time Deposit	\$10,556,550	\$5,451,550	0.75% ~ 1.90%	\$47,679
Co., Ltd.	Cash In Bank	29,027,360	4,117,913	0.00% ~ 0.20%	0
Total			<u>\$9,569,463</u>		<u>\$47,679</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Name	Item	For the three months ended March 31,2004			
		Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay United Bank	Time Deposit	\$319,895	\$165,199	0.75% ~ 1.90%	\$1,445
Co., Ltd.	Cash In Bank	879,617	124,785	0.00% ~ 0.20%	0
Total			<u>\$289,984</u>		<u>\$1,445</u>

Name	Item	For the three months ended March 31,2003			
		Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay United Bank	Time Deposit	\$9,208,850	\$6,508,850	1.50% ~ 2.65%	\$34,242
Co., Ltd.	Cash In Bank	12,693,027	4,408,324	0.00% ~ 1.75%	1,669
Total			<u>\$10,917,174</u>		<u>\$35,911</u>

Name	Item	For the three months ended March 31,2003			
		Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
United World Chinese Commercial Bank	Time Deposit	\$30,575,000	\$21,300,000	1.25% ~ 2.35%	\$196,015
Co., Ltd.	Cash In Bank	2,232,305	674,795	0.00% ~ 0.20%	0
Total			<u>\$21,974,795</u>		<u>\$196,015</u>

Name	Item	For the three months ended March 31,2003			
		Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay United Bank	Time Deposit	\$265,003	\$187,305	1.50% ~ 2.65%	\$985
Co., Ltd.	Cash In Bank	365,267	126,858	0.00% ~ 1.75%	48
Total			<u>\$314,163</u>		<u>\$1,033</u>

Name	Item	For the three months ended March 31,2003			
		Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
United World Chinese Commercial Bank	Time Deposit	\$879,856	\$612,950	1.25% ~ 2.35%	\$5,641
Co., Ltd.	Cash In Bank	64,239	19,418	0.00% ~ 0.20%	0
Total			<u>\$632,368</u>		<u>\$5,641</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

C. Regular Secured Loans

Name	For the three months ended March 31,2004			
	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	\$1,173,181	\$1,172,992	3.50%	\$10,265

Name	For the three months ended March 31,2004			
	Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay General Hospital	\$35,551	\$35,545	3.50%	\$311

Name	For the three months ended March 31,2003			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	\$1,173,912	\$1,173,734	4.00%~4.25%	\$12,071

Name	For the three months ended March 31,2003			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	\$33,782	\$33,777	4.00%~4.25%	\$347

D. Beneficiary Certificates:

Name	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay Securities Investment Trust Co., Ltd.	\$4,412,281	\$133,705	\$3,567,060	\$102,649

E. Notes Receivable and Accounts Receivable

Name	March 31,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Notes Receivable Cathay Real Estate Development Co., Ltd.	\$2	\$0	\$0	\$0



**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Cathay General Hospital	-	-	34,448	991
Symphox Information Co., Ltd.	-	-	553	16
Subtotal	<u>\$2</u>	<u>\$0</u>	<u>\$35,001</u>	<u>\$1,007</u>
<b>Accounts Receivable</b>				
Cathay General Hospital	\$1,172,390	\$35,527	-	-
Cathay Insurance (Bermuda) Co., Ltd.	4,156	126	-	-
Symphox Information Co., Ltd.	503	15	-	-
Subtotal	<u>\$1,177,049</u>	<u>\$35,668</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$1,177,051</u></u>	<u><u>\$35,668</u></u>	<u><u>\$35,001</u></u>	<u><u>\$1,007</u></u>

**F. Accounts Payable-Related Parties**

Name	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,388	\$72	\$3,968	\$114
Lin Yuan Property Management Co., Ltd.	37,753	1,144	53,038	1,526
Cathay Real Estate Development Co., Ltd.	1,025	31	1,961	57
Symphox Information Co., Ltd.	40,410	1,225	34,669	998
Total	<u><u>\$81,576</u></u>	<u><u>\$2,472</u></u>	<u><u>\$93,636</u></u>	<u><u>\$2,695</u></u>

**G. Prepayment**

Name	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$16,704	\$506	\$38,651	\$1,112
Cathay Real Estate Development Co., Ltd.	1,989	60	0	0
Total	<u><u>\$18,693</u></u>	<u><u>\$566</u></u>	<u><u>\$38,651</u></u>	<u><u>\$1,112</u></u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

H. Accounts Collected in Advance

Name	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,213	\$67	\$2,157	\$62
Cathay General Hospital	425	13	119,205	3,430
Other	311	9	329	10
Total	<u>\$2,949</u>	<u>\$89</u>	<u>\$121,691</u>	<u>\$3,502</u>

I. Guarantee Deposit Paid

Name	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$55,000	\$1,667	\$55,000	\$1,583

Guarantee deposit paid is the guarantee money which deposited at Cathay United Bank Co., Ltd.

J. Insurance Expense

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$105,646	\$3,201	\$121,775	\$3,504

Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on March 31, 2004 and 2003 amounts of \$966 (US\$29) and \$3,370 (US\$97) were paid for employees' fidelity guarantee insurance.

K. Indemnity Income

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$656	\$20	\$380	\$11

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident.

**L. Reinsurance Income**

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$12,790	\$388	\$4,942	\$142

**M. Reinsurance Claims Payment**

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,714	\$52	\$877	\$25

**N. Reinsurance Commission Expense**

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,124	\$34	\$3,117	\$90

**O. Reinsurance Handing Fee Expense**

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,332	\$40	\$206	\$6

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

P. Miscellaneous Income

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$103,396	\$3,133	\$914	\$26
Cathay United Bank Co., Ltd.	9,215	279	-	-
Cathay Securities Investment Trust Co., Ltd.	1,470	45	-	-
<b>Total</b>	<b>\$114,081</b>	<b>\$3,457</b>	<b>\$914</b>	<b>\$26</b>

Q. Commissions Expense

Name	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$57,336	\$1,737	\$8,136	\$234
Seaward Insurance Agent Co., Ltd.	-	-	14,829	427
<b>Total</b>	<b>\$57,336</b>	<b>\$1,737</b>	<b>\$22,965</b>	<b>\$661</b>

R. Other Expense (Marketing Expense)

	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$46,511	\$1,409	\$96,760	\$2,784

S. Repairs And Maintenance (Administrative and general expense)

	For the three months ended March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$162,083	\$4,912	\$184,329	\$5,304

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

San Ching Engineering Co., Ltd.	2,250	68	0	0
Cathay Securities Investment Co., Ltd.	13,125	398	0	0
Cathay Real Estate Development Co., Ltd.	2,250	68	4,818	139
Total	<u>\$179,708</u>	<u>\$5,446</u>	<u>\$189,147</u>	<u>\$5,443</u>

**19. Pledged Assets**

As of March 31, 2004 and 2003, the Company pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, the Company agreed to purchase the time certificates by the security deposit received as a guarantee. In addition, they also served the deposits as a guarantee for the law court. According to Article 141 of the Insurance Law, the Company should deposit long-term investment bonds in an amount equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	March 31,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,927,253	\$240,220	\$7,724,837	\$222,297
Time Deposits	844,450	25,589	788,750	22,698
Total	<u>\$8,771,703</u>	<u>\$265,809</u>	<u>\$8,513,587</u>	<u>\$244,995</u>

**20. Other Important Matters and Contingent Liabilities: None**

**21. Serious Damages: None**

**22. Subsequent Events: None**

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

**23. Other Important Events**

**(1) Pension Related Information**

Pension funded status:

About the accounting for pensions, we performed the amount base on minimum pension liability and net periodic pension cost. We expect the net periodic pension cost is \$247,867(US\$7,511), and we have allotted \$72,363(US\$2,193) to pension fund.

**(2) Financial Instruments Related Information**

A. Derivative Financial Instruments related information

(A). Purpose

Effective December 31, 2003, the Company hold derivative financial instruments: Futures, Forward Contracts and Interest Rate Swap Agreement. Futures hedge risk against stock price fluctuation; forward contracts hedge risk against foreign currency and exchange rate fluctuation; interest rate swap agreement hedges risk against interest rate fluctuation. These are tradable activities categorize as non-trade.

(B). Credit and Market Risk

The counterpart of future contract buy & sell, forward exchange trade, interest swap was an international financial organization with superior creditability; in addition, the Company worked with several other financial institutions to diversify risks; possibility of breaching contract, as a result, was quite low. And if they did, the Company would not encounter major loss due to the nature of risk avoidance the trading had. Further, the Company was exposed to varied exchange rate market risk but the possible loss can be balanced out by gain/loss, which derived from risk avoidance foreign credits and debts exchange rate assessment.

(C). Cash Flow and Demand

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

(D). Product type and condition

a. Futures

March 31, 2004						
Item	Lot	Contract amount		Net loss of Fair Value estimated		
		(NT\$)	(US\$)	(NT\$)	(US\$)	
TX	Selling out	3,297	\$4,154,739	\$125,901	(118,173)	(3,581)
TE	Selling out	100	100,936	3,059	(4,644)	(141)
TF	Selling out	261	249,921	7,573	(15,516)	(470)
Total			\$4,505,596	\$136,533	(\$138,333)	(\$4,192)

All futures transaction had offset on March 31, 2003.

b. Forward and CCS Contract

(a) 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.

(b) As of March 31, 2004 and 2003, the Company had forward exchange contracts of approximately US\$12,123,300 and US\$4,538,000, and CCS of approximately US\$1,729,000 and US\$2,565,000, respectively, in national value.

March 31, 2004					
Item	Contract Amount	Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$13,852,300	\$459,115,595	\$13,912,594	\$467,797,939	\$14,175,695

March 31, 2003					
Item	Contract Amount	Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$7,103,000	\$246,031,114	\$7,080,032	\$245,766,291	\$7,072,411

The above-mentioned forward contracts agreement hedges against risk in association with net capital exchange rate fluctuation.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

Net capital	March 31,	
	2004	2003
Short-term investment	US\$13,852,300	US\$7,103,000

c. Interest Rate Swap Agreement (IRS)

The IRS agreement is applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of March 31, 2004. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRS	NT	2002.09.13~2010.08.04	\$11,385,000

B. Non Derivative Financial Instruments related information :

(1) 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			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$402,450,910	\$12,195,482	\$413,597,902	\$12,533,270
Long-term Investment –				
Cost method	\$44,042,948	\$1,334,635	\$51,882,187	\$1,572,187
Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$304,476,810	\$8,761,923	\$304,476,810	\$8,761,923
Long-term Investment –				
Cost method	\$56,362,328	\$1,621,937	\$58,255,622	\$1,676,421



**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

**(2) Discretionary Account Management**

Item	March 31, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,834,293	\$55,585	\$2,034,719	\$61,658
Repurchase bonds	4,767,243	144,462	4,767,959	144,484
Short-term securities	50,000	1,515	50,003	1,516
Convertible bonds	677,643	20,534	756,462	22,923
Bonds	3,524,593	106,806	3,530,839	106,995
Cash in bank	793,781	24,054	793,915	24,058
Net other assets less liabilities	(88,858)	(2,693)	(88,858)	(2,693)
Total	<u>\$11,558,695</u>	<u>\$350,263</u>	<u>\$11,845,039</u>	<u>\$358,941</u>

Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,303,028	\$37,497	\$1,186,216	\$34,136
Repurchase bonds	4,158,404	119,667	4,158,404	119,666
Short-term securities	722,074	20,779	722,074	20,779
Bonds	2,913,709	83,848	2,936,956	84,517
Cash in bank	500,359	14,399	500,359	14,399
Net other assets less liabilities	28,462	819	28,462	819
Total	<u>\$9,626,036</u>	<u>\$277,009</u>	<u>\$9,532,471</u>	<u>\$274,316</u>

**(3) Material Contract:** None

**(4) Presentation of Financial Statements:**

Certain accounts in financial statements for the three months ended March 31, 2003 have been reclassified in order to be comparable with those in the financial statements for the three months ended March 31, 2004

**(5) Other:**

On December 25, 2002 and July 24, 2003, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 and US\$27,150, that total is US\$50,000 as the capital of investment in

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2004 and 2003**

order to found a new company called Guangzhou Cathay life insurance Co., Ltd. However, we are only in the preparatory stage and have not yet invested substantially.

**24. Information for Investment in Mainland China:** None

**25. Segment Information:** None