

**Cathay Century Insurance Co., Ltd.
Financial Statements
Together with
Independent auditors' report
As of June 30, 2004 and 2003**

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

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Independent auditors' report

The Board of Directors and Shareholders
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. as of June 30, 2004 and 2003, and the related statements of income, changes in stockholders' equity and cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the six-month periods then ended in conformity with generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China
July 28, 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 jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

Cathay Century Insurance Co., Ltd.
Balance Sheets
(Expressed in thousands of dollars)
As of June 30, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current assets						
Cash and cash equivalents (Notes 2, 4)	\$4,093,486	\$121,613	35.27	\$3,890,325	\$112,405	38.38
Short-term investments (Notes 2, 5)	2,080,998	61,824	17.93	2,208,030	63,797	21.78
Notes receivable (Note 2)	143,492	4,263	1.24	218,824	6,323	2.16
Interest receivable	28,240	839	0.24	42,226	1,220	0.42
Premiums receivable (Notes 2, 6)	857,169	25,466	7.39	638,205	18,440	6.30
Claims recoverable from reinsurers (Note 2)	188,370	5,596	1.62	314,480	9,086	3.10
Due from reinsurers and ceding companies	40,015	1,189	0.35	40,552	1,172	0.40
Other accounts receivable (Note 2)	13,955	415	0.12	8,866	256	0.09
Deferred income tax assets - current (Notes 2, 15)	50,595	1,503	0.44	46,717	1,350	0.46
Prepayments	2,472	73	0.02	2,318	67	0.02
Subtotal	7,498,792	\$222,781	64.62	7,410,543	\$214,116	73.11
Exchange bills negotiated, discounted and loans (Notes 2, 7)						
Medium-term secured loans	444,718	13,212	3.83	493,412	14,256	4.87
Long-term secured loans	396,117	11,768	3.41	423,308	12,231	4.17
Subtotal	840,835	24,980	7.24	916,720	26,487	9.04
Funds, long-term investments, and receivable (Notes 2, 8)						
Long-term investments in stocks						
Under the equity method	232,456	6,906	2.01	157,199	4,542	1.55
Under the cost method	83,796	2,490	0.72	225,000	6,501	2.22
Long-term investments in bonds	2,403,642	71,409	20.71	907,748	26,228	8.95
Subtotal	2,719,894	80,805	23.44	1,289,947	37,271	12.72
Property and equipment (Notes 2, 9)						
Communication and transportation equipment	19,464	578	0.17	14,930	431	0.15
Other equipment	152,508	4,531	1.31	145,688	4,210	1.43
Subtotal	171,972	5,109	1.48	160,618	4,641	1.58
Less: Accumulated depreciation	(120,505)	(3,580)	(1.04)	(99,221)	(2,867)	(0.97)
Prepayments for equipment	1,425	42	0.02	0	0	0.00
Subtotal	52,892	1,571	0.46	61,397	1,774	0.61
Intangible assets						
Computer software cost (Note 2)	8,512	253	0.07	7,107	205	0.07
Subtotal	8,512	253	0.07	7,107	205	0.07
Other assets						
Guarantee deposits paid	16,747	498	0.15	14,433	417	0.14
Overdue receivables (Note 2)	82,862	2,462	0.71	56,455	1,631	0.56
Temporary payments and suspense accounts	20,396	606	0.18	11,854	343	0.12
Securities serving as deposits paid-bonds (Notes 10, 18)	357,833	10,631	3.08	362,762	10,481	3.58
Funds held by ceding companies	8	0	0.00	0	0	0.00
Deferred charges	6,059	180	0.05	5,542	160	0.05
Deferred income tax assets- noncurrent (Notes 2, 15)	15	0	0.00	31	1	0.00
Subtotal	483,920	14,377	4.17	451,077	13,033	4.45
Total assets	\$11,604,845	\$344,767	100.00	\$10,136,791	\$292,886	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Balance Sheets - (Continued)
(Expressed in thousands of dollars)
As of June 30, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Liabilities & stockholders' equity						
Current liabilities						
Collections for others	10,070	299	0.09	6,803	196	0.07
Accrued expenses	178,975	5,317	1.54	164,009	4,739	1.62
Commissions payable	5,425	161	0.05	4,879	141	0.05
Dividends payable	533,394	15,847	4.60	211,052	6,098	2.08
Claims outstanding	2,559	76	0.02	1,565	45	0.02
Due to reinsurers and ceding companies	269,559	8,008	2.32	143,189	4,137	1.41
Other payable	534,272	15,873	4.60	630,682	18,223	6.22
Subtotal	<u>1,534,254</u>	<u>45,581</u>	<u>13.22</u>	<u>1,162,179</u>	<u>33,579</u>	<u>11.47</u>
Long-term liabilities						
Accrued pension liabilities	8,966	266	0.08	8,067	233	0.08
Subtotal	<u>8,966</u>	<u>266</u>	<u>0.08</u>	<u>8,067</u>	<u>233</u>	<u>0.08</u>
Other liabilities						
Unearned premiums reserve (Notes 2, 11)	3,880,826	115,295	33.44	3,606,324	104,199	35.58
Special claim reserve (Notes 2, 11)	2,527,028	75,075	21.77	2,039,674	58,933	20.12
Claims reserve (Notes 2, 11)	559,317	16,617	4.82	581,495	16,801	5.74
Temporary receipts and suspense accounts	74,045	2,200	0.64	24,510	708	0.24
Funds held for reinsurers	185	5	0.00	165	5	0.00
Subtotal	<u>7,041,401</u>	<u>209,192</u>	<u>60.67</u>	<u>6,252,168</u>	<u>180,646</u>	<u>61.68</u>
Total liabilities	<u>8,584,621</u>	<u>255,039</u>	<u>73.97</u>	<u>7,422,414</u>	<u>214,458</u>	<u>73.23</u>
Stockholders' equity						
Capital stock						
Common stock (Note 12)	2,317,006	68,836	19.97	2,317,006	66,946	22.86
Capital surplus	1,909	57	0.02	430	12	0.00
Retained earnings (Note 13)						
Legal reserve	220,741	6,558	1.90	161,475	4,666	1.59
Unappropriated retained earnings	479,308	14,240	4.13	233,223	6,739	2.30
Equity adjustment						
Cumulative conversion adjustments	1,260	37	0.01	2,243	65	0.02
Total stockholders' equity	<u>3,020,224</u>	<u>89,728</u>	<u>26.03</u>	<u>2,714,377</u>	<u>78,428</u>	<u>26.77</u>
Total liabilities and stockholders' equity	<u>\$11,604,845</u>	<u>344,767</u>	<u>100.00</u>	<u>\$10,136,791</u>	<u>292,886</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of income
(Expressed in thousands of dollars, except earning per share)
For the six months ended June 30, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
Operating revenues (Note 2)						
Premiums income	\$4,043,399	\$120,125	47.38	\$3,546,916	\$102,482	45.24
Reinsurance commission earned	187,346	5,566	2.20	153,484	4,435	1.96
Claims recovered from reinsurers	446,773	13,273	5.24	438,946	12,683	5.60
Recovered unearned premium reserve	3,601,016	106,982	42.19	3,352,667	96,870	42.77
Recovered special claim reserve	36,796	1,093	0.43	201,249	5,815	2.58
Recovered claims reserve	20,744	616	0.24	18,391	531	0.23
Handling fee earned	28	1	0.00	313	9	0.00
Interest income	110,316	3,277	1.29	103,769	2,998	1.32
Gain on trading bills and securities	87,933	2,613	1.03	23,789	687	0.30
Subtotal	<u>8,534,351</u>	<u>253,546</u>	<u>100.00</u>	<u>7,839,524</u>	<u>226,510</u>	<u>100.00</u>
Operating costs (Note 2)						
Reinsurance premiums ceded	(1,384,261)	(41,125)	(16.22)	(1,308,568)	(37,809)	(16.69)
Commissions expenses	(61,787)	(1,836)	(0.73)	(69,708)	(2,014)	(0.89)
Insurance claims payment	(1,398,157)	(41,538)	(16.38)	(1,542,444)	(44,566)	(19.68)
Provision for unearned premiums reserve	(3,880,826)	(115,295)	(45.47)	(3,606,324)	(104,199)	(46.00)
Provision for special claim reserve	(301,057)	(8,944)	(3.53)	(203,238)	(5,872)	(2.59)
Contribution to the stabilization funds	(7,696)	(228)	(0.09)	(6,740)	(195)	(0.09)
Provision for claims reserve	(25,987)	(772)	(0.30)	(20,744)	(599)	(0.26)
Handling fee paid	(121,059)	(3,596)	(1.42)	(80,842)	(2,336)	(1.03)
Interest expenses	(92)	(3)	0.00	(25)	(1)	(0.01)
Loss on long-term equity investment	(3,886)	(115)	(0.05)	(2,196)	(63)	(0.03)
Agent expenses	(1,646)	(49)	(0.02)	(1,165)	(34)	(0.01)
Subtotal	<u>(7,186,454)</u>	<u>(213,501)</u>	<u>(84.21)</u>	<u>(6,841,994)</u>	<u>(197,688)</u>	<u>(87.28)</u>
Operating gross profit	<u>1,347,897</u>	<u>40,045</u>	<u>15.79</u>	<u>997,530</u>	<u>28,822</u>	<u>12.72</u>
Operating expenses (Note 2)						
Marketing expenses	(624,649)	(18,558)	(7.32)	(575,336)	(16,623)	(7.34)
Administrative and general expenses	(124,981)	(3,713)	(1.46)	(119,358)	(3,449)	(1.52)
Operating income	<u>598,267</u>	<u>17,774</u>	<u>7.01</u>	<u>302,836</u>	<u>8,750</u>	<u>3.86</u>
Non-operating revenues						
Gain on foreign exchange	575	17	0.01	192	6	0.00
Gain on disposal of property and equipment	184	6	0.00	0	0	0.00
Miscellaneous income	26,839	797	0.31	1,660	48	0.02
Subtotal	<u>27,598</u>	<u>820</u>	<u>0.32</u>	<u>1,852</u>	<u>54</u>	<u>0.02</u>
Non-operating expenses						
Loss on foreign exchange	(11,061)	(329)	(0.13)	(1,325)	(38)	(0.01)
Loss on disposal of property and equipment	(9)	0	0.00	0	0	0.00
Subtotal	<u>(11,070)</u>	<u>(329)</u>	<u>(0.13)</u>	<u>(1,325)</u>	<u>(38)</u>	<u>(0.01)</u>
Income from continuing operations before income taxes	614,795	18,265	7.20	303,363	8,766	3.87
Income taxes (Notes 2, 15)	(135,487)	(4,025)	(1.58)	(70,140)	(2,027)	(0.90)
Net income	<u>\$479,308</u>	<u>\$14,240</u>	<u>5.62</u>	<u>\$233,223</u>	<u>\$6,739</u>	<u>2.97</u>
Earnings per share before tax (expressed in dollars) (Note 16)	<u>\$2.65</u>	<u>\$0.08</u>		<u>\$1.31</u>	<u>\$0.04</u>	
Earnings per share after tax (expressed in dollars) (Note 16)	<u>\$2.07</u>	<u>\$0.06</u>		<u>\$1.01</u>	<u>\$0.03</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the six months ended June 30, 2004 and 2003

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative		Total	
	Common stock				Legal reserve		Unappropriated		conversion adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2003	\$2,317,006	\$66,946	\$0	\$0	\$138,025	\$3,988	\$234,503	\$6,776	\$2,172	\$63	\$2,691,706	\$77,773
Appropriations and distributions for 2002												
Legal reserve					23,450	678	(23,450)	(678)			0	0
Cash dividends							(209,612)	(6,056)			(209,612)	(6,056)
Bonus paid to employees							(1,441)	(42)			(1,441)	(42)
Capital surplus- long-term equity investment			430	12							430	12
Cumulative conversion adjustments									71	2	71	2
Net Income for the six month ended June 30, 2003							#REF!	#REF!			#REF!	#REF!
Balance on June 30, 2003	\$2,317,006	\$66,946	\$430	\$12	\$161,475	\$4,666	#REF!	#REF!	\$2,243	\$65	#REF!	#REF!
Balance on January 1, 2004	\$2,317,006	\$68,836	\$430	\$13	\$161,475	\$4,797	\$592,660	\$17,607	\$1,287	\$38	\$3,072,858	\$91,291
Appropriations and distributions for 2003												
Legal reserve					59,266	1,761	(59,266)	(1,761)			0	0
Cash dividends							(525,506)	(15,612)			(525,506)	(15,612)
Bonus paid to employees							(7,888)	(234)			(7,888)	(234)
Capital surplus- long-term equity investment			1,479	44							1,479	44
Cumulative conversion adjustments									(27)	(1)	(27)	(1)
Net Income for the six month ended June 30, 2004							479,308	14,240			479,308	14,240
Balance on June 30, 2004	\$2,317,006	\$68,836	\$1,909	\$57	\$220,741	\$6,558	\$479,308	\$14,240	\$1,260	\$37	\$3,020,224	\$89,728

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of cash flows
(Expressed in thousands of dollars)
For the six months ended June 30, 2004 and 2003

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income	\$479,308	\$14,240	\$233,223	\$6,739
Adjustments:				
Loss on bad debt	0	0	48,513	1,402
Amortizations	2,233	66	1,990	57
Depreciation	9,770	290	12,066	349
Provision for reserve for operations	4,207,871	125,011	3,830,306	110,670
Recovered unearned premium reserve	(3,601,016)	(106,982)	(3,352,667)	(96,870)
Recovered special claim reserve	(36,796)	(1,093)	(201,249)	(5,815)
Recovered claims reserve	(20,744)	(616)	(18,391)	(531)
Loss on disposal of property and equipment	9	0	0	0
Gain on disposal of property and equipment	(184)	(6)	0	0
Unrealized loss (gain) on long-term investments	3,886	115	2,196	63
Effects of exchange rate changes	10,486	312	1,132	33
Decrease (increase) in short-term investments	66,089	1,964	(144,976)	(4,189)
Decrease (increase) in notes receivable	44,853	1,333	(48,319)	(1,396)
Decrease (increase) in interest receivable	(1,942)	(58)	(10,874)	(314)
Decrease (increase) in premiums receivable	(333,997)	(9,923)	(215,742)	(6,234)
Decrease (increase) in claims recoverable from reinsurers	20,765	617	(78,939)	(2,281)
Decrease (increase) in due from reinsurers and ceding companies	247,930	7,366	136,764	3,952
Decrease (increase) in other accounts receivable	9,475	281	8,085	234
Decrease (increase) in prepayments	92	3	546	16
Decrease (increase) in deferred income tax assets-current	1,063	32	(1,805)	(52)
Decrease (increase) in deferred income tax assets-non-current	0	0	17	0
Decrease (increase) in overdue receivables	(131,191)	(3,898)	2,811	81
Decrease (increase) in temporary payments and suspense accounts	(5,478)	(163)	2,500	72
Increase (decrease) in collections for others	5,180	154	(5,799)	(168)
Increase (decrease) in accrued expenses	(56,071)	(1,666)	(8,012)	(231)
Increase (decrease) in income taxes payable	(33,169)	(985)	(65,579)	(1,895)
Increase (decrease) in commissions payable	1,490	44	(3,497)	(101)
Increase (decrease) in claims outstanding	(2,178)	(65)	(66,437)	(1,920)
Increase (decrease) in other payable	141,497	4,204	290,694	8,399
Increase (decrease) in accrued pension liabilities	382	11	399	12
Increase (decrease) in temporary receipts and suspense accounts	57,212	1,700	(39,186)	(1,132)
Increase (decrease) in loss reserve	(31,235)	(928)	48,327	1,396
Net cash provided by (used in) operating activities	<u>1,055,590</u>	<u>31,360</u>	<u>358,097</u>	<u>10,346</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of cash flows-(Continued)
(Expressed in thousands of dollars)
For the six months ended June 30, 2004 and 2003

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash flows from investing activities				
Decrease (increase) in short-term secured loans	0	0	22,000	636
Decrease (increase) in medium-term secured loans	(451)	(13)	(18,141)	(524)
Decrease (increase) in long-term secured loans	2,226	66	10,698	309
Disposal of long-term investments in stocks	33,600	998	0	0
Decrease (increase) in long-term investments in bonds	(567,363)	(16,856)	(627,413)	(18,128)
Disposal of property and equipment	503	15	0	0
Acquisition of property and equipment	(7,485)	(222)	(5,937)	(172)
Acquisition of intangible assets	(3,485)	(103)	(2,954)	(85)
Decrease (increase) in guarantee deposits paid	74	2	35	1
Decrease (increase) in securities serving as deposits paid-bonds	2,451	73	2,437	70
Decrease (increase) in funds held by ceding companies	99	3	145	4
Net cash provided by (used in) investing activities	<u>(539,831)</u>	<u>(16,037)</u>	<u>(619,130)</u>	<u>(17,889)</u>
Cash Flows from Financing Activities				
Paid other payable for acquisition of property and equipment in former period	0	0	0	0
Increase (decrease) in funds held for reinsurers	(98)	(2)	(529)	(15)
Bonus to employees	(1,441)	(43)	(3,755)	(108)
Net cash provided by (used in) financing activities	<u>(1,539)</u>	<u>(45)</u>	<u>(4,284)</u>	<u>(123)</u>
Effects of exchange rate changes	(10,485)	(312)	(1,132)	(32)
Increase (decrease) in cash and cash equivalents	503,735	14,966	(266,449)	(7,698)
Cash and cash equivalents at the beginning of period	<u>3,589,751</u>	<u>106,647</u>	<u>4,156,774</u>	<u>120,103</u>
Cash and cash equivalents at the end of period	<u><u>4,093,486</u></u>	<u><u>121,613</u></u>	<u><u>3,890,325</u></u>	<u><u>112,405</u></u>
Supplemental disclosure of cash flows information				
Interest paid of the period	92	3	25	1
Less: capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	<u>92</u>	<u>3</u>	<u>25</u>	<u>1</u>
Income tax paid	<u>\$167,593</u>	<u>4,979</u>	<u>\$137,507</u>	<u>3,973</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2003 were NT\$33.66 and NT\$34.61.00 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Notes to financial statements-(Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2004 and 2003

1. Organization of Business Scope

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

2. Summary of Significant Accounting Policies

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

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

Current assets mean assets can be liquidated or disposed within one-year, assets do not belong to current assets called non-current assets. Current liabilities mean debts must be paid-off with period of one-year; debts do not belong to current liabilities called non-current liabilities.

(2) Cash and cash equivalents

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

(3) Short-term investments

Marketable equity securities are stated at the lower of cost or market. 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

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certificates sold is determined based on the weighted-average cost method.

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

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

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

(4) Allowance for bad and doubtful debts

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

(5) Long – term investments

A. Long-term investments in stocks

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

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

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

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

B. Long-term investments in bonds

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

(6) Property and equipment

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

(7) Deferred charges

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

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(8) Reserves for operations

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

(9) Insurance premiums

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

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

(10) Contribution to the stabilization funds

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

(11) Pension plan

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

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

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

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(12) Securities serving as deposits paid-bonds

According to Article 141 of the Insurance Law of the ROC, an amount equal to 15% of the Company's capital stock should be deposited in the Central Bank of China as the "Securities serving as deposits paid-bonds". The amount was deposited in the form of a bond.

(13) Foreign-currency transactions

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

(14) Income taxes

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

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

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to

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assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

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

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

(15) Capital expenditure expenses

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

(16) Derivative financial products transaction

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

(17) Convenience conversion into US dollars

The financial statements are stated in NT dollars. Conversion of the June 30, 2004 and 2003 NT dollar amounts into US dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.66 and NT\$34.61 to US\$1.00 effective on June 30, 2004 and 2003, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be

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construed as a representation that the NT dollars amounts have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects: None

4. Cash and cash equivalents

Item	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$9,028	\$268	\$8,663	\$250
Cash in banks	338,480	10,056	366,635	10,593
Time deposits	3,211,686	95,416	3,445,415	99,550
Cash equivalents	534,292	15,873	69,612	2,012
Total	<u>\$4,093,486</u>	<u>\$121,613</u>	<u>\$3,890,325</u>	<u>\$112,405</u>
Interest rate of time deposits	<u>0.75%~1.6%</u>	<u>0.75%~1.6%</u>	<u>0.975%~2.4%</u>	<u>0.975%~2.4%</u>
Interest rate of cash equivalents	<u>0.95%~0.975%</u>	<u>0.95%~0.975%</u>	<u>0.975%~1.15%</u>	<u>0.975%~1.15%</u>

5. Short – term investments

Item	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$6,791	\$228,587	\$6,604
Less: Allowance for valuation loss	<u>(27,827)</u>	<u>(827)</u>	<u>(83,622)</u>	<u>(2,416)</u>
Sub-total	<u>200,760</u>	<u>5,964</u>	<u>144,965</u>	<u>4,188</u>
Common stock and beneficiary certificates	1,260,523	37,449	1,123,123	32,450
Appoint purpose trust fund	13,105	389	72,535	2,096
Financial debentures	202,885	6,027	200,000	5,779
Corporate bonds	403,725	11,994	667,407	19,284
Short-term notes	<u>534,292</u>	<u>15,874</u>	<u>69,612</u>	<u>2,012</u>
Subtotal	<u>2,414,530</u>	<u>71,733</u>	<u>2,132,677</u>	<u>61,621</u>

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Less: Allowance for				
valuation loss	0	0	0	0
Cash equivalents	<u>(534,292)</u>	<u>(15,873)</u>	<u>(69,612)</u>	<u>(2,012)</u>
Subtotal	<u>1,880,238</u>	<u>55,860</u>	<u>2,063,065</u>	<u>59,609</u>
Total	<u>\$2,080,998</u>	<u>\$61,824</u>	<u>\$2,208,030</u>	<u>\$63,797</u>

6. Premiums receivable

	June 30,			
	2004		2003	
Item	NT\$	US\$	NT\$	US\$
Premiums receivable	\$862,527	\$25,625	\$642,338	\$18,559
Less: Allowance for bad				
debts	<u>(5,358)</u>	<u>(159)</u>	<u>(4,133)</u>	<u>(119)</u>
Net	<u>\$857,169</u>	<u>\$25,466</u>	<u>\$638,205</u>	<u>\$18,440</u>

7. Secured loans

	June 30,			
	2004		2003	
Item	NT\$	US\$	NT\$	US\$
Medium-term secured loans	508,102	15,095	582,323	16,825
Less: Allowance for bad				
debts	<u>(63,384)</u>	<u>(1,883)</u>	<u>(88,911)</u>	<u>(2,569)</u>
Sub-total	<u>444,718</u>	<u>13,212</u>	<u>493,412</u>	<u>14,256</u>
Long-term secured loans	452,574	13,445	499,587	14,435
Less: Allowance for bad				
debts	<u>(56,457)</u>	<u>(1,677)</u>	<u>(76,279)</u>	<u>(2,204)</u>
Sub-total	<u>396,117</u>	<u>11,768</u>	<u>423,308</u>	<u>12,231</u>
Total	<u>\$840,835</u>	<u>\$24,980</u>	<u>\$916,720</u>	<u>\$26,487</u>
Interest rate	<u>2.48%~5.00%</u>	<u>2.48%~5.00%</u>	<u>3.21%~7.00%</u>	<u>3.21%~7.00%</u>

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

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8. Long –term investments

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

Investee	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$222,631	\$6,614	\$143,562	\$4,148
Vista Technology Venture Capital Corp.	9,825	292	13,637	394
Subtotal	232,456	6,906	157,199	4,542
b. Under the cost method:				
Koo Group Telecommunication Co., Ltd.	0	0	150,000	4,334
Taiwan Cement Corp.	8,796	262	-	-
KGEX. Com Co., Ltd.	75,000	2,228	75,000	2,167
Subtotal	83,796	2,490	225,000	6,501
Total	\$316,252	\$9,396	\$382,199	\$11,043

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

	For the six months ended June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$234,890	\$6,978	\$158,894	\$4,591
Investment income (loss) by equity method recognized	(3,886)	(115)	(2,196)	(63)
Cumulative conversion adjustments by equity method recognized	(27)	(1)	71	2
Capital surplus by equity method recognized	1479	44	430	12
Balance on June 30	\$232,456	\$6,906	\$157,199	\$4,542

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- d. The investment gains (losses) recognized by the equity method for the six months ended June 30, 2004 and 2003 are listed below :

Investee	For the six months ended June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$1,376	\$41	\$1,268	\$37
Vista Technology Venture Capital Corp.	(5,262)	(156)	(3,464)	(100)
Total	(\$3,886)	(\$115)	(\$2,196)	(\$63)

- e. The investment gains of Cathay Venture Capital Corp. for the six months ended June 30, 2004 were recognized by the equity method based on un-audited financial statements in the same period.
- f. If the Company holds less than 50% of an investee company's outstanding common stock and is not able to obtain the investee's financial statements for the current year when the Company closed its books, the investee's investment gains (losses) for the year can be deferred to recognize till the following year. As the treatment for investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investment loss of Vista Technology Venture Capital Corp. for the six months ended June 30, 2004 were recognized by the equity method based on last year's audited financial statements.
- g. The Company invested Koo Group Telecommunications Co., Ltd was signed the merged contract with Far Eastone Telecommunications Co., Ltd. on October 7, 2003 by adopting partial cash and partial stocks as merging value consideration. After Koo Group Telecommunications and Eastone Telecommunications Co., Ltd. exchanged their stocks on April 29, 2004, the stock held by the Company were reclassified from long-term investments to short-term investments.

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B. Long-term investments in bonds

Investee	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$2,403,642	\$71,409	\$907,748	\$26,228
Interest rate	4.00%~6.00%	4.00%~6.00%	5.00%~6.00%	5.00%~6.00%

9. Property and equipment

Item	June 30, 2004					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$19,464	\$578	\$8,474	\$252	\$10,990	\$326
Other equipment	152,508	4,531	112,031	3,328	40,477	1,203
Sub-Total	171,972	5,109	120,505	3,580	51,467	1,529
Prepayments for equipment	1,425	42	0	0	1,425	42
Total	\$173,397	\$5,151	\$120,505	\$3,580	\$52,892	\$1,571

Item	June 30, 2003					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$14,930	\$431	\$6,569	\$190	\$8,361	\$241
Other equipment	145,688	4,210	92,652	2,677	53,036	1,533
Total	\$160,618	\$4,641	\$99,221	\$2,867	\$61,397	\$1,774

The insurance of insured property and equipment were NT\$120,037(US\$3,566) and NT\$100,982(US\$2,918) as of June 30, 2004 and 2003, respectively.

10. Securities serving as deposits paid-bonds

Item	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Government bonds	\$357,833	\$10,631	\$362,762	\$10,481
Interest rate	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%

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

11. Reserve for operations and liabilities

	January 1, 2004		Provision		Recovered		June 30,2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$3,601,016	\$106,982	\$3,880,826	\$115,295	\$3,601,016	\$106,982	\$3,880,826	\$115,295
Special reserve	2,262,767	67,224	301,057	8,944	36,796	1,093	2,527,028	75,075
Claims reserve	585,308	17,389	535,508	15,909	561,499	16,681	559,317	16,617
Total	<u>\$6,449,091</u>	<u>\$191,595</u>	<u>\$4,717,391</u>	<u>\$140,148</u>	<u>4,199,311</u>	<u>\$124,756</u>	<u>\$6,967,171</u>	<u>\$206,987</u>

12. Capital stock and capital increment

As of June 30, 2004 and 2003, the Company has issued 231,700,560 and 231,700,560 shares in outstanding with \$10 par per share.

13. Retained Earnings

(1) Legal reserve

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

(2) Unappropriate retained earnings

A. According to the Company Law and the Company's articles of incorporations, 10 % of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. In addition to distributing stock interest and 2% as bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

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

C. According to the regulations issued by Securities and Futures Commission, the Company should assume the dividends of year 2003 would be appropriated to the employees, directors and supervisors, and pop-forma earnings per share for the current year.

	For the six-month ended June 30,	
	2003	
	NT\$	US\$
A. Distribution		
Bonus paid to employees-Cash	\$7,888	\$234
Bonus paid to employees-Stock	0	0
Remuneration paid to directors and supervisors	0	0
B. After income tax earnings per share (expressed in dollars)	\$2.56	\$0.08
Pro-forma earnings per share (expressed in dollars)	\$2.52	\$0.07

$$\text{Pro-forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

(3) According to the revised Income Tax Law in 1998, the Company is required to pay an extra 10% income tax on all unappropriated retained earnings generated during the year.

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14. Personnel, depreciation, depletion and amortizations

Item	For the six months ended June 30,2004 (NT\$)			For the six months ended June 30,2003 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$233,046	\$233,046	-	\$278,279	\$278,279
Labor & health Insurance expenses	-	15,083	15,083	-	16,979	16,979
Pension expenses	-	17,444	17,444	-	15,152	15,152
Other expenses	-	105,146	105,146	-	98,670	98,670
Depreciation	-	9,770	9,770	-	12,066	12,066
Depletion	-	-	-	-	-	-
Amortizations	-	2,233	2,233	-	1,990	1,990

Item	For the six months ended June 30,2004 (US\$)			For the six months ended June 30,2003 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$6,924	\$6,924	-	\$8,040	\$8,040
Labor & health Insurance expenses	-	448	448	-	491	491
Pension expenses	-	518	518	-	438	438
Other expenses	-	3,124	3,124	-	2,851	2,851
Depreciation	-	290	290	-	349	349
Depletion	-	-	-	-	-	-
Amortizations	-	66	66	-	57	57

The total number of employees is 838 and 788 on June 30, 2004 and 2003.

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15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the six months ended June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$614,795	\$18,265	\$303,363	\$8,766
Adjustments				
Interest income of tax on a separate basis	(3,689)	(110)	(2,782)	(80)
Losses (gains) on market price loss (recovery) of short-term investments	(24,784)	(736)	(22,600)	(653)
Realized valuation losses on securities	27,171	807	-	-
Bad debts exceeding legal limit (recovery)	(4,186)	(124)	8,579	248
Investment losses (gains) recognized by equity method	3,886	115	2,196	63
Losses (gains) on trading securities	(89,740)	(2,666)	(1,127)	(33)
Others	(659)	(19)	(157)	(5)
Taxable Income	522,794	15,532	287,472	8,306
Time; Taxes Rate; Less:				
Progressive difference	25% - 10	-	25% - 10	-
Subtotal	130,689	3,883	71,858	2,077
Extra 10% income tax on undistributed retained earnings	2,826	84	5,198	150
Tax effects under integrated Income				
Tax Systems	(2,816)	(84)	(5,198)	(150)
Income tax credit	(351)	(11)	(270)	(8)
Subtotal	130,348	3,872	71,588	2,069
Tax on a separate basis	738	22	556	16
Adjustment of prior year's income tax	3,338	99	(216)	(6)
Deferred income tax expenses (benefits)	1,063	32	(1,788)	(52)
Total income tax expenses	\$135,487	\$4,025	\$70,140	\$2,027

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

	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$50,610	\$1,503	\$46,748	\$1,351
Total deferred income tax liabilities	\$0	\$0	\$0	\$0
B. Temporary differences:				
Employee benefits	\$67	\$2	\$310	\$9
Bad debts exceeding legal limit	202,314	6,010	186,624	5,392
Others	57	2	57	2
Total	\$202,438	\$6,014	\$186,991	\$5,403
C. Deferred income tax assets-current	\$50,595	\$1,503	\$46,717	\$1,350
Deferred income tax liabilities-current	0	0	0	0
Net deferred income tax-current	\$50,595	\$1,503	\$46,717	\$1,350
D. Deferred income tax assets – non-current	\$15	\$0	\$31	\$1
Deferred income tax liabilities –non-current	0	0	0	0
Net deferred income tax – non-current	\$15	\$0	\$31	\$1

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$351 (US\$10)	\$0	2008

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

Cathay Century Insurance Co., Ltd.
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(5) Information related to tax imputation:

	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$3,496	\$104	\$248,744	\$7,187
		June 30, 2004 (Actual)	June 30, 2003 (Actual)	
Imputation credit account ratio		29.73%	33.33%	

(6) Information relating of undistributed earnings:

Year	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$0	\$0
After 1998	0	0	0	0
Total	\$0	\$0	\$0	\$0

Net income for the six months ended June 30, 2004 and 2003 were not included in undistributed earnings computation since 1998.

16. Earnings per share

	For the six months ended June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$614,795	\$18,265	\$303,363	\$8,766
Net income after taxes (B)	\$479,308	\$14,240	\$233,223	\$6,739
Outstanding number of shares at year-end	231,701	231,701	231,701	231,701
Adjusted weighted average outstanding number of shares(C)	231,701	231,701	231,701	231,701
Earnings per share before tax (A)/(C) (dollars)	\$2.65	\$0.08	\$1.31	\$0.04
Earnings per share after tax (B)/(C) (dollars)	\$2.07	\$0.06	\$1.01	\$0.03

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17. Related party transactions

(1) Related parties

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

(2) Transactions with related parties

A. Premium Revenues

Name	For the six months ended June 30, 2004			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$141,669	\$4,209	13,176	\$392
Cathay United Bank Co., Ltd. (merged)	61,447	1,826	6,499	193
Seaward Leasing Ltd.	744	22	754	22
Cathay General Hospital	1,933	57	156	5
Others	1,291	38	405	12
Total	<u>\$207,084</u>	<u>\$6,152</u>	<u>\$20,990</u>	<u>\$624</u>

Cathay Century Insurance Co., Ltd.
Notes to financial statements-(Continued)
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Name	For the six months ended June 30, 2003			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$142,227	\$4,109	\$9,121	\$264
Cathay United Bank Co., Ltd. (merged)	15,751	455	930	27
Seaward Leasing Ltd.	426	12	15	0
Cathay General Hospital	2,318	67	505	14
Others	1,510	44	681	20
Total	<u>\$162,232</u>	<u>\$4,687</u>	<u>\$11,252</u>	<u>\$325</u>

B. Insurance claims payment

Name	For the six months ended June 30,			
	2004		2003	
	Insurance claims payment		Insurance claims payment	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$8,215	\$244	\$7,095	\$205
Cathay United Bank Co., Ltd. (merged)	763	23	847	25
Total	<u>\$8,978</u>	<u>\$267</u>	<u>\$7,942</u>	<u>\$230</u>

C. Rental expense

Name	For the six months ended June 30, 2004					
	Rental expense		Guarantee deposits		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$27,826</u>	<u>\$827</u>	<u>\$13,278</u>	<u>\$394</u>	<u>\$2,406</u>	<u>\$71</u>

Name	For the six months ended June 30, 2003					
	Rental expense		Guarantee deposits		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$26,008</u>	<u>\$751</u>	<u>\$13,053</u>	<u>\$377</u>	<u>\$2,177</u>	<u>\$63</u>

D. Cash in bank

Cathay Century Insurance Co., Ltd.
Notes to financial statements-(Continued)
(Expressed in thousands of dollars unless otherwise stated)
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Name	Nature	June 30, 2004		
		Ending balance	Rate	Interest income
		NT\$		NT\$
Cathay United Bank				
Co., Ltd. (merged)	Cash in Bank	\$310,894	0.10%	\$106
	Time Deposit	\$220,400	0.75%~1.50%	\$1,188

Name	Nature	June 30, 2004		
		Ending balance	Rate	Interest income
		US\$		US\$
Cathay United Bank				
Co., Ltd. (merged)	Cash in Bank	\$9,236	0.10%	\$3
	Time Deposit	\$6,548	0.75%~1.50%	\$35

Name	Nature	June 30, 2003		
		Ending balance	Rate	Interest income
		NT\$		NT\$
Cathay United Bank				
Co., Ltd. (merged)	Cash in Bank	\$325,876	0.10%~0.25%	\$170
	Time Deposit	\$764,000	1.85%~2.30%	\$7,416

Name	Nature	June 30,2003		
		Ending balance	Rate	Interest income
		US\$		US\$
Cathay United Bank				
Co., Ltd. (merged)	Cash in Bank	\$9,416	0.10%~0.25%	\$5
	Time Deposit	\$22,075	1.35%~2.30%	\$215

E. Secured loans

Name	For the six months ended June 30, 2004			
	Maximum amount	Ending balance	Rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$2,374	\$1,708	2.48%	\$27

For the six months ended June 30, 2004

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Notes to financial statements-(Continued)
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As of June 30, 2004 and 2003

Name	Maximum amount	Ending balance	Rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$71	\$51	2.48%	\$1

For the six months ended June 30, 2003

Name	Maximum amount	Ending balance	Rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$3,189	\$2,443	3.67%	\$49

For the six months ended June 30, 2003

Name	Maximum amount	Ending balance	Rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$92	\$71	3.67%	\$1

F. Handling fee paid

Name	For the six months ended June 30,			
	2004		2003	
	Handling Fee Paid	Handling Fee Paid	Handling Fee Paid	Handling Fee Paid
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,242	\$67	\$1,414	\$41

G. Marketing expense and accrued expense

Name	For the six months ended June 30, 2004			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$245,576	\$7,296	\$31,898	\$948

Name	For the six months ended June 30, 2003			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$85,823	\$2,480	\$53,930	\$1,558

H. Short-term investment-beneficiary certificates

Cathay Century Insurance Co., Ltd.
Notes to financial statements-(Continued)
(Expressed in thousands of dollars unless otherwise stated)
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Name	Transaction type	June 30,			
		2004		2003	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	Book value	\$329,705	\$9,795	\$312,355	\$9,025
	Fair value	\$341,733	\$10,152	\$277,181	\$8,009

18. Pledged assets

Item	June 30,			
	2004		2003	
	NT\$	US\$	NT\$	US\$
Government bonds	\$357,833	\$10,631	\$362,762	\$10,481

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

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

19. Other important matters and contingent liabilities

A. The Company's income tax returns, except 1999, had been filed and assessed by the Tax Authorities in the year of 2001. In year 2001, the Company was imposed income tax in the amount of NT\$2,474 (US\$73) by the Tax Authorities. The Company disputed the above tax assessments and had field for reinvestigation.

B. By the date June 30, 2004, the Company had signed some significant rental contracts, and based on which, we estimate that the rents for the following 5 years are as below:

Year	Amount (NT\$)	Amount (US\$)
July 01, 2004 ~ June 30, 2005	\$57,009	\$1,694
July 01, 2005 ~ June 30, 2006	58,558	1,740
July 01, 2006 ~ June 30, 2007	60,270	1,790
July 01, 2007 ~ June 30, 2008	62,033	1,843
July 01, 2008 ~ June 30, 2009	63,849	1,897
Total	\$301,719	\$8,964

20. Serious damages: None

Cathay Century Insurance Co., Ltd.
Notes to financial statements-(Continued)
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21. Subsequent events : None

22. Other important events

A. Pension related information

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

B. Financial instruments related information

(a) Derivative financial instruments related information :

1. Credit and market risk

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

2. Cash flow and demand

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

3. Forward contract

(1)Receivables and payables resulting from forward contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.

(2)As of June 30, 2004 and 2003, the Company has forward exchange contracts of approximately US\$71,000 and \$28,000 respectively in notional value.

(b) Non derivative financial instruments related information :

Except for the item listed in the following table, the book value of non derivative financial instruments as of June 30, 2004 and 2003 is the same as the estimated fair market value:

June 30,2004	
NT\$	US\$

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Item	Book value	Fair value	Book value	Fair value
Shot-term investment	\$ 2,080,998	\$2,105,029	\$61,824	\$62,538

June 30,2003

Item	NT\$		US\$	
	Book value	Fair value	Book value	Fair value
Shot-term investment	\$ 2,208,030	\$2,268,358	\$63,797	\$65,541

C. Discretionary account management

June 30,2004

Item	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$75,998	\$2,258	\$72,260	\$2,147
Short-term notes	20,019	595	20,019	595
Cash in bank	57,724	1,715	57,724	1,715
Net other assets less liabilities	(6,033)	(180)	(6,033)	(180)
Total	\$147,708	\$4,388	\$143,970	\$4,277

June 30,2003

Item	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$21,502	\$621	\$21,740	\$628
Cash in bank	28,821	833	28,821	833
Net other assets less liabilities	(4,427)	(128)	(4,427)	(128)
Total	\$45,896	\$1,326	\$46,134	\$1,333

As of June 30, 2004 and 2003, the securities investment had recorded that the Company had discretionary account management contracts in the amount of NT\$150,000(US\$4,456) and NT\$50,000(US\$1,485), respectively.

D. Material Contract: None

Cathay Century Insurance Co., Ltd.
Notes to financial statements-(Continued)
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E. Presentation of Financial Statements:

Certain accounts in financial statements for the six months ended June 30,2003 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30,2004.

23. Information for investment in Mainland China: None

24. Segment information:

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