

**CATHAY LIFE INSURANCE CO., LTD.  
FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
AS OF JUNE 30, 2004 AND 2003**

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

**Address: No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, R.O.C.**

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## **Independent Auditors' Report**

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

We have audited the accompanying balance sheets of Cathay Life 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 Life 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  
The 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 jurisdictions. The standards, procedures and practices to audit 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 June 30, 2004 and 2003

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Notes 2, 4)	\$132,008,318	\$3,921,816	8.53	\$79,093,972	\$2,285,292	5.82
Short-term investments (Notes 2, 5)	371,443,785	11,035,169	24.00	326,980,899	9,447,584	24.06
Notes receivable	12,562,060	373,204	0.81	15,595,611	450,610	1.15
Notes receivable-related parties (Note 18)	0	0	0.00	91,651	2,648	0.01
Accounts receivable-related parties (Note 18)	163,699	4,863	0.01	9,806	283	0.00
Tax refund receivable(Note 18)	17,720	526	0.00	15,029	434	0.00
Interest receivable(Note 2)	8,549,522	253,996	0.55	10,508,444	303,625	0.77
Other accounts receivable	4,620,197	137,262	0.30	4,007,444	115,789	0.29
Prepayments	104,760	3,112	0.01	236,930	6,846	0.02
Subtotal	529,470,061	15,729,948	34.21	436,539,786	12,613,111	32.12
<b>Exchange Bills Negotiated, Discounted and Loans (Notes 2, 6)</b>						
Policy loans	178,400,034	5,300,060	11.53	182,604,189	5,276,053	13.44
Short-term secured loans	5,564	165	0.00	95,883	2,770	0.01
Medium-term secured loans	10,091,346	299,803	0.65	10,141,008	293,008	0.75
Long-term secured loans	277,401,430	8,241,278	17.92	299,832,130	8,663,165	22.07
Subtotal	465,898,374	13,841,306	30.10	492,673,210	14,234,996	36.27
<b>Funds, Long-Term Investments, and Receivable</b>						
<b>Long-term investments in stocks (Notes 2, 7)</b>						
Under the equity method	2,142,276	63,645	0.14	2,057,668	59,453	0.15
Under the cost method	43,743,787	1,299,577	2.83	57,343,556	1,656,849	4.22
Allowance for valuation loss on long-term investments in stocks	(19,419)	(577)	0.00	(19,419)	(561)	0.00
Long-term investments in bonds (Notes 2, 8)	345,554,058	10,266,015	22.33	237,865,837	6,872,749	17.49
Investments in real estate (Notes 2, 9)	100,960,476	2,999,420	6.52	93,958,349	2,714,775	6.91
Other long-term investments	1,628,689	48,387	0.10	0	0	0.00
Subtotal	494,009,867	14,676,467	31.92	391,205,991	11,303,265	28.77
<b>Property and Equipment (Notes 2, 10)</b>						
Land	5,140,647	152,723	0.33	5,490,876	158,650	0.40
Buildings and structures	11,363,335	337,592	0.73	10,851,095	313,525	0.80
Communication and transportation equipment	117,680	3,496	0.01	140,280	4,053	0.01
Other equipment	4,322,707	128,422	0.28	4,180,562	120,791	0.31
Subtotal	20,944,369	622,233	1.35	20,662,813	597,019	1.52
Less: Accumulated depreciation	(5,775,663)	(171,588)	(0.37)	(5,333,010)	(154,089)	(0.39)
<b>Construction in progress and prepayment for equipment</b>						
Subtotal	182,641	5,426	0.01	656,719	18,975	0.05
Subtotal	15,351,347	456,071	0.99	15,986,522	461,905	1.18
<b>Other Assets</b>						
Non-operating assets (Note 2)	1,853,575	55,068	0.12	3,054,076	88,243	0.22
Guarantee deposits paid (Notes 2, 19)	4,603,108	136,753	0.30	249,798	7,217	0.02
Overdue receivables (Notes 2, 11)	1,101,134	32,713	0.07	2,817,993	81,421	0.21
Temporary payments and suspense accounts	720,241	21,398	0.05	119,915	3,465	0.01
Securities serving as deposits paid-bonds (Notes 2, 8,19)	7,914,509	235,131	0.51	7,719,351	223,038	0.57
Deferred income tax assets (Notes 2, 16)	273,251	8,118	0.02	535,968	15,486	0.04
Investment-linked products assets (Note 2)	26,425,804	785,080	1.71	7,952,269	229,768	0.59
Subtotal	42,891,622	1,274,261	2.78	22,449,370	648,638	1.66
<b>Total Assets</b>	<b>\$1,547,621,271</b>	<b>\$45,978,053</b>	<b>100.00</b>	<b>\$1,358,854,879</b>	<b>\$39,261,915</b>	<b>100.00</b>

(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 LIFE INSURANCE CO., LTD.**  
**BALANCE SHEETS - (Continued)**  
**(Expressed in thousands of dollars)**  
**As of June 30, 2004 and 2003**

	2004			2003		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Notes payable	\$1,415	\$42	0.00	\$1,518	\$44	0.00
Accounts payable-related parties (Note 18)	62,593	1,860	0.00	53,415	1,543	0.00
Collections for others	177,144	5,262	0.01	158,223	4,572	0.01
Accrued expenses	1,863,235	55,354	0.12	1,770,960	51,169	0.13
Taxes payable	529,972	15,745	0.03	1,666,705	48,157	0.12
Commissions payable	772,263	22,943	0.05	805,743	23,281	0.06
Dividends payable(Note 18)	14,249,547	423,338	0.92	5,589,535	161,500	0.41
Life insurance proceeds payable	1,235	36	0.00	3,453	100	0.00
Other payable(Note 18)	5,157,752	153,231	0.34	406,618	11,749	0.03
Deferred income tax liabilities- current (Notes 2,16)	749,167	22,257	0.05	1,277,192	36,902	0.10
Accounts collected in advance(Note 18)	172,868	5,136	0.01	285,612	8,252	0.02
Subtotal	<u>23,737,191</u>	<u>705,204</u>	<u>1.53</u>	<u>12,018,974</u>	<u>347,269</u>	<u>0.88</u>
<b>Long-term Liabilities</b>						
Reserve for land revaluation increment tax	3,726	111	0.00	3,726	107	0.00
Accrued pension liability (Notes 2,23)	1,083,151	32,179	0.07	327,688	9,468	0.02
Subtotal	<u>1,086,877</u>	<u>32,290</u>	<u>0.07</u>	<u>331,414</u>	<u>9,575</u>	<u>0.02</u>
<b>Other Liabilities</b>						
<b>Reserve for operations and liabilities (Note 2)</b>						
Unearned premium reserve	8,957,380	266,113	0.58	9,011,535	260,374	0.66
Reserve for life insurance	1,383,576,713	41,104,478	89.40	1,241,573,069	35,873,246	91.37
Special reserve	16,418,130	487,764	1.06	12,211,750	352,839	0.90
Claims reserve	338,377	10,053	0.02	321,733	9,296	0.02
<b>Miscellaneous liabilities</b>						
Guarantee deposits received	1,418,522	42,143	0.09	1,282,133	37,045	0.10
Temporary receipts and suspense accounts	859,853	25,545	0.06	557,588	16,111	0.04
Investment-linked products liabilities (Note 2)	26,425,804	785,080	1.71	7,952,269	229,768	0.59
Subtotal	<u>1,437,994,779</u>	<u>42,721,176</u>	<u>92.92</u>	<u>1,272,910,077</u>	<u>36,778,679</u>	<u>93.68</u>
Total Liabilities	<u>1,462,818,847</u>	<u>43,458,670</u>	<u>94.52</u>	<u>1,285,260,465</u>	<u>37,135,523</u>	<u>94.58</u>
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock (Note 12)	50,686,158	1,505,828	3.27	50,686,158	1,464,495	3.73
Capital surplus	12,591	374	0.00	5,200	150	0.00
<b>Retained earnings (Notes 13,16)</b>						
Legal reserve	16,330,948	485,174	1.06	14,552,065	420,458	1.07
Special reserve	8,016,080	238,149	0.52	6,249,135	180,559	0.46
Unappropriated retained earnings	9,772,212	290,320	0.63	9,444,176	272,874	0.70
<b>Equity adjustment</b>						
Unrealized valuation losses on long-term equity investment (Notes 2, 7)	(19,419)	(577)	0.00	(19,419)	(561)	0.00
Cumulative conversion adjustments	3,854	115	0.00	10,962	317	0.00
Treasury stock (Notes 2, 14)	0	0	0.00	(7,333,863)	(211,900)	(0.54)
Total Stockholders' Equity	<u>84,802,424</u>	<u>2,519,383</u>	<u>5.48</u>	<u>73,594,414</u>	<u>2,126,392</u>	<u>5.42</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$1,547,621,271</u>	<u>\$45,978,053</u>	<u>100.00</u>	<u>\$1,358,854,879</u>	<u>\$39,261,915</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 LIFE 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	\$127,547,819	\$3,789,299	52.11	\$119,885,604	\$3,463,901	54.53
Reinsurance commission earned	100,797	2,995	0.04	74,528	2,153	0.03
Claims recovered from reinsures	158,451	4,707	0.06	88,204	2,549	0.04
Recovered premiums reserve	60,084,834	1,785,052	24.54	58,958,174	1,703,501	26.82
Handling fees earned	504,919	15,001	0.21	324,524	9,377	0.15
Interest Income	27,052,206	803,690	11.05	22,540,190	651,262	10.25
Gain on disposal of investments	11,587,237	344,244	4.73	2,903,032	83,878	1.32
Gain on long-term equity investments	68,700	2,041	0.03	19,833	573	0.01
Gain on investments-real estate	2,194,070	65,183	0.90	2,314,452	66,872	1.05
Other operating revenues	0	0	0.00	4,654,603	134,487	2.12
Investment-linked products revenues (Note 2)	15,486,587	460,089	6.33	8,088,133	233,694	3.68
Subtotal	<u>244,785,620</u>	<u>7,272,301</u>	<u>100.00</u>	<u>219,851,277</u>	<u>6,352,247</u>	<u>100.00</u>
Operating Costs (Note 2)						
Insurance expenses	(240,252)	(7,138)	(0.10)	(97,605)	(2,820)	(0.04)
Brokerage expenses	(11,117,227)	(330,280)	(4.54)	(10,777,550)	(311,400)	(4.90)
Commissions expenses	(253,084)	(7,519)	(0.10)	(149,847)	(4,329)	(0.07)
Insurance claims payment	(73,633,270)	(2,187,560)	(30.08)	(65,234,319)	(1,884,840)	(29.67)
Provision for premiums reserve	(123,089,711)	(3,656,854)	(50.29)	(116,793,893)	(3,374,571)	(53.13)
Provision for special reserve	(3,038,139)	(90,260)	(1.24)	(1,056,428)	(30,524)	(0.48)
Contribution to the stabilization funds	(127,423)	(3,786)	(0.05)	(119,910)	(3,465)	(0.05)
Provision for claims reserve	(8,526)	(253)	0.00	(43,653)	(1,261)	(0.02)
Handling fees paid	(301,905)	(8,969)	(0.12)	(1,236,885)	(35,738)	(0.56)
Interest expenses	(11,928)	(354)	(0.01)	(12,487)	(361)	(0.01)
Provisions expenses	0	0	0.00	(503,048)	(14,535)	(0.23)
Other operating Cost	(1,752,281)	(52,058)	(0.72)	(371,970)	(10,747)	(0.17)
Investment-linked products expenses (Note 2)	(15,486,587)	(460,089)	(6.33)	(8,088,133)	(233,693)	(3.68)
Subtotal	<u>(229,060,333)</u>	<u>(6,805,120)</u>	<u>(93.58)</u>	<u>(204,485,728)</u>	<u>(5,908,284)</u>	<u>(93.01)</u>
Operating Gross Profit	<u>15,725,287</u>	<u>467,181</u>	<u>6.42</u>	<u>15,365,549</u>	<u>443,963</u>	<u>6.99</u>
Operating Expenses (Note 2)						
Marketing expenses	(1,363,544)	(40,510)	(0.56)	(1,400,817)	(40,474)	(0.63)
Administrative and general expenses	(4,100,157)	(121,811)	(1.67)	(4,131,787)	(119,381)	(1.88)
Operating Income	<u>10,261,586</u>	<u>304,860</u>	<u>4.19</u>	<u>9,832,945</u>	<u>284,108</u>	<u>4.48</u>
Non-Operating Revenues & Gains						
Gains on foreign exchange	0	0	0.00	650,823	18,804	0.30
Gains on disposal of property and equipment	1,683	50	0.00	1,592	46	0.00
Miscellaneous income	1,102,469	32,753	0.45	541,023	15,632	0.24
Subtotal	<u>1,104,152</u>	<u>32,803</u>	<u>0.45</u>	<u>1,193,438</u>	<u>34,482</u>	<u>0.54</u>
Non-Operating Expenses & Losses						
Losses on foreign exchange	(1,513,629)	(44,968)	(0.62)	0	0	0.00
Losses on disposal of property and equipment	(902)	(27)	0.00	(617)	(18)	0.00
Miscellaneous expenses	(2,202)	(65)	0.00	(7,341)	(212)	0.00
Subtotal	<u>(1,516,733)</u>	<u>(45,060)</u>	<u>(0.62)</u>	<u>(7,958)</u>	<u>(230)</u>	<u>0.00</u>
Income from Continuing						
Operations before income taxes	9,849,005	292,603	4.02	11,018,425	318,360	5.02
Income Taxes benefit(expense) (Notes 2, 16)	(67,475)	(2,005)	(0.02)	(1,574,249)	(45,486)	(0.71)
Net Income	<u>\$9,781,530</u>	<u>\$290,598</u>	<u>4.00</u>	<u>\$9,444,176</u>	<u>\$272,874</u>	<u>4.31</u>
Before income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$1.95</u>	<u>\$0.06</u>		<u>\$2.24</u>	<u>\$0.06</u>	
After income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$1.94</u>	<u>\$0.06</u>		<u>\$1.92</u>	<u>\$0.06</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 LIFE 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	Retained Earnings										Equity Adjustments				Treasury Stock		Total	
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Unrealized Valuation Losses on Long-term Equity Investment		Cumulative Conversion Adjustments					
	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	\$1,464,495	\$3,048	\$88	\$13,254,705	\$382,973	\$0	\$0	\$12,973,603	\$374,851	(\$935,733)	(\$27,036)	\$10,829	\$313	(\$7,333,863)	(\$211,900)	\$68,658,747	\$1,983,784
Appropriations and Distributions for 2002																		
Legal Reserve					1,297,360	37,485			(1,297,360)	(37,485)							0	0
Special Reserve							6,249,135	180,559	(6,249,135)	(180,559)							0	0
Cash dividends									(5,369,406)	(155,140)							(5,369,406)	(155,140)
Remuneration paid to directors and supervisors									(8,100)	(234)							(8,100)	(234)
Bonus paid to employees									(49,602)	(1,433)							(49,602)	(1,433)
Capital surplus-long-term equity investment			2,152	62													2,152	62
Unrealized valuation losses on long-term equity investment											916,314	26,475					916,314	26,475
Cumulative conversion adjustments													133	4			133	4
Net Income after Tax for the six months ended June 30,									9,444,176	272,874							9,444,176	272,874
Balance on June 30, 2003	\$50,686,158	\$1,464,495	\$5,200	\$150	\$14,552,065	\$420,458	\$6,249,135	\$180,559	\$9,444,176	\$272,874	(\$19,419)	(\$561)	\$10,962	\$317	(\$7,333,863)	(\$211,900)	\$73,594,414	\$2,126,392
Balance on January 1, 2004	\$50,686,158	\$1,505,828	\$5,200	\$154	\$14,552,065	\$432,325	\$6,249,135	\$185,655	\$17,788,827	\$528,486	(\$19,419)	(\$577)	\$4,341	\$129	(\$3,032,966)	(\$90,106)	\$86,233,341	\$2,561,894
Appropriations and Distributions for 2003																		
Legal reserve					1,778,883	52,849			(1,778,883)	(52,849)							0	0
Special Reserve							1,766,945	52,494	(1,766,945)	(52,494)							0	0
Cash dividends									(14,010,243)	(416,229)							(14,010,243)	(416,229)
Remuneration paid to directors and supervisors									(8,100)	(241)							(8,100)	(241)
Bonus paid to employees									(224,656)	(6,674)							(224,656)	(6,674)
Capital surplus-long-term equity investment			7,391	220													7,391	220
Cumulative conversion adjustments													(487)	(14)			(487)	(14)
Disposal of treasury stock									(9,318)	(277)					3,032,966	90,106	3,023,648	89,829
Net Income after Tax for the six months ended June 30,									9,781,530	290,598							9,781,530	290,598
Balance on June 30, 2004	\$50,686,158	\$1,505,828	\$12,591	\$374	\$16,330,948	\$485,174	\$8,016,080	\$238,149	\$9,772,212	\$290,320	(\$19,419)	(\$577)	\$3,854	\$115	\$0	\$0	\$84,802,424	\$2,519,383

(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 LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in thousands of dollars)**  
**For the Six Months June 30, 2004 and 2003**

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Year	\$9,781,530	\$290,598	\$9,444,176	\$272,874
Adjustments:				
Recovered bad debt	(66,483)	(1,975)	0	0
Loss (gain) on bad debt	0	0	503,048	14,535
Depreciation	933,425	27,731	1,101,925	31,838
Miscellaneous expenses	1,159	34	0	0
Provision for reserve for operations	126,136,376	3,747,367	117,893,975	3,406,356
Recovered unearned premium reserve	(514,178)	(15,276)	(5,068,928)	(146,458)
Recovered reserve for life insurance	(58,365,804)	(1,733,981)	(52,498,720)	(1,516,866)
Applicant terminates the insurance contract income	(1,204,852)	(35,795)	(1,390,525)	(40,177)
Provision loss on short-term investments (recovered gain)	0	0	(4,654,603)	(134,487)
Loss (gain) on disposal of property and equipment	(780)	(23)	(975)	(28)
Loss (gain) on disposal of investments	906	27	(2,341,479)	(67,653)
Loss (gain) on disposal of real estate	(97)	(3)	(112,061)	(3,238)
Amortization long-term investments in bonds	29,076	864	20,580	595
Unrealized loss (gain) on long-term investments	(1,559)	(46)	19,270	557
Effects of exchange rate changes	(52)	(2)	450	13
Decrease (increase) in short-term investments	(56,868,943)	(1,689,511)	(40,255,592)	(1,163,120)
Decrease (increase) in notes receivable	2,694,201	80,042	4,068,282	117,546
Decrease (increase) in notes and accounts receivable-related parties	(115,998)	(3,446)	(65,347)	(1,888)
Decrease (increase) in prepayments	(74,338)	(2,208)	67,783	1,958
Decrease (increase) in prepaid pension	0	0	76,930	2,223
Decrease (increase) in other current assets	4,507,013	133,898	369,921	10,688
Decrease (increase) in temporary payments and suspense accounts	(476,117)	(14,145)	(14,959)	(432)
Decrease (increase) in deferred income tax assets	(13,527)	(402)	(102,590)	(2,964)
Increase (decrease) in notes payable	(188)	(5)	(1,159)	(34)
Increase (decrease) in accounts payable-related parties	(147,148)	(4,372)	20,143	582
Increase (decrease) in accrued expenses	(1,555,227)	(46,204)	(4,210,444)	(121,654)
Increase (decrease) in other payable	631,839	18,771	(20,960)	(606)
Increase (decrease) in accounts collected in advance	(362,209)	(10,761)	83,275	2,406
Increase (decrease) in other current liabilities	34,447	1,023	(22,228)	(642)
Increase (decrease) in accrued pension liability	350,661	10,418	327,688	9,468
Increase (decrease) in temporary receipts and suspense accounts	257,396	7,647	108,605	3,138
Increase (decrease) in deferred income tax liabilities	(376,076)	(11,173)	61,185	1,768
Net Cash Provided by (Used in) Operating Activities	<u>25,214,453</u>	<u>749,092</u>	<u>23,406,666</u>	<u>676,298</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivable	0	0	(793,471)	(22,926)
(Decrease) increase in forward exchange payable	3,173,998	94,295	0	0
Decrease (increase) in policy loans	5,321,365	158,092	1,858,711	53,704
Decrease (increase) in secured loans	7,143,256	212,218	8,254,491	238,500
Acquisition of long-term investments - Non Subsidiary	(14,215,637)	(422,330)	(103,064,248)	(2,977,875)
Proceeds from disposal of long-term investments - Non Subsidiary	806,476	23,959	14,992,964	433,197
Disposal of investments in real estate	1,493,592	44,373	122,599	3,542
Acquisition of investments in real estate	(8,576,883)	(254,809)	(609,496)	(17,610)
Disposal of property and equipment	12,377	368	8,227	238
Acquisition of property and equipment	(223,423)	(6,638)	(336,662)	(9,727)
Decrease (increase) in non-operating assets	1,148,472	34,120	306,395	8,853
Decrease (increase) in guarantee deposits paid	(3,426,282)	(101,791)	13,024	376
Decrease (increase) in overdue receivables	307,308	9,130	(105,962)	(3,061)
Net Cash Provided by (Used in) Investing Activities	<u>(7,035,381)</u>	<u>(209,013)</u>	<u>(79,353,428)</u>	<u>(2,292,789)</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 LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CASH FLOWS-(Continued)**  
**(Expressed in thousands of dollars)**  
**For the Six Months June 30, 2004 and 2003**

	2004		2003	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	91,137	2,708	(12,268)	(355)
Remuneration paid to directors and supervisors	(8,100)	(241)	(8,100)	(234)
Cash dividends	(110,000)	(3,268)	0	0
Disposal of treasury stock	3,023,647	89,829	0	0
Net Cash Provided by (Used in) Financing Activities	<u>2,996,684</u>	<u>89,028</u>	<u>(20,368)</u>	<u>(589)</u>
Effects of Exchange Rate Changes	52	2	(450)	(13)
Increase(decrease) in Cash and Cash Equivalents	21,175,808	629,109	(55,967,580)	(1,617,093)
Cash and Cash Equivalents at the Beginning of Year	<u>110,832,510</u>	<u>3,292,707</u>	<u>135,061,552</u>	<u>3,902,385</u>
Cash and Cash Equivalents at the End of Year	<u>\$132,008,318</u>	<u>\$3,921,816</u>	<u>\$79,093,972</u>	<u>\$2,285,292</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the year	\$5,759	\$171	\$3,794	\$110
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	<u>\$5,759</u>	<u>\$171</u>	<u>\$3,794</u>	<u>\$110</u>
Income tax paid	<u>\$235,770</u>	<u>\$7,004</u>	<u>\$2,500,376</u>	<u>\$72,244</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 LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of June 30, 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 non-current assets. Current liabilities mean debts must be paid-off within period of one year; debts do not belong to current liabilities are classified as non-current 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)**  
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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 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 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)**  
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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 is 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 is expensed currently.

Upon sale or disposal of properties and equipments, the related cost and accumulated depreciation is removed from the accounts. The gain or loss resulting from disposal of property and equipment is classified as non-operating gain or loss.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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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.

*(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 June 30, 2004, the amount of NT\$2,132,676 (US\$63,359) 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*

Reserve for the operations is 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 on December 24, 2002. Under this 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 \$8,016,080(US\$238,149) from the “Special Reserve for the Loss Movement” in 2004.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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*(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.

*(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

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above conversion are reported as “Cumulative Conversion Adjustments” under stockholders’ equity as a separate item.

When the financial statements of a foreign operation are converted into the 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 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  
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**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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its parent company jointly filed corporation income tax returns and 10% surcharge on its unappropriate retained earnings effectively since year 2002 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.

*(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 retiring 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.



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**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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**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.

**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

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**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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“investment-linked products expenses”, respectively.

*(19) Convenience Conversion Into U.S. Dollars*

The financial statements are stated in NT dollars. Conversion of the June 30, 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\$33.66 and NT\$34.61 to US\$1.00 in effective on June 30, 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.

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

**4. Cash and Cash Equivalents**

	June 30,			
	2004	2004	2003	2003
	NT\$	US\$	NT\$	US\$
Cash on hand	\$396,159	\$11,769	\$384,492	\$11,109
Cash in banks	4,245,553	126,131	5,370,207	155,163
Time deposits	77,189,274	2,293,205	56,333,391	1,627,662
Cash equivalents	50,177,332	1,490,711	17,005,882	491,358
Total	\$132,008,318	\$3,921,816	\$79,093,972	\$2,285,292

**5. Short-Term Investments**

	June 30,			
	2004	2004	2003	2003
	NT\$	US\$	NT\$	US\$
Parent stock	\$0	\$0	\$856,726	\$24,754
Less: Allowance for valuation loss	0	0	(417,662)	(12,068)
Sub-Total	0	0	439,064	12,686
Common stock and Beneficiary certificates	125,772,503	3,736,557	105,304,992	3,042,618

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**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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Oversea investments	154,397,823	4,586,982	121,183,985	3,501,415
Appoint purpose trust fund	42,326,889	1,257,483	45,226,503	1,306,747
Corporate bonds	8,202,001	243,672	11,403,412	329,483
Government bonds	17,054,309	506,664	14,134,599	408,396
Financial debentures	18,000,000	534,760	15,099,766	436,283
Short-term notes	<u>55,867,592</u>	<u>1,659,762</u>	<u>31,194,460</u>	<u>901,313</u>
Sub-Total	421,621,117	12,525,880	343,547,717	9,926,255
Less: Cash equivalents	(50,177,332)	(1,490,711)	(17,005,882)	(491,357)
Allowance for valuation loss	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
Sub-Total	<u>371,443,785</u>	<u>11,035,169</u>	<u>326,541,835</u>	<u>9,434,898</u>
Total	<u><u>\$371,443,785</u></u>	<u><u>\$11,035,169</u></u>	<u><u>\$326,980,899</u></u>	<u><u>\$9,447,584</u></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 there 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

	June 30,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Short-term secured loans	\$5,600	\$166	\$96,501	\$2,788
Less: Allowance for bad debts	<u>(36)</u>	<u>1</u>	<u>(618)</u>	<u>(18)</u>
Sub-total	<u>5,564</u>	<u>165</u>	<u>95,883</u>	<u>2,770</u>
Medium-term secured loans	10,156,603	301,741	10,207,486	294,929
Less: Allowance for bad debts	<u>(65,257)</u>	<u>(1,938)</u>	<u>(66,478)</u>	<u>(1,921)</u>
Sub-total	<u>10,091,346</u>	<u>299,803</u>	<u>10,141,008</u>	<u>293,008</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
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Long-term secured loans	279,252,216	8,296,263	301,919,861	8,723,486
Less: Allowance for bad debts	(1,850,786)	(54,985)	(2,087,731)	(60,321)
Sub-total	<u>277,401,430</u>	<u>8,241,278</u>	<u>299,832,130</u>	<u>8,663,165</u>
Total	<u>\$287,498,340</u>	<u>\$8,541,246</u>	<u>\$310,069,021</u>	<u>\$8,958,943</u>

Secured loans are 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 in Stocks

### (1) Long -term Investments in Stocks

	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
<u>Investee</u>	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,627	\$11,159	\$375,440	\$10,848
Vista Technology Venture Capital Corp.	49,126	1,460	68,181	1,970
Omnitek Venture Capital Corp.	152,081	4,518	150,572	4,351
Wa Tech Venture Capital Co., Ltd.	178,895	5,315	179,871	5,197
IBT Venture Capital Corp.	575,239	17,090	565,288	16,333
Cathay Insurance (Bermuda) Co., Ltd.	59,883	1,779	54,764	1,582
Symphox Information Co., Ltd.	261,257	7,762	256,843	7,421
Cathay Securities Investment Trust Co., Ltd.	208,198	6,185	200,879	5,804
Cathay Venture Capital Crop.	222,631	6,614	143,526	4,147
Lin Yuan Property Management Co., Ltd.	19,430	577	31,778	918
Cathay Securities Investment Co., Ltd.	20,490	609	11,107	321
Sub-total	<u>2,122,857</u>	<u>63,068</u>	<u>2,038,249</u>	<u>58,892</u>
B. Under the cost method:				
Cathay Financial Holding Co., Ltd.	0	0	12,888,129	372,382

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS – (Continued)**  
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Chunghwa Telecom Co., Ltd.	33,581,819	997,677	34,418,548	994,468
WK Technology Fund Co., Ltd.	100,000	2,971	100,000	2,889
Taiwan Aerospace Company	110,500	3,283	260,000	7,512
Koo Group Telecommunications Co., Ltd.	0	0	749,998	21,670
Concord Venture Capital Co., Ltd.	89,280	2,652	89,280	2,580
Taipei Financial Center Corp.	1,441,591	42,828	1,441,591	41,652
InveStar Dayspring V.C. Inc.	200,000	5,942	200,000	5,779
FAT Venture Capital Co., Ltd.	50,000	1,485	50,000	1,445
Concord Venture Capital Co., Ltd.	50,000	1,485	50,000	1,445
WK Technology Fund Co., Ltd.	150,000	4,456	150,000	4,334
WK Technology Fund Co., Ltd.	127,200	3,779	127,200	3,675
Century Venture Capital Co., Ltd.	100,000	2,971	100,000	2,889
China Power Venture Capital Co., Ltd.	190,000	5,645	190,000	5,490
Super Tech Venture Capital Corp.	100,000	2,971	100,000	2,889
CDIB & Partners Investment Holding Corp.	500,000	14,854	500,000	14,447
Alex-Tech Machinery Industrial Co., Ltd.	7,008	208	21,000	607
R.O.C. Venture Capital Co., Ltd.	151,970	4,515	151,970	4,391
National Venture Capital Co., Ltd.	100,000	2,971	100,000	2,889
WK Technology Fund Co., Ltd.	200,000	5,942	200,000	5,779
Capital Venture Fund Corp.	50,000	1,485	50,000	1,445
Fu Yu Venture Capital Investment Corp.	200,000	5,942	200,000	5,779
Concord Venture Capital Co., Ltd.	100,000	2,971	100,000	2,889
Allied Material Technology Corp.	0	0	98,400	2,843

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New Century InfoComm Tech Co., Ltd.	1,268,000	37,671	1,268,000	36,637
Srsuntour Co., Ltd.	62,000	1,842	62,000	1,791
Titan Venture Capital Co., Ltd.	150,000	4,456	150,000	4,334
Harbinger Venture Capital Corp.	200,000	5,942	200,000	5,779
Prosperity Venture Capital Corp.	100,000	2,971	100,000	2,889
KGEx.com Co., Ltd.	175,000	5,199	175,000	5,056
United Venture Corp.	50,000	1,485	50,000	1,445
BioCare Corp.	12,000	357	12,000	347
Megic Corp.	18,000	535	18,000	520
WK Technology Fund Co., Ltd.	200,000	5,942	200,000	5,779
Hua Chih Venture Capital Corp.	60,000	1,783	60,000	1,733
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,377	80,000	2,311
Win Semiconductors Corp.	16,364	486	50,949	1,472
Kinik Precision Grinding Co., Ltd.	6,000	178	6,000	173
Vita Genomics Inc.	87,500	2,600	87,500	2,528
Tong Hsing Electronic Inc. Co., Ltd.	27,144	807	27,144	784
China Technology Venture Capital Corp.	50,000	1,485	50,000	1,445
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,701	259,200	7,489
Applied Vacuum Coating Technologies Co., Ltd.	6,661	198	6,661	192
TaiGen Biotechnology Co., Ltd.	42,000	1,248	16,500	477
Cdid BioScience venture Inc.	285,000	8,467	285,000	8,235
Maxima Venture , Inc, Taiwan	221,130	6,570	126,630	3,659
Parawin Venture Capital Co., Ltd.	50,000	1,485	50,000	1,445
Darly 3 Venture Co., Ltd.	20,000	594	20,000	578
Top Taiwan Venture Capital Co., Ltd.	50,000	1,485	50,000	1,445
Cash Box Audio and Video Co., Ltd.	200,000	5,942	200,000	5,779
Richtech Technology Co., Ltd.	0	0	28,806	832

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Hua Venture Capital Corp.	50,000	1,485	50,000	1,445
Shin Sheng Venture Capital Investment Corp.	50,000	1,485	50,000	1,445
Centillion Venture Capital Corp.	50,000	1,485	50,000	1,445
Harbinger Venture Capital Corp.	100,000	2,971	100,000	2,889
Unitive Semiconductor Taiwan Corp.	24,000	713	46,800	1,352
Honey Hope Honesty Co.	0	0	55,000	1,589
Taiwan High Speed Rail – preferred stock	1,000,000	29,709	1,000,000	28,893
Formosa Petro Chemical Co.	0	0	16,250	469
Enermax Technology Co.	47,600	1,414	0	0
Creative Sensor Inc.	11,820	351	0	0
Tong Lung Metal Industry – preferred stock	300,000	8,913	0	0
Hsin Tao Power Co., Ltd.	765,000	22,727	0	0
CTB1 Venture Capital Co., Ltd.	50,000	1,485	0	0
Sub-total	<u>43,743,787</u>	<u>1,299,577</u>	<u>57,343,556</u>	<u>1,656,849</u>
Total	<u>\$45,866,644</u>	<u>\$1,362,645</u>	<u>\$59,381,805</u>	<u>\$1,715,741</u>

(2) Changes in long-term investments in stocks under the equity method are summarized in the following:

	For the six months ended June 30,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Balance on January 1	\$2,114,394	\$62,816	\$2,065,196	\$59,671
Add: Investment gains				
(losses) by equity method recognized	68,700	2,041	19,833	573
Capital surplus long-term equity investment	7,391	220	2,152	62
Unrealized valuation losses on long-term equity investment	0	0	(9,962)	(288)
Cumulative Conversion adjustments	(487)	(14)	133	4
Less: Cash dividends	(67,141)	(1,995)	(39,103)	(1,130)
Balance on June 30,	<u>\$2,122,857</u>	<u>\$63,068</u>	<u>\$2,038,249</u>	<u>\$58,892</u>

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

<u>Investee</u>	For the six months ended June 30,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
WK Technology Fund Co., Ltd.	\$5,436	\$161	(\$142)	(\$4)
Vista Technology Venture Capital Corp.	(26,309)	(781)	(17,319)	(500)
Omnitek Venture Capital Corp.	15,039	447	2,979	86
Wa Tech Venture Capital Co., Ltd.	13,793	410	22,192	641
IBT Venture Capital Corp	30,601	909	(12,043)	(348)
Cathay Insurance (Bermuda) Co., Ltd.	3,280	97	1,588	46
Symphox Information Co., Ltd.	2,632	78	8,893	257
Cathay Securities Investment Trust Co., Ltd.	13,538	402	2,153	62
Cathay Venture Capital Corp.	1,376	41	1,232	36
Lin Yuan Property Management Co., Ltd.	4,301	128	8,620	249
Cathay Securities Investment Co., Ltd.	5,013	149	1,680	48
Total	<u>\$68,700</u>	<u>\$2,041</u>	<u>\$19,833</u>	<u>\$573</u>

A. 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.

The Company owns less than 50% voting share and the recognition investment gains or losses shall be deferred to next year of the following investees: The WK Technology Fund VI Co., Ltd. Vista Technology Venture Capital Corp., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. for the six months ended June 30, 2004 and 2003.

B. The investment gains (losses) were based on the current years audited financial statements for the six months ended June 30, 2004 and 2003 are Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Lin Yuan Property Management Co., Ltd. and Cathay Securities Investment Co., Ltd. .



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C. The investment gains (losses) of investee companies for the six months ended June 30, 2004 and 2003 were recognized based on unaudited financial statements. Those investee companies are Cathay Securities Investments Trust Co., Ltd. and Cathay Venture Capital Corp.

**8. Long-Term Investments in Bonds**

Long-term investments in bonds consist mainly of government bonds as of June 30, 2004 and 2003. Partial Bonds are deposited in the Central Bank of China as capital guarantee deposits. As of June 30, 2004 and 2003, the capital guarantee deposits amounted to NT\$7,914,509 (US\$235,131) and NT\$7,719,351 (US\$223,038), respectively, categorized under securities serving as deposits paid-bonds of other assets. Please See note 19, “pledged assets” for details.

One of long-term investments in bonds -- Global structured notes amounted to NT\$35,120,909 (US\$1,043,402) and NT\$0 (US\$0) as of June 30, 2004 and 2003, respectively.

**9. Investments in Real Estate**

Item	June 30, 2004							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$104,476,112	\$3,103,866	\$4,681	\$139	(\$12,323,151)	(\$366,107)	\$92,157,642	\$2,737,898
Construction	8,802,834	261,522	0	0	0	0	8,802,834	261,522
<b>Total</b>	<b>\$113,278,946</b>	<b>\$3,365,388</b>	<b>\$4,681</b>	<b>\$139</b>	<b>(\$12,323,151)</b>	<b>(\$366,107)</b>	<b>\$100,960,476</b>	<b>\$2,999,420</b>

Item	June 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,124,549	\$2,719,577	\$5,010	\$145	(\$11,138,618)	(\$321,832)	\$82,990,941	\$2,397,890
Construction	10,966,994	316,873	0	0	0	0	10,966,994	316,873
Prepayments for buildings and Land	414	12	0	0	0	0	414	12
<b>Total</b>	<b>\$105,091,957</b>	<b>\$3,036,462</b>	<b>\$5,010</b>	<b>\$145</b>	<b>(\$11,138,618)</b>	<b>(\$321,832)</b>	<b>\$93,958,349</b>	<b>\$2,714,775</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.

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**10. Property and Equipment**

Item	June 30, 2004							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,138,553	\$152,661	\$2,094	\$62	\$0	\$0	\$5,140,647	\$152,723
Buildings and structures	11,363,335	337,592	0	0	(3,211,182)	(95,401)	8,152,153	242,191
Communication and transportation equipment	117,680	3,496	0	0	(59,364)	(1,763)	58,316	1,733
Other equipment	4,322,707	128,422	0	0	(2,505,117)	(74,424)	1,817,590	53,998
Sub-total	\$20,942,275	\$622,171	\$2,094	\$62	(\$5,775,663)	(\$171,588)	\$15,168,706	\$450,645
Construction in progress	\$127,434	\$3,786	\$0	\$0	\$0	\$0	127,434	\$3,786
Prepayment for equipment	55,207	1,640	0	0	0	0	55,207	1,640
Total	\$21,124,916	\$627,597	\$2,094	\$62	(\$5,775,663)	(\$171,588)	\$15,351,347	\$456,071

Item	June 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,489,112	\$158,599	\$1,764	\$51	\$0	\$0	\$5,490,876	\$158,650
Buildings and structures	10,851,095	313,525	0	0	(3,035,577)	(87,708)	7,815,518	225,817
Communication and transportation equipment	140,280	4,053	0	0	(55,795)	(1,612)	84,485	2,441
Other equipment	4,180,562	120,791	0	0	(2,241,638)	(64,769)	1,938,924	56,022
Sub-total	20,661,049	596,968	1,764	51	(5,333,010)	(154,089)	15,329,803	442,930
Construction in progress	427,814	12,361	0	0	0	0	427,814	12,361
Prepayment for equipment	228,905	6,614	0	0	0	0	228,905	6,614
Total	\$21,317,768	\$615,943	\$1,764	\$51	(\$5,333,010)	(\$154,089)	\$15,986,522	\$461,905

No property and equipment were pledged as collateral. The insurance coverage on property and equipment are stated at book value.

**11. Overdue Receivables**

	June 30,			
	2004	2004	2003	2003
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,202,268	\$65,427	\$5,635,986	\$162,843
Less: Allowance for bad and doubtful debts	(1,101,134)	(32,714)	(2,817,993)	(81,422)
Total	\$1,101,134	\$32,713	\$2,817,993	\$81,421

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## **12. Capital Stock**

As of June 30, 2004 and 2003, the total authorized shares were the same 5,068,615,765 with par value of NT\$10 dollars each.

## **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 cannot be used for the purpose of 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 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 ROC Revised 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.

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**14. TREASURY STOCK**

(1) The company's treasury stock variation for six-month on June 30, 2004 are as follows:

(Unit: thousand shares)

Reason for transfer	Jan. 1, 2004	Increase	Decrease	June 30, 2004
Transferred it to employees	<u>51,551</u>	<u>0</u>	<u>51,551</u>	<u>0</u>

(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\$217,881).

(3) Treasury stock of the Company was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. As a result of this conversion, Cathay Financial Holding owns 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 has been reduced to 0 share.

**15. 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	9,567,045	1,740,581	11,307,626	9,274,643	1,734,839	11,009,482
Labor & health Insurance	583,559	102,836	686,395	610,690	111,671	722,361

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expenses						
Pension expenses	421,463	74,271	495,734	466,116	85,234	551,350
Other expenses	501,783	105,688	607,471	525,932	111,243	637,175
Depreciation	0	933,425	933,425	0	1,101,925	1,101,925
Depletion	0	0	0	0	0	0
Amortizations	0	0	0	0	0	0

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	284,226	51,711	335,937	267,976	\$50,125	318,101
Labor & health Insurance expenses	17,337	3,055	20,392	17,645	3,226	20,871
Pension expenses	12,521	2,207	14,728	13,467	2,463	15,930
Other expenses	14,907	3,140	18,047	15,196	3,214	18,410
Depreciation	0	27,731	27,731	0	31,838	31,838
Depletion	0	0	0	0	0	0
Amortizations	0	0	0	0	0	0

The total numbers of employees are 27,780 and 30,519 on June 30, 2004 and 2003.

## 16. Estimated Income Taxes

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Income before Taxes	\$9,849,005	\$292,603	\$11,018,425	\$318,360
Adjustments				
Interest income of tax on a separate basis	(538,467)	(15,997)	(499,182)	(14,423)
Loss (gain) on disposal of investments	(8,416,612)	(250,048)	247,553	7,153
Unrealized exchange loss (gain)	1,513,681	44,969	(278,403)	(8,044)

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Loss (gain) on market price loss (recovery) of short-term investments	0	0	(4,654,603)	(134,487)
Bad debts exceeding legal limit	(295,619)	(8,783)	56,948	1,645
Cash Dividend	(248,953)	(7,396)	(58,750)	(1,697)
Decrease in payment pension expense	350,661	10,418	404,673	11,692
Others	(476,939)	(14,169)	(138,119)	(3,991)
<b>Taxable Income</b>	<b>1,736,757</b>	<b>51,597</b>	<b>6,098,542</b>	<b>176,208</b>
Times : Taxes Rate; Less:				
Progressive difference	25%	25%	25%	25%
 Add: Extra 10% Income Tax on Undistributed Retained Earnings	 333,965	 9,922	 130,753	 3,778
Less: Tax effects under integrated income tax systems	 (333,965)	 (9,922)	 (130,753)	 (3,778)
Sub-Total	434,189	12,899	1,524,626	44,052
Add: Tax on a separate basis	106,792	3,173	99,836	2,885
Beginning deferred income tax assets	270,265	8,029	649,565	18,768
Ending deferred income tax liabilities	757,365	22,500	1,311,618	37,897
Less: Income tax credit	(83,902)	(2,492)	(8,808)	(254)
Beginning deferred income tax liabilities	(1,135,785)	(33,743)	(1,432,194)	(41,381)
Ending deferred income tax assets	(281,449)	(8,361)	(570,394)	(16,481)
<b>Total Income Tax expenses</b>	<b>\$67,475</b>	<b>\$2,005</b>	<b>\$1,574,249</b>	<b>\$45,486</b>

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

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

	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
A. Total deferred tax liabilities	\$757,365	\$22,500	\$1,311,618	\$37,897
Total deferred tax assets	\$281,449	\$8,361	\$570,394	16,481
B. Temporary differences:				
Employee benefits	\$21,964	\$653	\$50,606	\$1,462

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Pension expense	1,083,151	32,179	327,688	9,468
Unrealized exchange gains				
(Losses)	(3,029,460)	(90,002)	(5,012,571)	(144,830)
Bad debts exceeding limit	0	0	1,637,250	47,306
Other	20,682	614	32,133	928
C. Deferred tax assets-current	\$8,198	\$243	\$15,193	\$439
Deferred tax liabilities-				
current	<u>(757,365)</u>	<u>(22,500)</u>	<u>(1,292,385)</u>	<u>(37,341)</u>
Net offset balance of				
deferred tax assets				
(liabilities)-current	<u>(\$749,167)</u>	<u>(\$22,257)</u>	<u>(\$1,277,192)</u>	<u>(\$36,902)</u>
D. Deferred tax				
assets-noncurrent	\$273,251	\$8,118	\$555,201	\$16,042
Deferred tax Liabilities-				
noncurrent	<u>0</u>	<u>0</u>	<u>(19,233)</u>	<u>(556)</u>
Net offset balance of				
deferred tax assets				
(liabilities) - noncurrent	<u>\$273,251</u>	<u>\$8,118</u>	<u>\$535,968</u>	<u>\$15,486</u>

(4) Information related to tax imputation

	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation				
credit account	<u>\$50,961</u>	<u>\$1,514</u>	<u>\$25,735</u>	<u>\$744</u>

	For the six months ended June 30,	
	<u>2004</u>	<u>2003</u>
Imputation credit account ratio- Actual		
May 17, 2004	8.34%	-
Imputation credit account ratio- Actual		
June 2, 2003	<u>-</u>	<u>30.17%</u>

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(5) Related Information on Undistributed Earnings

Year	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$0	\$0
After 1998	0	0	0	0
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

(6) 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
		NT\$	US\$	NT\$	US\$	
		Statute for Upgrading Industries	Education training	<u>\$5,430</u>	<u>\$161</u>	

**17. Earning Per Share**

	For the six months ended June 30			
	<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>\$9,849,005</u>	<u>\$292,603</u>	<u>\$11,018,425</u>	<u>\$318,360</u>
Net income (b)	<u>9,781,530</u>	<u>290,598</u>	<u>9,444,176</u>	<u>272,874</u>
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,068,615,765	5,068,615,765



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Weighted average				
outstanding number				
of shares (c)	5,047,088,973	5,047,088,973	4,911,688,765	4,911,688,765
Before income taxes				
Earnings per share				
(a) / (c) (dollars)	<u>\$1.95</u>	<u>\$0.06</u>	<u>\$2.24</u>	<u>\$0.06</u>
After income taxes				
Earnings per share				
(b) / (c) (dollars)	<u>\$1.94</u>	<u>\$0.06</u>	<u>\$1.92</u>	<u>\$0.06</u>

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

(shares)	For the six months ended June 30,	
	2004	2003
Shares at the beginning of year	5,068,615,765	5,068,615,765
Less: Treasury stock	<u>(21,526,792)</u>	<u>(156,927,000)</u>
Total	<u>5,047,088,973</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 United Bank Co., Ltd	Affiliate
(Originally merged by United World Chinese Commercial Bank and Cathay United Bank, effective merged dated on October 27, 2003)	
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate

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(Originally merged by Seaward Insurance Agent Co., Ltd. And Cathay Life Insurance Agent Co., Ltd., effective merged dated on March 25, 2004)

Cathay Futures Co., Ltd.	Affiliate
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
Wan Bao Development Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method

(2) *Significant Transactions with Related Parties*

A. Property Transactions :

Transactions between the Company and related parties are undertaking contracted projects, constructions, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

(A). Significant Transactions with Related Parties for the six months end June 30, 2004 and 2003 are list below:

Name	Item	For the six months ended June 30, 2004	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$5,775	\$172
	Hsinyi District Base-D	20,338	604
	Cathay Information Building	10,569	314
	Ban Ciao Building	113,237	3,364
	Sheraton Taipei Hotel	20,332	604
	Cathay General Hospital	7,120	211
	Siangyang Building	18,362	546
	Huanyu Building	5,984	178
	Xi-Men Bldg.	15,882	472
	Tucheng Dffice Building	50,749	1,508
	Jhunan Building	10,740	319
	Cathay Golden & Sliver Bldg.	3,878	115
	Tian-Mu Shopping Center (B)	4,757	141
	Taipei Financial Center Building	3,883	115
	Li-Yuan Bldg.	3,934	117
	Ji-Long Bldg (II)	2,080	62
	Cathay life insurance Building	1,757	52

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Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	332	10
	Tucheng office Building	116	3
	Ban Ciao Building	1,310	39
	Total	<u>\$301,135</u>	<u>\$8,946</u>

Name	Item	For the six months ended June 30, 2003	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$6,930	\$200
	Hsinyi District Base-D	440,633	12,732
	Cathay Information Building	21,610	624
	Taitung Building	2,776	80
	Yungdang Building	125	4
	Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	2,678
	Tucheng office Building	582	17
	Ban Ciao Building	524	15
	Total	<u>\$475,858</u>	<u>\$13,749</u>

- a. The total amount of undertaking contracted projects for real estate to June 30, 2004 and 2003 between the Company and San Ching Engineering Co., Ltd. are NT\$9,142,446 (US\$271,612) and NT\$12,267,825 (US\$354,459), respectively.

(B). The Company sold real estate to its related parties for the six months ended June 30, 2004 as follows:

Name	Item	For the six months ended June 30, 2004			
		Sales amount	Sales amount	Gain (Loss)	Gain (Loss)
		NT\$	US\$	NT\$	US\$
Cathay General Hospital	No.678 Sec.2 Chung-Hwa Rd. Hsinchu	\$1,520,000	\$45,157	(\$8,390)	(\$249)

The Company did not sell any real estate to its related parties for the six months ended June 2003.

(C). Real-Estate Rental Income

Name	Rental income			
	For the six months ended June 30,			
	2004 NT\$	2004 US\$	2003 NT\$	2003 US\$
Cathay Financial Holding Co., Ltd.	\$3,908	\$116	\$3,908	\$113
Cathay Real Estate Development Co., Ltd.	11,365	337	14,932	431
Cathay United Bank Co., Ltd	122,421	3,637	89,734	2,593

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Cathay Century Insurance Co., Ltd.	26,555	789	26,007	751
Cathay General Hospital	70,758	2,102	81,529	2,356
San Ching Engineering Co., Ltd.	7,196	214	9,920	287
Symphox Information Co., Ltd.	12,421	369	15,023	434
Lin Ynan Investment Co., Ltd.	38	1	89	3
Cathay Securities Investment Trust Co., Ltd.	4,311	128	4,543	131
Cathay Securities Investments Co., Ltd.	2,110	63	2,070	60
Lin Yuan Property Management Co., Ltd.	224	7	209	6
Total	\$261,307	\$7,763	\$247,964	\$7,165

Name	Guarantee deposits received			
	June 30,2004 NT\$	June 30,2004 US\$	June 30,2003 NT\$	June 30,2003 US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$172	\$12,386	\$358
Cathay United Bank Co., Ltd	71,262	2,117	52,900	1,529
Cathay Century Insurance Co., Ltd.	13,278	395	13,053	377
Cathay General Hospital	2,354	70	1,983	57
San Ching Engineering Co., Ltd.	7,079	210	6,779	196
Symphox Information Co., Ltd.	1,394	41	1,421	41
Cathay Securities Investment Trust Co., Ltd.	2,144	64	2,144	62
Other	65	2	65	2
Total	\$103,372	\$3,071	\$90,731	\$2,622

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

(D). Real-Estate Rental Expense

Name	Rental Expense			
	For the six months ended June 30,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$

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Cathay Real Estate Development Co., Ltd.	\$14,818	\$440	\$15,182	\$439
Lin Yuan Investment Co., Ltd.	3,340	99	1,673	48
Total	<u>\$18,158</u>	<u>\$539</u>	<u>\$16,855</u>	<u>\$487</u>

Name	Guarantee Deposits paid			
	June 30,2004 NT\$	June 30,2004 US\$	June 30,2003 NT\$	June 30,2003 US\$
Cathay Real Estate Development Co., Ltd.	\$9,157	\$272	\$9,352	\$270
Lin Yuan Investment Co., Ltd.	1,650	49	1,650	48
Total	<u>\$10,807</u>	<u>\$321</u>	<u>\$11,002</u>	<u>\$318</u>

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

(E). Acquisition of Property and Equipment Information:

Name	Item	For the six months ended June 30, 2004			
		2004 NT\$	2004 US\$	2003 NT\$	2003 US\$
Symphox Information Co., Ltd.	Communication and transportation equipment	<u>\$0</u>	<u>\$0</u>	<u>\$1,560</u>	<u>\$45</u>

B. Cash In Bank

Name	Item	For the six months ended June 30, 2004			
		Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay United Bank Co., Ltd.	Time Deposit	\$10,556,550	\$4,433,650	0.75% ~ 1.90%	\$70,846
	Cash In Bank	50,050,388	6,372,984	0.00% ~ 0.20%	1,143
Total			<u>\$10,806,634</u>		<u>\$71,989</u>

Name	Item	For the six months ended June 30, 2004			
		Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay United Bank Co., Ltd.	Time Deposit	\$313,623	\$131,719	0.75% ~ 1.90%	\$2,105
	Cash In Bank	1,486,940	189,334	0.00% ~	34

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	\$321,053	0.20%	\$2,139
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		For the six months ended June 30, 2003			
Name	Item	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay United Bank Co., Ltd.	Time Deposit	\$12,646,150	\$6,521,050	0.90% ~ 2.65%	\$60,785
	Cash In Bank	16,261,196	3,456,420	0.00% ~ 0.50%	2,713
Total			\$9,977,470		\$63,498

		For the six months ended June 30, 2003			
Name	Item	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
United World Chinese Commercial Bank Co., Ltd.	Time Deposit	\$21,950,000	\$3,475,000	0.90% ~ 2.35%	\$170,688
	Cash In Bank	5,435,600	589,865	0.00% ~ 0.15%	438
Total			\$4,064,865		\$171,126

		For the six months ended June 30, 2003			
Name	Item	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay United Bank Co., Ltd.	Time Deposit	\$365,390	\$188,415	0.90% ~ 2.65%	\$1,756
	Cash In Bank	469,841	99,868	0.00% ~ 0.50%	79
Total			\$288,283		\$1,835

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Name	Item	For the six months ended June 30, 2003			
		Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
United World Chinese Commercial Bank Co., Ltd.	Time Deposit	\$634,210	\$100,405	0.90% ~ 2.35%	\$4,932
	Cash In Bank	\$157,053	17,043	0.00% ~ 0.15%	12
Total			<u>\$117,448</u>		<u>\$4,944</u>

C. Secured Loans

Name	For the six months ended June 30, 2004			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	<u>\$2,192,866</u>	<u>\$2,192,802</u>	2.60%~3.50%	<u>\$20,973</u>

Name	For the six months ended June 30, 2004			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	<u>\$65,148</u>	<u>\$65,146</u>	2.60%~3.50%	<u>\$623</u>

Name	For the six months ended June 30, 2003			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	<u>\$1,173,912</u>	<u>\$1,173,552</u>	3.67%~4.25%	<u>\$23,626</u>

Name	For the six months ended June 30, 2003			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$

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Cathay General Hospital	\$33,918	\$33,908	3.67%~4.25%	\$683
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**D. Beneficiary Certificates:**

Name	Item	June 30,			
		<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
Cathay Securities Investment Trust Co., Ltd.	Cost	\$4,436,000	\$131,788	\$3,774,000	\$109,044
	Market Value	4,452,521	132,279	3,620,983	104,622

**E. Notes (Account) Receivable**

Name	June 30,			
	<u>2004</u> NT\$	<u>2004</u> US\$	<u>2003</u> NT\$	<u>2003</u> US\$
<b>Notes Receivable</b>				
Cathay General Hospital	\$0	\$0	\$36,999	\$1,069
Cathay Century Insurance Co., Ltd.	0	0	53,930	1,558
Symphox Information Co., Ltd.	0	0	583	17
Cathay Securities Investment Co., Ltd.	0	0	139	4
Sub-Total	0	0	91,651	2,648
<b>Account Receivable</b>				
Cathay General Hospital	120,000	3,565	0	0
Cathay Century Insurance Co., Ltd.	31,898	948	0	0
Cathay Securities Investment Co., Ltd.	67	2	0	0
Symphox Information Co., Ltd.	761	22	0	0
Cahtay Insurance (Bermuda) Co., Ltd.	10,973	326	9,806	283
Total	\$163,699	\$4,863	\$101,457	\$2,931



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**F. Tax Refund Receivable**

Name	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$17,720	\$526	\$0	\$0

**G. Accounts Payable-Related Parties**

Name	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$13,176	\$392	\$9,121	\$263
Symphox Information Co., Ltd.	27,472	816	27,931	807
Lin Yuan Property Management Co., Ltd.	14,247	423	14,127	408
Cathay Financial Holding Co., Ltd.	299,782	8,906	1,162,811	33,598
Other	7,698	229	2,236	65

**H. Accounts Collected in Advance**

Name	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,406	\$71	\$2,219	\$64
Cathay General Hospital	71	2	118,833	3,434
Other	222	7	212	6
Total	\$2,699	\$80	\$121,264	\$3,504

**I. Prepayment**

Name	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$

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Symphox Information Co., Ltd.	<u>\$5,367</u>	<u>\$159</u>	<u>\$21,392</u>	<u>\$618</u>
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**J. Guarantee Deposit Paid**

Name	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	<u>\$0</u>	<u>\$0</u>	<u>\$55,000</u>	<u>\$1,589</u>

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

**K. Insurance Income**

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$104,793	\$3,113	\$0	\$0
Cathay Financial Holding Co., Ltd.	250	8	0	0
Total	<u>\$105,043</u>	<u>\$3,121</u>	<u>\$0</u>	<u>\$0</u>

**L. Insurance Expense**

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$141,699</u>	<u>\$4,210</u>	<u>\$142,227</u>	<u>\$4,109</u>

Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid for the six months ended June 30, 2004 and 2003 amounts of \$2,811 (US\$84) and \$6,512(US\$188) were paid for employees' fidelity guarantee insurance.

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M. Indemnity Income

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$8,215	\$244	\$7,095	\$205

Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received for the six months ended June 30, 2004 and 2003, \$6,571 (US\$195) and \$0 (US\$0), represented claims for employees' fidelity guarantee insurance.

N. Reinsurance Income

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$51,955	\$1,544	\$9,537	\$275

Cathay Insurance (Bermuda) Co., Ltd reinsurance effective April 1, 2000, assumed damage reinsurance from RGA and CRC and re-direct 90% of reinsurance to this company.

O. Reinsurance Claims Payment

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,565	\$225	\$23,975	\$693

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**P. Reinsurance Commission Expense**

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$9,500	\$282	\$10,302	\$298

**Q. Reinsurance Handing Fee Expense**

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$3,795	\$113	\$4,088	\$118

**R. Miscellaneous Income**

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$255,452	\$7,589	\$87,237	\$2,521
Cathay United Bank Co., Ltd.	148,163	4,402	0	0
Cathay Securities Investment Trust Co., Ltd.	3,487	104	0	0
Cathay Futures Co., Ltd.	39	1	0	0
<b>Total</b>	<u>\$407,141</u>	<u>\$12,096</u>	<u>\$87,237</u>	<u>\$2,521</u>

Loan commission with free of charge fire and earthquake insurances and income from market integration.

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S. Commissions Expense

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$132,353	\$3,932	\$43,280	\$1,251

T. Marketing Expense

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$137,859	\$4,096	\$291,565	\$8,424

U. Administrative and general expense

Name	For the six months ended June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$361,750	\$10,747	\$375,733	\$10,857
Cathay Securities Investment Co., Ltd.	26,250	779	13,125	379
San Ching Engineering Co., Ltd.	4,500	134	0	0
Cathay Real Estate Development Co., Ltd.	4,500	134	10,426	301
Total	<u>\$397,000</u>	<u>\$11,794</u>	<u>\$399,284</u>	<u>\$11,537</u>

**19. Pledged Assets**

As of June 30, 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

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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	June 30,			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in Bonds	\$7,914,509	\$235,131	\$7,719,351	\$223,038
Time Deposits	290,550	8,632	1,002,550	28,967
Total	\$8,205,059	\$243,763	\$8,721,901	\$252,005

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

**21. Serious Damages: None**

**22. Subsequent Events: None**

**23. Other Important Events**

**(1) Pension Related Information**

Pension funded status:

With respect to the accounting for pensions, we performed the amount based on minimum pension liability and net periodic pension cost. We expect net periodic pension cost is NT\$495,743 (US\$14,728), and we have allotted NT\$145,073 (US\$4,310) to pension fund.

**(2) Financial Instruments Related Information**

**A. Derivative Financial Instruments related information**

**(A). Purpose**

Effective June 30, 2004, Cathay Life Insurance hold derivative financial instruments: Futures, Forward Contracts and Interest Rate Swap Agreement. Futures hedge risk against stock price fluctuation; forward contacts hedge risk against foreign currency and exchange rate fluctuation; interest rate swap agreement hedges risk against interest rate fluctuation. These are tradable

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activities categorize as non-trade.

(B). Cash Flow and Demand

The counterpart of future contract buys & sells, 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.

(D). Product type and condition

a. Futures

June 30, 2004

Item	Transaction		Net gain of Fair Value			
	type	Lot	Contract amount		estimated	
			NT\$	US\$	NT\$	US\$
Bonds futures	Selling out	1,950	\$7,111,443	\$211,273	\$46,852	\$1,392

All futures transaction had offset on June 30, 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

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should be listed as assets or liabilities.

(b). As of June 30, 2004 and 2003, the Company had forward exchange contracts of approximately US\$12,914,800 and US\$7,722,800 respectively, in national value.

The 1st half 2004 forward contracts are due from the period of July 1, 2004 to April 8, 2005. In addition, the 2003 forward contracts are due from period July 3, 2003 to June 28, 2004.

June 30, 2004

Item	Contract	Fair Value	Fair Value	Due Value	Due Value
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$14,418,800	\$487,068,057	\$14,470,233	\$483,843,886	\$14,374,447

June 30, 2003

Item	Contract	Fair Value	Fair Value	Due Value	Due Value
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$10,342,800	\$358,050,573	\$10,345,292	\$358,142,736	\$10,347,955

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

Net capital	June 30,	
	<u>2004</u>	<u>2003</u>
Short-term investment	USD14, 418,800	USD10, 342,800

The forward contracts agreement listed loss amount were NT\$349,142(US\$10,373) and NT\$115,363(US\$3,333), respectively, for the period of year 2004 and 1st half year of 2003.

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



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exchange rate for hedging the interest risk. As of June 30, 2004. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRS	NT	2002.09.13~2014.05.12	\$56,484,212

**B. Non Derivative Financial Instruments related information :**

Item	June 30, 2004			
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term				
Investment	\$371,443,785	\$372,382,931	\$11,035,169	\$11,063,070
Long-term				
Investment-cost method	43,743,787	50,621,259	1,299,577	1,503,900

Item	June 30, 2003			
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term				
Investment	\$ 326,980,899	\$335,428,145	\$9,447,584	\$9,691,654
Long-term				
Investment-cost method	57,343,556	59,703,941	1,656,849	1,725,049

**(3) Discretionary Account Management**

Item	June 30, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$2,173,490	\$64,572	\$2,036,759	\$60,510
Repurchase bonds	5,171,268	153,632	5,171,826	153,649
Convertible bonds	1,465,847	43,549	1,406,805	41,794
Short-term Securities	99,677	2,961	99,787	2,964
Governmental Bonds	4,238,832	125,931	4,225,596	125,538

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Cash in bank	890,499	26,456	890,528	26,457
Net other assets less				
liabilities	<u>(23,117)</u>	<u>(687)</u>	<u>(23,117)</u>	<u>(687)</u>
Total	<u>\$14,016,496</u>	<u>\$416,414</u>	<u>\$13,808,184</u>	<u>\$410,225</u>

Item	June 30, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$1,033,068	\$29,849	\$1,052,998	\$30,425
Repurchase bonds	5,863,913	169,428	5,864,624	169,449
Convertible bonds	323,050	9,334	324,202	9,367
Governmental Bonds	1,734,833	50,125	1,820,273	52,593
Cash in bank	217,727	6,291	217,727	6,291
Net other assets less				
liabilities	<u>(139,218)</u>	<u>(4,022)</u>	<u>(139,218)</u>	<u>(4,022)</u>
Total	<u>\$9,033,373</u>	<u>\$261,005</u>	<u>\$9,140,606</u>	<u>\$264,103</u>

As of June 30, 2004 and 2003, the securities investment and trust company had recorded that the Company had discretionary account management contracts in the amount of NT\$10,800,000(US\$320,856) and NT\$8,500,000(US\$245,594), respectively.

**(4) Material Contract:** None

**(5) 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.

**(6) Other:** None

**24. Information for Investment in Mainland China:**

On December 25, 2002 and July 24, 2003, the Investment Commission, Ministry of Economic Affairs (MOEAIC) has approved the Company to remit US \$22,850 and US \$27,150, respectively as the capital of investment US\$50,000 in total to found a China company called Guangzhou Cathay Life insurance Co., Ltd. doing life insurance business. Furthermore, on September 25, 2003, MOEAIC approved the Company to change of the

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above mentioned China invested place from Guangzhou to Shanghai. The Cathay Life insurance Co., Ltd. in Shanghai is currently under its preparatory stage. Up to June 30, 2004, our remittance has accumulated to nearly US\$48,330.

**25. Segment Information:** None