

**Cathay Life Insurance Co., Ltd.**  
**Financial statements**  
**Together with**  
**Review report of independent accountants**  
**As of September 30, 2003 and 2004**

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

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## **English Translation of Review Report Originally Issued in Chinese**

Review report of independent accountants

To: Board of Directors

Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheet of Cathay Life Insurance Co., Ltd. as of September 30, 2004 and the related statements of income, changes in stockholders' equity, and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review. The Company's financial statements as of and for the nine-month period ended September 30, 2003 were reviewed by other auditors whose report, dated October 15, 2003, expressed a qualified opinion due to certain unreviewed equity investees.

Except as explained in the following paragraph, we conducted our reviews in accordance with generally accepted auditing standards No. 36, "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Note 7 to the financial statements, we did not review the financial statements of certain of the Company's investee companies. The related amount (thousands of dollars) of long-term investments for these companies under the equity method was NT\$819,783 (US\$24,118) as of September 30, 2004. The related investment gain was NT\$57,663 (US\$1,696) for the nine-month period then ended.

Base on our review, with the exception of the matter described in the third paragraph, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month period ended September 30, 2004 for them to be in conformity with "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

DIWAN, ERNST & YOUNG

Taipei, Taiwan

The Republic of China

October 15, 2004

### Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

**Cathay Life Insurance CO., LTD.**

**Unaudited balance sheets**

**As of September 30, 2003 and 2004**

**(Expressed in thousands of dollars)**

Assets	Notes	2003		2004	
		NT\$	US\$	NT\$	US\$
<b>Current Assets</b>					
Cash and cash equivalents	2,4	\$129,687,214	\$3,839,172	\$186,674,254	\$5,492,034
Net Income for the Period	2,5	326,942,272	9,678,575	366,133,359	10,771,796
Notes receivable		14,317,429	423,843	12,761,339	375,444
Notes receivable-related parties	18	93,136	2,757	-	-
Accounts receivable-related parties	18	2,124	63	199,030	5,856
Tax refund receivable		15,029	445	-	-
Interest receivable		10,486,953	310,449	8,589,610	252,710
Other accounts receivable		10,702,921	316,842	6,541,023	192,440
Prepayments		210,137	6,221	161,227	4,743
Subtotal		<u>492,457,215</u>	<u>14,578,367</u>	<u>581,059,842</u>	<u>17,095,023</u>
<b>Exchange Bills Negotiated, Discounted and Loans</b>					
Policy loans	2,6	184,377,919	5,458,198	173,931,545	5,117,139
Short-term secured loans		61,107	1,809	119,271	3,509
Medium-term secured loans		10,478,198	310,189	8,506,875	250,276
Long-term secured loans		290,935,926	8,612,668	274,401,189	8,072,997
Subtotal		<u>485,853,150</u>	<u>14,382,864</u>	<u>456,958,880</u>	<u>13,443,921</u>
<b>Funds, Long-term Investments, and Receivable</b>					
Long-term investments in stocks	2,7				
Under the equity method		2,144,001	63,470	2,170,170	63,847
Under the cost method		43,694,632	1,293,506	10,161,968	298,969
Allowance for valuation loss on long-term investments in stocks		(19,419)	(575)	(19,419)	(571)
Long-term investments in bonds	2,8	241,571,193	7,151,308	364,866,808	10,734,534
Investments in real estate	2,9	93,831,327	2,777,718	100,964,594	2,970,421
Other long-term investments		-	-	1,628,689	47,917
Subtotal		<u>381,221,734</u>	<u>11,285,427</u>	<u>479,772,810</u>	<u>14,115,117</u>
<b>Property and Equipment</b>					
Land	2,10	5,491,228	162,559	5,139,513	151,207
Buildings and construction		11,330,504	335,420	11,319,265	333,017
Communication and transportation equipment		138,315	4,095	108,157	3,182
Other equipment		4,298,515	127,250	4,423,757	130,149
Subtotal		<u>21,258,562</u>	<u>629,324</u>	<u>20,990,692</u>	<u>617,555</u>
Less: Accumulated depreciation		(5,441,036)	(161,073)	(5,902,313)	(173,649)
Construction in progress and prepayment for equipment		68,361	2,024	209,573	6,166
Subtotal		<u>15,885,887</u>	<u>470,275</u>	<u>15,297,952</u>	<u>450,072</u>
<b>Other Assets</b>					
Non-operating assets	2	3,726,712	110,323	1,413,057	41,573
Guarantee deposits paid	2,19	277,826	8,224	4,264,723	125,470
Overdue receivables	2,11	1,472,106	43,579	1,058,943	31,154
Temporary payments and suspense accounts		176,493	5,225	984,470	28,963
Securities serving as deposits paid-bonds	2,8,19	7,951,632	235,395	7,936,557	233,497
Deferred income tax assets	2,16	261,430	7,739	313,067	9,211
Investment-linked products assets	2	12,699,045	375,934	32,180,780	946,772
Subtotal		<u>26,565,244</u>	<u>786,419</u>	<u>48,151,597</u>	<u>1,416,640</u>
<b>Total Assets</b>		<u><u>\$1,401,983,230</u></u>	<u><u>\$41,503,352</u></u>	<u><u>\$1,581,241,081</u></u>	<u><u>\$46,520,773</u></u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance CO., LTD.**  
**Unaudited balance sheets - (continued)**  
**As of September 30, 2003 and 2004**  
**(Expressed in thousands of dollars)**

Liabilities & Stockholders' Equity	Notes	2003		2004	
		NT\$	US\$	NT\$	US\$
<b>Current Liabilities</b>					
Notes payable		\$1,586	\$47	\$1,682	\$50
Accounts payable-related parties	18	69,415	2,055	72,619	2,136
Collections for others		171,845	5,087	170,067	5,003
Accrued expenses		2,508,915	74,272	2,562,904	75,402
Taxes payable		694,089	20,548	699,910	20,592
Commissions payable		680,133	20,134	827,330	24,340
Dividends payable		4,847,438	143,500	4,818,800	141,771
Life insurance proceeds payable		1,971	58	2,393	70
Other payable		664,008	19,657	4,317,829	127,032
Deferred income tax liabilities- current	2,16	987,861	29,244	716,811	21,089
Accounts collected in advance		307,002	9,088	164,257	4,833
Subtotal		<u>10,934,263</u>	<u>323,690</u>	<u>14,354,602</u>	<u>422,318</u>
<b>Long-term Liabilities</b>					
Reserve for land revaluation increment tax		3,726	110	3,726	110
Accrued pension liability	2,23	525,028	15,543	1,248,869	36,742
Subtotal		<u>528,754</u>	<u>15,653</u>	<u>1,252,595</u>	<u>36,852</u>
<b>Other Liabilities</b>					
<b>Cash and Cash Equivalents at the Beginning of Period</b>					
<b>Cash and Cash Equivalents at the End of Period</b>					
Reserve for life insurance	2	9,661,910	286,025	8,749,894	257,426
Interest paid during the period		1,273,403,222	37,696,957	1,414,630,379	41,619,017
Claims reserve		12,770,112	378,038	16,596,338	488,271
Subtotal		322,334	9,542	328,136	9,654
<b>Miscellaneous liabilities</b>					
Guarantee deposits received		1,290,735	38,210	1,446,017	42,542
Temporary receipts and suspense accounts		2,881,707	85,308	2,633,597	77,481
Investment-linked products liabilities	2	12,699,045	375,934	32,180,780	946,772
Subtotal		<u>1,313,029,065</u>	<u>38,870,014</u>	<u>1,476,565,141</u>	<u>43,441,163</u>
Total Liabilities		<u>1,324,492,082</u>	<u>39,209,357</u>	<u>1,492,172,338</u>	<u>43,900,333</u>
<b>Stockholders' Equity</b>					
<b>Capital stock</b>					
Common stock	12	50,686,158	1,500,478	50,686,158	1,491,208
Capital surplus		5,200	154	12,591	371
<b>Retained earnings</b>					
Legal reserve	13,16	14,552,065	430,789	16,330,948	480,463
Special reserve		6,249,135	184,995	8,016,080	235,836
Unappropriated retained earnings		13,346,847	395,111	14,038,160	413,009
<b>Equity adjustment</b>					
Unrealized valuation losses on long-term equity investment	2,7	(19,419)	(574)	(19,419)	(571)
Cumulative conversion adjustments	2,14	5,025	149	4,225	124
Treasury stock		(7,333,863)	(217,107)	-	-
Total Stockholders' Equity		<u>77,491,148</u>	<u>2,293,995</u>	<u>89,068,743</u>	<u>2,620,440</u>
Total Liabilities and Stockholders' Equity		<u>\$1,401,983,230</u>	<u>\$41,503,352</u>	<u>\$1,581,241,081</u>	<u>\$46,520,773</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

**Cathay Life Insurance CO., LTD.**  
**Unaudited statements of income**  
**For the nine months ended September 30, 2003 and 2004**  
**(Expressed in thousands of dollars, except earning per share)**

Item	Notes	2003		2004	
		NT\$	US\$	NT\$	US\$
Operating Revenues	2				
Premiums income		\$183,679,694	\$5,437,528	\$200,126,960	\$5,887,819
Reinsurance commission earned		84,395	2,498	112,515	3,310
Claims recovered from reinsurers		139,558	4,131	198,835	5,850
Recovered premiums reserve		88,331,135	2,614,895	97,741,631	2,875,600
Recovered special reserve		-	-	156,315	4,599
Recovered claims reserve		-	-	1,715	50
Handling fees earned		450,950	13,350	716,962	21,093
Interest Income		34,899,012	1,033,126	39,374,096	1,158,402
Gain on disposal of investments		8,593,033	254,382	16,227,378	477,416
Gain on long-term equity investments		32,464	961	96,223	2,831
Gain on investments-real estate		3,342,033	98,935	3,363,058	98,943
Other operating revenues		5,072,265	150,156	-	-
Investment-linked products revenues	2	14,831,904	439,074	22,236,878	654,218
Subtotal		<u>339,456,443</u>	<u>10,049,036</u>	<u>380,352,566</u>	<u>11,190,131</u>
Operating Costs	2				
Insurance expenses		(266,338)	(7,884)	(399,482)	(11,753)
Brokerage expenses		(17,841,776)	(528,176)	(18,663,309)	(549,082)
Commissions expenses		(228,637)	(6,768)	(423,932)	(12,472)
Insurance claims payment		(101,423,141)	(3,002,461)	(118,179,866)	(3,476,901)
Provision for premiums reserve		(178,647,380)	(5,288,555)	(191,592,689)	(5,636,737)
Provision for special reserve		(1,614,790)	(47,803)	(3,372,663)	(99,225)
Contribution to the stabilization funds		(183,268)	(5,425)	(200,012)	(5,884)
Provision for claims reserve		(44,254)	(1,310)	-	-
Handling fees paid		(1,618,386)	(47,910)	(453,825)	(13,352)
Interest expenses		(17,648)	(522)	(44,374)	(1,306)
Provisions expenses		(574,563)	(17,009)	-	-
Other operating Cost		(906,513)	(26,836)	(2,921,134)	(85,941)
Investment-linked products expenses	2	(14,831,904)	(439,074)	(22,236,878)	(654,218)
Subtotal		<u>(318,198,598)</u>	<u>(9,419,733)</u>	<u>(358,488,164)</u>	<u>(10,546,871)</u>
Operating Gross Profit		<u>21,257,845</u>	<u>629,303</u>	<u>21,864,402</u>	<u>643,260</u>
Operating Expenses	2				
Marketing expenses		(1,987,780)	(58,845)	(1,972,406)	(58,029)
Administrative and general expenses		(5,758,978)	(170,486)	(5,927,300)	(174,384)
Operating Income		<u>13,511,087</u>	<u>399,972</u>	<u>13,964,696</u>	<u>410,847</u>
Non-Operating Revenues & Gains					
Gains on foreign exchange		35,909	1,064	-	-
Gains on disposal of property and equipment		2,485	74	2,605	77
Miscellaneous income		961,833	28,473	1,533,986	45,131
Subtotal		<u>1,000,227</u>	<u>29,611</u>	<u>1,536,591</u>	<u>45,208</u>
Non-Operating Expenses & Losses					
Losses on foreign exchange		-	-	(1,643,065)	(48,340)
Losses on disposal of property and equipment		(934)	(28)	(1,035)	(30)
Miscellaneous expenses		(7,710)	(228)	(4,332)	(128)
Subtotal		<u>(8,644)</u>	<u>(256)</u>	<u>(1,648,432)</u>	<u>(48,498)</u>
Income from Continuing					
Operations before income taxes		14,502,670	429,327	13,852,855	407,557
Income Taxes (expense) benefit	2,16	(1,155,823)	(34,216)	194,623	5,726
Net Income		<u>\$13,346,847</u>	<u>\$395,111</u>	<u>\$14,047,478</u>	<u>\$413,283</u>
Earning Per Share (In Dollars)	17				
Income Before Income Tax		<u>\$2.95</u>	<u>\$0.09</u>	<u>\$2.74</u>	<u>\$0.08</u>
Net Income		<u>\$2.72</u>	<u>\$0.08</u>	<u>\$2.78</u>	<u>\$0.08</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of changes in stockholders' equity**  
**(Expressed in thousands of dollars)**  
**For the nine months ended September 30, 2003 and 2004**

Summary	Retained Earnings										Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Unrealized Valuation Losses on Long-term Equity Investment		Cumulative Conversion Adjustments		Treasury Stock		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$				
Net Income for the Period	\$50,686,158	\$1,500,478	\$3,048	\$90	\$13,254,705	\$392,383	\$-	\$-	\$12,973,603	\$384,062	\$(935,733)	\$(27,701)	\$10,829	\$321	\$(7,333,863)	\$(217,107)	\$68,658,747	\$2,032,526
Appropriations and Distributions for 2002																		
Legal Reserve					1,297,360	38,406			(1,297,360)	(38,406)							-	-
Special Reserve							6,249,135	184,995	(6,249,135)	(184,995)							-	-
Cash dividends									(5,369,406)	(158,953)							(5,369,406)	(158,953)
Remuneration paid to directors and supervisors									(8,100)	(240)							(8,100)	(240)
Bonus paid to employees									(49,602)	(1,468)							(49,602)	(1,468)
Capital surplus-long-term equity investment			2,152	64													2,152	64
Unrealized valuation losses on long-term equity investment											916,314	27,127					916,314	27,127
Cumulative conversion adjustments													(5,804)	(172)			(5,804)	(172)
Net Income after Tax for the nine months ended September 30, 2003									13,346,847	395,111							13,346,847	395,111
Insurance contract termination income	\$50,686,158	\$1,500,478	\$5,200	\$154	\$14,552,065	\$430,789	\$6,249,135	\$184,995	\$13,346,847	\$395,111	\$(19,419)	\$(574)	\$5,025	\$149	\$(7,333,863)	\$(217,107)	\$77,491,148	\$2,293,995
Balance on January 1, 2004	\$50,686,158	\$1,491,208	\$5,200	\$153	\$14,552,065	\$428,128	\$6,249,135	\$183,852	\$17,788,827	\$523,354	\$(19,419)	\$(571)	\$4,341	\$128	\$(3,032,966)	\$(89,231)	\$86,233,341	\$2,537,021
Appropriations and Distributions for 2003																		
Legal reserve					1,778,883	52,335			(1,778,883)	(52,335)							-	-
Special Reserve							1,766,945	51,984	(1,766,945)	(51,984)							-	-
Amortization of long-term investments in bonds									(14,010,243)	(412,188)							(14,010,243)	(412,188)
Remuneration paid to directors and supervisors									(8,100)	(239)							(8,100)	(239)
Bonus paid to employees									(224,656)	(6,607)							(224,656)	(6,607)
Capital surplus-long-term equity investment			7,391	218													7,391	218
Cumulative conversion adjustments													(116)	(4)			(116)	(4)
Disposal of treasury stock									(9,318)	(274)								
Net Income after Tax for the nine months ended September 30, 2004									14,047,478	413,282					3,032,966	89,231	3,023,648	88,957
Balance on September 30, 2004	\$50,686,158	\$1,491,208	\$12,591	\$371	\$16,330,948	\$480,463	\$8,016,080	\$235,836	\$14,038,160	\$413,009	\$(19,419)	\$(571)	\$4,225	\$124	\$-	\$-	\$89,068,743	\$2,620,440

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statement of cash flows**  
**(Expressed in thousands of dollars)**  
**For the nine months September 30, 2003 and 2004**

	2003		2004	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Period	\$13,346,847	\$395,111	\$14,047,478	\$413,283
Adjustments:				
Recovered bad debt	-	-	(521,013)	(15,328)
Loss on bad debt	574,563	17,009	-	-
Depreciation	1,654,917	48,991	1,414,547	41,616
Miscellaneous expenses	-	-	2,608	77
Provision for reserve for operations	180,306,425	5,337,668	194,963,637	5,735,912
Recovered unearned premium reserve	(4,418,554)	(130,804)	(721,663)	(21,232)
Recovered reserve for life insurance	(81,652,917)	(2,417,197)	(95,656,978)	(2,814,268)
Recovered special reserve	-	-	(156,315)	(4,599)
Insurance contract termination income	(2,259,664)	(66,894)	(1,362,990)	(40,100)
Recovered gain on short-term investments	(5,072,265)	(150,156)	-	-
Gain on disposal of property and equipment	(1,551)	(46)	(1,570)	(46)
(Gain) loss on disposal of investments	(3,242,717)	(95,995)	906	26
Gain on disposal of real estate	(107,293)	(3,176)	(97)	(3)
Amortization of long-term investments in bonds	41,698	1,234	44,228	1,301
Unrealized loss (gain) on long-term investments	6,639	197	(29,082)	(856)
Effects of exchange rate changes	1,316	39	38	1
Increase in short-term investments	(39,799,302)	(1,178,191)	(23,377,862)	(687,786)
Decrease in notes receivable	5,346,465	158,273	2,494,923	73,402
Increase in notes and accounts receivable-related parties	(59,150)	(1,751)	(151,329)	(4,452)
Decrease (increase) in prepayments	94,576	2,800	(130,805)	(3,848)
Decrease in prepaid pension	76,930	2,278	-	-
(Increase) decrease in other current assets	(7,056,570)	(208,898)	2,587,220	76,117
Increase in temporary payments and suspense accounts	(71,537)	(2,118)	(740,347)	(21,781)
Decrease (increase) in deferred income tax assets	171,949	5,090	(53,343)	(1,569)
(Decrease) increase in notes payable	(1,091)	(32)	80	2
Increase (decrease) in accounts payable-related parties	36,143	1,070	(137,122)	(4,034)
Decrease in accrued expenses	(3,409,387)	(100,929)	(601,076)	(17,684)
(Decrease) increase in other payable	(926,381)	(27,424)	251,984	7,413
Increase (decrease) in accounts collected in advance	104,665	3,098	(370,820)	(10,910)
(Decrease) increase in other current liabilities	(8,606)	(255)	27,370	805
Increase in accrued pension liability	525,028	15,543	516,378	15,192
Increase in temporary receipts and suspense accounts	2,432,724	72,017	2,031,140	59,757
Decrease in deferred income tax liabilities	(228,146)	(6,754)	(408,433)	(12,016)
Net Cash Provided by Operating Activities	56,405,754	1,669,798	93,961,692	2,764,392
Cash Flows from Investing Activities				
Decrease in policy loans	44,014	1,303	9,789,854	288,022
Decrease in secured loans	16,905,731	500,466	11,747,966	345,630
Acquisition of long-term investments	(108,112,998)	(3,200,503)	(42,544,124)	(1,251,666)
Proceeds from disposal of long-term investments	30,553,484	904,484	17,153,647	504,667
Disposal of investments in real estate	124,811	3,695	1,493,592	43,942
Acquisition of investments in real estate	(756,954)	(22,409)	(7,893,776)	(232,238)
Disposal of property and equipment	14,152	419	17,404	512
Acquisition of property and equipment	(526,869)	(15,597)	(382,734)	(11,260)
(Increase) decrease in non-operating assets	(366,241)	(10,842)	1,588,989	46,749
Increase in guarantee deposits paid	(15,004)	(444)	(3,087,896)	(90,847)
Decrease in overdue receivables	1,110,960	32,888	372,987	10,973
Net Cash Used in Investing Activities	(61,024,914)	(1,806,540)	(11,744,091)	(345,516)

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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



**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of cash flow-(continued)**  
**(Expressed in thousands of dollars)**  
**For the nine months September 30, 2003 and 2004**

	2003		2004	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
(Decrease) increase in guarantee deposits received	(3,665)	(108)	118,633	3,490
Remuneration paid to directors and supervisors	(8,100)	(240)	(8,100)	(239)
Cash dividends	(742,097)	(21,969)	(9,510,000)	(279,788)
Disposal of treasury stock	-	-	3,023,648	88,957
Net Cash Used in Financing Activities	<u>(753,862)</u>	<u>(22,317)</u>	<u>(6,375,819)</u>	<u>(187,580)</u>
Effects of Exchange Rate Changes	(1,316)	(39)	(38)	(1)
(Decrease) increase in Cash and Cash Equivalents	(5,374,338)	(159,098)	75,841,744	2,231,295
Cash and Cash Equivalents at the Beginning of Period	135,061,552	3,998,270	110,832,510	3,260,739
Cash and Cash Equivalents at the End of Period	<u>\$129,687,214</u>	<u>\$3,839,172</u>	<u>\$186,674,254</u>	<u>\$5,492,034</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the period	\$4,610	\$136	\$44,041	\$1,296
Interest paid (excluding capitalized interest)	\$4,610	\$136	\$44,041	\$1,296
Income tax paid	<u>\$1,666,735</u>	<u>\$49,341</u>	<u>\$515,643</u>	<u>\$15,170</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2004 were NT\$33.78 and NT\$33.99 to US\$1.00)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**  
**Notes to unaudited financial statements**  
(Expressed in thousands of dollars except for share  
and per share data and unless otherwise stated)  
**As of September 30, 2003 and 2004**

1. Organizations and 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 a 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.

As of September 30, 2003 and 2004, the total numbers of employees were 29,014 and 26,855, respectively.

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 are assets which can be liquidated or disposed of within one year. Assets that do not belong to current assets are classified as non-current assets. Current liabilities are debts which must be paid-off within one year. Debts that do not belong to current liabilities are classified as non-current liabilities.

(2) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted bank deposits and all highly liquid investments with a maturity of less than three months.

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**Notes to unaudited financial statements – continued**

(Expressed in thousands of dollars except for share  
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**As of September 30, 2003 and 2004**

(3) Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income but 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 method.

Short-term notes are recorded at cost when acquired and stated at the lower of cost or market value at each 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.

Overseas investment trust funds are the investment in foreign securities made through financial institutes with pre-determined purposes. The trust funds are recorded at the amount originally wired and stated at the lower of cost or market value at each balance sheet date. Received interest, dividends and disposal gain are recognized at the time they are received. Unrealized gain and loss are recognized based on the net equity as reported by the trustee each month. The trust funds are translated into NT dollars using the spot rate at each balance sheet date. Any exchange difference is charged to income statement accounts.

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 and doubtful accounts on notes receivable, overdue accounts and loans are determined based on the aging analysis of outstanding balances of such accounts and experience.

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(Expressed in thousands of dollars except for share  
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(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 which the Company lacks significant influence over operating and financial policies of the investee, 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 equity investments (accounted for under the 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.

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.

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(6) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

Upon disposal, the related cost and accumulated depreciation are eliminated and gain and loss are recorded in operating gain and loss accounts.

Depreciation is calculated using 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”).

The Company’s real estate investments are for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(7) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “capital surplus”, according to applicable regulations. The capital surplus can only be used for making up operating losses and for the increase of capital.

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

Upon the sale or disposal of properties and equipment, the related cost and accumulated depreciation are eliminated. Gain or loss resulting from such sale or disposal is classified as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

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(8) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company seated a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts cannot be listed in the financial statements due to their offsetting nature. From 1993 to September 30, 2004, aggregately NT\$2,205,266 (US\$64,880) was 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 must be deposited, in a form of a bond, in the Central Bank of China (the “Central Bank”) as the “Guaranteed Depository Insurance”.

(10) Reserve for operations

Reserves for operations are organized according to the Insurance Law. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provide the figures for these reserves.

The MOF introduced a new regulation on December 24, 2002. Under this regulation, when the accumulated gross amount of “Special Reserve for the Loss Movement” exceeds 30% of the gross amount of “net earned premium”, the excess should be reversed and recorded as income.

In addition, according to the MOF regulation effective from 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 approved the surplus appropriation. This amount may not be distributed or used for other purposes unless approved by the MOF.

The Company had a surplus of NT\$8,016,080 (US\$235,836) from the “Special Reserve for the Loss Movement” as of September 30, 2004.

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**As of September 30, 2003 and 2004**

(11) Insurance premiums income and expenses

Direct premiums are recognized on the date that the policies become effective. Policy-related expenses are recognized when 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 service years.

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 on the balance sheet date, and a minimum pension liability is recorded 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", certain pension information is not required to be disclosed in the Company's interim financial statements.

(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 in the period of actual conversion or settlement. At each balance sheet date, foreign currency assets and liabilities are converted at the balance sheet date exchange rate, and exchange gains or losses are credited or charged to current income.

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**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 period. Differences arising from above conversion are reported as "Cumulative Conversion Adjustments" in 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 are first converted into the functional currency if the foreign currency is not the functional currency. 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 between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

Deferred income tax assets and liabilities are classified as current or non-current in accordance with the underlying assets or liabilities. Deferred income taxes not related to any assets or liabilities appearing in the financial statements are classified as current or non-current based on the expected length of time before it is settled or recovered.



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The Company has adopted SFAS No. 12, “Accounting for Income Tax Credits” in dealing with income tax credits. Accordingly, the income tax credits resulting from expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for by the flow-through method.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly file corporation income tax returns and pay the 10% additional tax for their undistributed retained earnings since 2002 under the Integrated Income Tax System. If there are any tax effects due to the adoption of the foregoing Integrated Income Tax System, the parent company may proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) to the Company and other subsidiaries.

(15) Capital Expenditure Expenses

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

(16) Treasury stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is recorded at the cost of the shares purchased. When the disposal price of the treasury stock 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 treasury stock is calculated using the weighted-average method based the security type and the reason of repurchase.

When treasury stock is retired, capital surplus-premium of common shares and common stock are debited according to the ratio of retired treasury stock to total issued stock. When the book value of the retired treasury stock is higher than the sum of its par value and capital surplus-premium of common shares, the difference is debited to other capital surplus. If other capital surplus is insufficient to cover the difference, retained earnings are debited. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus-premium of common shares, the difference is credited to capital surplus-treasury stock.

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(17) Derivative financial products transaction

A. Forward foreign exchange contracts for hedging purposes

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 foreign 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 on the balance sheet date are credited or charged to current income.

B. Currency swap (CS)

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

The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis 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 rates are determined according to the applicable interest rate within the agreed period. The difference is credited or charged to the current income.

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D. Interest rate swap agreements (IRS)

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

E. Options

The premium for an option contract is recorded at cost. Premium assets for the purpose of hedge should be amortized over the contract period, and adjusted on the balance sheet date by market value. Any gain or loss from hedging the exposed asset or liability is recognized as a current period gain or loss. Gains or losses arising from hedging an identifiable commitment are deferred until the transaction date, and recognized as an adjustment of the transaction price.

(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 insured. In addition, the investment distribution is approved by the insured and then transferred to specific accounts as requested by the insured. The value of these specific accounts is determined based on the market value on the applicable day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

The Company has established 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 are recorded under the line items of “Investment-linked products assets”, “Investment-linked products liabilities”, “Investment-linked products revenues”, and “Investment-linked products expenses”.

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(19) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the September 30, 2003 and 2004 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\$33.78 and NT\$33.99 to US\$1.00 effective at September 30, 2003 and 2004, 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

	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$404,159	\$11,965	\$409,596	\$12,050
Cash in banks	54,735,585	1,620,355	2,855,147	84,000
Time deposits	17,511,599	518,401	122,002,987	3,589,379
Cash equivalents	57,035,871	1,688,451	61,406,524	1,806,605
Total	<u>\$129,687,214</u>	<u>\$3,839,172</u>	<u>\$186,674,254</u>	<u>\$5,492,034</u>

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5. Short-term investments

	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Common stock and beneficiary certificates	\$107,707,023	\$3,188,485	\$119,604,784	\$3,518,823
Overseas investments	126,663,522	3,749,660	156,086,476	4,592,129
Designated purpose trust fund	46,894,926	1,388,245	43,239,556	1,272,126
Corporate bonds	9,948,198	294,500	8,283,861	243,715
Government bonds	14,584,796	431,758	11,285,849	332,034
Financial debentures	15,099,766	447,003	18,721,176	550,785
Short-term notes	63,079,912	1,867,375	70,318,181	2,068,790
Sub-total	383,978,143	11,367,026	427,539,883	12,578,402
Less: Cash equivalents	(57,035,871)	(1,688,451)	(61,406,524)	(1,806,606)
Total	<u>\$326,942,272</u>	<u>\$9,678,575</u>	<u>\$366,133,359</u>	<u>\$10,771,796</u>

6. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

B. Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment becomes overdue can make written statements, requesting that the Company pay the premium and interest 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 to stop paying such installments.

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(2) Secured loans

	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$61,501	\$1,821	\$120,039	\$3,532
Less: Allowance for bad debts	(394)	(12)	(768)	(23)
Sub-total	61,107	1,809	119,271	3,509
Medium-term secured loans	10,546,716	312,217	8,562,743	251,919
Less: Allowance for bad debts	(68,518)	(2,028)	(55,868)	(1,643)
Sub-total	10,478,198	310,189	8,506,875	250,276
Long-term secured loans	292,964,392	8,672,717	276,223,624	8,126,614
Less: Allowance for bad debts	(2,028,466)	(60,049)	(1,822,435)	(53,617)
Sub-total	290,935,926	8,612,668	274,401,189	8,072,997
Total	\$301,475,231	\$8,924,666	\$283,027,335	\$8,326,782

Secured loans are secured by government bonds, stocks, corporate bonds and real estate. Loans are classified as short-term, medium and long-term based on the terms as follows:

Short-term: within a year

Medium: over a year but less than seven years

Long-term: over seven years

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7. Long-term investments in stocks

(1) Long -term investments in stocks

(All of the following securities are common stock unless otherwise stated.)

<u>Investee</u>	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$11,114	\$375,627	\$11,051
Vista Technology Venture Capital Corp.	68,181	2,018	49,126	1,445
Omnitek Venture Capital Corp.	150,572	4,458	152,081	4,474
Wa Tech Venture Capital Co., Ltd.	179,871	5,325	178,895	5,263
IBT Venture Capital Corp.	565,288	16,735	575,239	16,924
Cathay Insurance (Bermuda) Co., Ltd.	53,511	1,584	60,760	1,788
Symphox Information Co., Ltd.	256,198	7,584	263,412	7,750
Cathay Securities Investment Trust Co., Ltd.	202,962	6,008	215,002	6,325
Cathay Venture Capital Crop.	220,656	6,532	225,519	6,635
Lin Yuan Property Management Co., Ltd.	37,059	1,097	31,825	936
Cathay Securities Investment Co., Ltd.	14,844	440	23,265	685
Sub-total	<u>2,124,582</u>	<u>62,895</u>	<u>2,150,751</u>	<u>63,276</u>

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B. Under the cost method or the lower of cost or market :

Chunghwa Telecom Co., Ltd.	33,581,819	994,133	-	-
WK Technology Fund Co., Ltd.	100,000	2,960	100,000	2,942
Taiwan Aerospace Company	260,000	7,697	110,500	3,251
Koo Group Telecommunications Co., Ltd.	749,998	22,202	-	-
Concord Venture Capital Co., Ltd.	89,280	2,643	89,280	2,627
Taipei Financial Center Corp.	1,441,591	42,676	1,441,591	42,412
InveStar Dayspring V.C. Inc.	200,000	5,921	200,000	5,884
FAT Venture Capital Co., Ltd.	50,000	1,480	50,000	1,471
Concord Venture Capital Co., Ltd.	50,000	1,480	50,000	1,471
WK Technology Fund Co., Ltd.	150,000	4,440	150,000	4,413
WK Technology Fund Co., Ltd.	127,200	3,766	127,200	3,742
Century Venture Capital Co., Ltd.	100,000	2,960	100,000	2,942
China Power Venture Capital Co., Ltd.	190,000	5,625	190,000	5,590
Super Tech Venture Capital Corp.	100,000	2,960	100,000	2,942
CDIB & Partners Investment Holding Corp.	500,000	14,802	500,000	14,710
Alex-Tech Machinery Industrial Co., Ltd.	21,000	622	7,008	206



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R.O.C. Venture Capital Co., Ltd.	151,970	4,499	151,970	4,471
National Venture Capital Co., Ltd.	100,000	2,960	100,000	2,942
WK Technology Fund Co., Ltd.	200,000	5,921	200,000	5,884
Capital Venture Fund Corp.	50,000	1,480	50,000	1,471
Fu Yu Venture Capital Investment Corp.	200,000	5,921	200,000	5,884
Concord Venture Capital Co., Ltd.	100,000	2,960	100,000	2,942
Allied Material Technology Corp.	98,400	2,913	-	-
New Century InfoComm Tech Co., Ltd.	1,268,000	37,537	1,268,000	37,305
Srsuntour Co., Ltd.	62,000	1,836	62,000	1,824
Titan Venture Capital Co., Ltd.	150,000	4,440	150,000	4,413
Harbinger Venture Capital Crop.	200,000	5,921	200,000	5,884
Prosperity Venture Capital Corp.	100,000	2,960	100,000	2,942
KGEx.com Co., Ltd.	175,000	5,181	175,000	5,149
United Venture Corp.	50,000	1,480	50,000	1,471
BioCare Corp.	12,000	355	12,000	353
Megic Corp.	18,000	533	18,000	530
WK Technology Fund Co., Ltd.	200,000	5,921	200,000	5,884
Hua Chih Venture Capital Corp.	60,000	1,776	60,000	1,765
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,368	80,000	2,354
Win Semiconductors Corp.	50,949	1,508	16,364	481
Kinik Precision Grinding Co., Ltd.	6,000	178	6,000	177

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Vita Genomics Inc.	87,500	2,590	87,500	2,574
Tong Hsing Electronic Inc. Co., Ltd.	27,144	804	27,144	799
China Technology Venture Capital Corp.	50,000	1,480	50,000	1,471
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,673	259,200	7,626
Applied Vacuum Coating Technologies Co., Ltd.	6,661	197	6,661	196
TaiGen Biotechnology Co., Ltd.	16,500	489	42,000	1,236
Cdid BioScience venture Inc.	285,000	8,437	285,000	8,385
Maxima Venture , Inc, Taiwan	126,630	3,749	221,130	6,506
Parawin Venture Capital Co., Ltd.	50,000	1,480	50,000	1,471
Darly 3 Venture Co., Ltd.	20,000	592	20,000	588
Top Taiwan Venture Capital Co., Ltd.	50,000	1,480	50,000	1,471
Cash Box Audio and Video Co., Ltd.	200,000	5,921	200,000	5,884
Richtech Technology Co., Ltd.	26,140	774	-	-
Hua Venture Capital Corp.	50,000	1,480	50,000	1,471
Shin Sheng Venture Capital Investment Corp.	50,000	1,480	50,000	1,471
Centillion Venture Capital Corp.	50,000	1,480	50,000	1,471
Harbinger Venture Capital Corp.	100,000	2,960	100,000	2,942
Unitive Semiconductor Taiwan Corp.	46,800	1,386	24,000	706
Honey Hope Honesty Co.	55,000	1,628	-	-

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Taiwan High Speed Rail Co. – Preferred Stock	1,000,000	29,603	1,000,000	29,420
Formosa Petro Chemical Co.	16,250	481	-	-
Chang Wah Electro Materials Co., Ltd.	31,000	918	-	-
Enermax Technology Co.	47,600	1,409	47,600	1,400
Creative Sensor Inc.	-	-	11,820	348
Tong Lung metal Industry-preferred stock	-	-	300,000	8,826
Hsin Tao Power Co., Ltd.	-	-	765,000	22,507
CTB Venture Capital Co., Ltd.	-	-	50,000	1,471
Sub-total	<u>43,694,632</u>	<u>1,293,506</u>	<u>10,161,968</u>	<u>298,969</u>
Total	<u>\$45,819,214</u>	<u>\$1,356,401</u>	<u>\$12,312,719</u>	<u>\$362,245</u>

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

	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$2,065,196	\$61,137	\$2,114,394	\$62,206
Add: Equity investment gains	32,464	961	96,223	2,831
Additional investment	75,000	2,220	-	-
Capital surplus- long-term equity investment	2,152	64	7,391	218
Less: Unrealized valuation losses on long-term equity investment	(9,962)	(295)	-	-
Cumulative conversion adjustments	(1,165)	(34)	(116)	(4)
Cash dividends	(39,103)	(1,158)	(67,141)	(1,975)
Balance as of September 30	<u>\$2,124,582</u>	<u>\$62,895</u>	<u>\$2,150,751</u>	<u>\$63,276</u>

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- (3) The recognized equity investment gains (losses) for the nine-month periods ended September 30, 2003 and 2004 are listed below:

<u>Investee</u>	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
WK Technology Fund Co., Ltd.	\$(142)	\$(4)	\$5,436	\$160
Vista Technology Venture Capital Corp.	(17,319)	(513)	(26,309)	(774)
Omnitek Venture Capital Corp.	2,979	88	15,039	443
Wa Tech Venture Capital Co., Ltd.	22,192	657	13,793	406
IBT Venture Capital Corp	(12,043)	(356)	30,601	900
Cathay Insurance (Bermuda) Co., Ltd.	1,633	48	3,786	111
Symphox Information Co., Ltd.	8,248	244	4,788	141
Cathay Securities Investment Trust Co., Ltd.	4,236	125	20,342	599
Cathay Venture Capital Corp.	3,362	100	4,263	125
Lin Yuan Property Management Co., Ltd.	13,901	412	16,696	491
Cathay Securities Investment Co., Ltd.	5,417	160	7,788	229
Total	<u>\$32,464</u>	<u>\$961</u>	<u>\$96,223</u>	<u>\$2,831</u>

- (4) 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, and doesn't have significant influence or controlling power, the recognition of the investment gains or losses for those investees may 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.

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The Company owned less than 50% of the voting shares of the following investee companies: WK Technology Fund VI Co., Ltd., Vista Technology Venture Capital Corp., IBT Venture Capital Corp., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. The equity pick-up for the above investees was deferred to the second year.

(5) The investment gains (losses) for Cathay Insurance (Bermuda) Co., Ltd., Symphox Information Co., Ltd., Lin Yuan Property Management Co., Ltd., Cathay Securities Investment Co., Ltd., Cathay Securities Investment Trust Co., Ltd. and Cathay Venture Capital Corp were recognized based on their unreviewed financial statements for the nine months ended September 30, 2003 and 2004.

(6) On July 30, 2004, following the board of directors' resolution, the Company reclassified the investment of Chunghwa Telecom Co., Ltd. to short-term investment as the Company no longer has the intention to hold the investment in the long term.

**8. Long-term investments in bonds**

Long-term investments in bonds consist mainly of government bonds as of September 30, 2003 and 2004. Government Bonds were deposited in the Central Bank of China as capital guarantee deposits. As of September 30, 2003 and 2004, the capital guarantee deposits amounted to NT\$7,951,632 (US\$235,395) and NT\$7,936,557 (US\$233,497), respectively, and were categorized under “securities serving as deposits paid-bond”. Please see Note 19, “pledged assets” for details.

Global structured notes, included in the long-term investments in bonds, amounted to NT\$0 and NT\$27,182,828 (US\$799,730) as of September 30, 2003 and 2004, respectively.

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9. Investments in real estate

Item	September 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in								
real estate	\$94,247,100	\$2,790,027	\$5,010	\$148	\$(11,529,698)	\$(341,317)	\$82,722,412	\$2,448,858
Construction	11,108,501	328,848	-	-	-	-	11,108,501	328,848
Prepayments for								
buildings and								
Land	414	12	-	-	-	-	414	12
Total	<u>\$105,356,015</u>	<u>\$3,118,887</u>	<u>\$5,010</u>	<u>\$148</u>	<u>\$(11,529,698)</u>	<u>\$(341,317)</u>	<u>\$93,831,327</u>	<u>\$2,777,718</u>

Item	September 30, 2004							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in								
real estate	\$104,585,379	\$3,076,946	\$4,565	\$134	\$(12,669,585)	\$(372,744)	\$91,920,359	\$2,704,336
Construction	9,044,235	266,085	-	-	-	-	9,044,235	266,085
Total	<u>\$113,629,614</u>	<u>\$3,343,031</u>	<u>\$4,565</u>	<u>\$134</u>	<u>\$(12,669,585)</u>	<u>\$(372,744)</u>	<u>\$100,964,594</u>	<u>\$2,970,421</u>

- (1) The real estate investments are held mainly to earn rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral. Investments in real estate were fully insured.

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10. Property and equipment

Item	September 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,489,464	\$162,507	\$1,764	\$52	\$-	\$-	\$5,491,228	\$162,559
Buildings and construction	11,330,504	335,420	-	-	(3,090,279)	(91,483)	8,240,225	243,937
Communication and transportation equipment	138,315	4,095	-	-	(56,374)	(1,669)	81,941	2,426
Other equipment	4,298,515	127,250	-	-	(2,294,383)	(67,921)	2,004,132	59,329
Sub-total	<u>21,256,798</u>	<u>629,272</u>	<u>1,764</u>	<u>52</u>	<u>(5,441,036)</u>	<u>(161,073)</u>	<u>15,817,526</u>	<u>468,251</u>
Construction in progress	22,170	656	-	-	-	-	22,170	656
Prepayment for equipment	46,191	1,368	-	-	-	-	46,191	1,368
Total	<u>\$21,325,159</u>	<u>\$631,296</u>	<u>\$1,764</u>	<u>\$52</u>	<u>\$(5,441,036)</u>	<u>\$(161,073)</u>	<u>\$15,885,887</u>	<u>\$470,275</u>

  

Item	September 30, 2004							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,137,304	\$151,142	\$2,209	\$65	\$-	\$-	\$5,139,513	\$151,207
Buildings and construction	11,319,265	333,017	-	-	(3,246,175)	(95,504)	8,073,090	237,513
Communication and transportation equipment	108,157	3,182	-	-	(57,496)	(1,692)	50,661	1,490
Other equipment	4,423,757	130,149	-	-	(2,598,642)	(76,453)	1,825,115	53,696
Sub-total	<u>20,988,483</u>	<u>617,490</u>	<u>2,209</u>	<u>65</u>	<u>(5,902,313)</u>	<u>(173,649)</u>	<u>15,088,379</u>	<u>443,906</u>
Construction in progress	147,115	4,328	-	-	-	-	147,115	4,328
Prepayment for equipment	62,458	1,838	-	-	-	-	62,458	1,838
Total	<u>\$21,198,056</u>	<u>\$623,656</u>	<u>\$2,209</u>	<u>\$65</u>	<u>\$(5,902,313)</u>	<u>\$(173,649)</u>	<u>\$15,297,952</u>	<u>\$450,072</u>

No property and equipment were pledged as collateral. Property and equipment were fully insured.

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11. Overdue receivables

	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,944,212	\$87,158	\$2,038,942	\$59,986
Less: Allowance for bad and doubtful debts	(1,472,106)	(43,579)	(979,999)	(28,832)
Total	<u>\$1,472,106</u>	<u>\$43,579</u>	<u>\$1,058,943</u>	<u>\$31,154</u>

12. Capital stock

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

13. Retained earnings

(1) Legal reserve

Pursuant to the ROC Company Law, 10% of the Company's net income after tax shall be appropriated as legal reserve until the total amount of the legal reserve equals to the issued share capital. This legal reserve can be used to offset deficit but cannot be used for the purpose of cash dividend distributions. However, if the total 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) Undistributed 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, shall be added as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.

B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceed 100% of the Company's paid-in capital, the Company shall



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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. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.

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

14. Treasury stock

- (1) The Company's treasury stock information for the nine months ended September 30, 2004 is as follows:

(Unit: thousand shares)

Reason of acquisition	Jan. 1, 2004	Increase	Decrease	Sep. 30, 2004
Transfer to employees	51,551	-	51,551	-

- (2) Pursuant to the ROC Securities and Exchange Law, the shares which a company can acquire as treasury stock should not exceed 10% of the total shares issued. The amount of the repurchase 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\$217,107).
- (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 transferred 51,551,000 shares to its employees at a price of NT\$58.83 per share (US\$1.78 per share), which was approved by the SFC on March 13, 2004. After the transfer, treasury stock of the Company was eliminated.

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15. Personnel, depreciation, depletion and amortizations

Item	For the nine months ended September 30, 2003 NT\$			For the nine months ended September 30, 2003 US\$		
	Operating costs	Operating Expense	Total	Operating costs	Operating Expense	Total
Personnel Expenses						
Salary and wages	\$15,310,952	\$2,217,654	\$17,528,606	\$453,255	\$65,650	\$518,905
Labor & health insurance expenses	928,323	156,209	1,084,532	27,482	4,624	32,106
Pension expenses	707,905	119,120	827,025	20,956	3,527	24,483
Other expenses	831,876	167,549	999,425	24,626	4,960	29,586
Depreciation	-	1,654,917	1,654,917	-	48,991	48,991
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

Item	For the nine months ended September 30, 2004 NT\$			For the nine months ended September 30, 2004 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$16,311,334	\$2,141,821	\$18,453,155	\$479,886	\$63,014	\$542,900
Labor & health insurance expenses	861,574	157,433	1,019,007	25,348	4,632	29,980
Pension expenses	628,717	114,884	743,601	18,497	3,380	21,877
Other expenses	794,153	167,558	961,711	23,364	4,930	28,294
Depreciation	-	1,414,547	1,414,547	-	41,616	41,616
Depletion	-	-	-	-	-	-
Amortizations	-	2,533	2,533	-	75	75

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16. Estimated income taxes

(1) Income tax expenses include the following:

	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$14,502,670	\$429,327	\$13,852,855	\$407,556
Adjustments				
Interest income of tax on a separate basis	(666,834)	(19,740)	(855,729)	(25,176)
Gain on disposal of investments	(2,759,960)	(81,704)	(8,283,287)	(243,698)
Unrealized exchange loss	869,287	25,734	1,643,103	48,341
Gain on market price recovery of short-term investments	(5,072,265)	(150,156)	-	-
Bad debts recovery	(1,220,113)	(36,120)	(296,484)	(8,722)
Cash dividend	(1,731,598)	(51,261)	(5,085,691)	(149,623)
Pension expense not actually contributed	601,958	17,820	516,378	15,192
Others	(157,253)	(4,654)	(513,293)	(15,101)
Taxable income	4,365,892	129,246	977,852	28,769
Times: taxes rate; less:				
progressive difference	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	137,663	4,075	335,222	9,862
Less: tax effects under integrated income tax systems	(137,663)	(4,075)	(335,222)	(9,862)
Sub-Total	1,091,473	32,311	244,463	7,192
Add: Tax on a separate basis	133,368	3,949	169,315	4,981
Beginning deferred income tax assets	649,565	19,229	270,265	7,951
Ending deferred income tax liabilities	1,021,484	30,239	725,009	21,330
Less: Income tax credit	(12,820)	(380)	(146,625)	(4,313)
Beginning deferred income tax liabilities	(1,432,194)	(42,398)	(1,135,785)	(33,415)
Ending deferred income tax assets	(295,053)	(8,734)	(321,265)	(9,452)
Total income tax expenses (benefit)	\$1,155,823	\$34,216	\$(194,623)	\$(5,726)

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(2) The Company's income tax returns through 2000 had been and assessed by the Tax Authorities.

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

	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
A. Total deferred tax liabilities	\$1,021,484	\$30,239	\$725,009	\$21,330
Total deferred tax assets	\$295,053	\$8,734	\$321,265	\$9,452
B. Temporary differences:				
Employee benefits	\$41,874	\$1,240	\$16,375	\$483
Pension expense	601,958	17,820	1,248,868	36,742
Unrealized exchange gains	(4,085,937)	(120,957)	(2,900,037)	(85,321)
Bad debts exceeding limit	504,314	14,930	-	-
Other	32,067	949	19,818	583
C. Deferred tax assets-current	\$14,391	\$426	\$8,198	\$241
Deferred tax liabilities-current	(1,002,252)	(29,670)	(725,009)	(21,330)
Net offset balance of deferred tax assets (liabilities)-current	<u>\$(987,861)</u>	<u>\$(29,244)</u>	<u>\$(716,811)</u>	<u>\$(21,089)</u>
D. Deferred tax assets – noncurrent	\$280,662	\$8,308	\$313,067	\$9,211
Deferred tax liabilities – noncurrent	<u>(19,232)</u>	<u>(569)</u>	<u>-</u>	<u>-</u>
Net balance of deferred tax assets (liabilities) – noncurrent	<u>\$261,430</u>	<u>\$7,739</u>	<u>\$313,067</u>	<u>\$9,211</u>

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(4) Information related to imputation

	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$82,872	\$2,453	\$98,422	\$2,896
	For the nine months ended September 30,			
	2003		2004	
Imputation credit account ratio- Actual	30.17%		8.34%	

(5) Related Information on undistributed earnings

Year	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	-	-
Total	\$-	\$-	\$-	\$-

The above undistributed earnings does not include the net income for the nine months ended September 30, 2003 and 2004.

(6) Tax credits in accordance with “Statute for Upgrading Industries” are as follows:

Regulation	Deductible items	Amount of deductible income tax		Remaining balance		Expiry year
		NT\$	US\$	NT\$	US\$	
		Statute for Upgrading Industries	\$7,768	\$229	\$-	

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17. Earnings per share

	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	\$14,502,670	\$429,327	\$13,852,855	\$407,557
Net income (b)	\$13,346,847	\$395,111	\$14,047,478	\$413,283
Outstanding number of shares at period-end	5,068,615,765	5,068,615,765	5,068,615,765	5,068,615,765
Weighted average outstanding number of shares (c)	4,911,688,765	4,911,688,765	5,054,368,942	5,054,368,942
Earnings per share before income taxes (a) / (c) (dollars)	\$2.95	\$0.09	\$2.74	\$0.08
Earnings per share after income taxes (b) / (c) (dollars)	\$2.72	\$0.08	\$2.78	\$0.08

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

(Shares)	For the nine months ended September 30,	
	2003	2004
Shares at the beginning of period	5,068,615,765	5,068,615,765
Less: Treasury stock	(156,927,000)	(14,246,823)
Total	4,911,688,765	5,054,368,942

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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. (Created by the merger of United World Chinese Commercial Bank and the former Cathay United Bank; merger completed on October 27, 2003)	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd. (Seaward Insurance Agent Co., Ltd. and Cathay Life Insurance Agent Co., Ltd. merged on March 25, 2004)	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
KG Telecommunication Co., Ltd.	The Company served as the supervisor of KG Telecommunication Co., Ltd. (resigned on Jan.19, 2004)
Cathay Securities Investment Trust Co., Ltd.	An equity method investee

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(2) Significant transactions with related parties

A. Property transactions (from related parties):

Transactions between the Company and related parties are undertaking contracted projects, construction, 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 nine months ended September 30, 2003 and 2004 are listed below:

Name	For the nine months ended September 30, 2003		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$9,241	\$274
	Hsinyi District Base-D	571,197	16,909
	Cathay Information Building	22,122	655
	Tucheng Office Building	14,897	441
	Other	2,901	86
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	3,749	111
	Other	2,240	66
	Total	<u>\$626,347</u>	<u>\$18,542</u>

Name	For the nine months ended September 30, 2004		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$6,931	\$204
	Hsinyi District Base-D	20,338	598
	Cathay Information Building	11,567	340
	Ban Ciao Building	208,610	6,138
	Sheraton Taipei Hotel	40,340	1,187
	Siangyang Building	18,362	540
	Xi-Men Bldg	16,490	485
	Tucheng Office Building	84,728	2,493
	Cathay Golden & Sliver Bldg	19,105	562
	Li-Yuan Bldg	40,045	1,178
	Other	41,959	1,235
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,572	46
	Other	448	13
Symphox Information Co., Ltd.	Hsinyi District Base-E	27,000	794
	Total	<u>\$537,495</u>	<u>\$15,813</u>



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The total amount of contracted projects for real estate as of September 30, 2003 and 2004 between the Company and San Ching Engineering Co., Ltd. was NT\$10,139,651 (US\$300,167) and NT\$9,708,892 (US\$285,640), respectively.

- (B) The Company sold real estate to a related parties in the nine months ended September 30, 2003 and 2004 as follows:

The Company did not sell any real estate to its related parties for the nine-month period ended September 30, 2003.

Name	Item	For the nine months ended September 30, 2004			
		Sales Amount NT\$	Sales Amount US\$	Loss on Disposal of Assets NT\$	Loss on Disposal of Assets US\$
Cathay General Hospital	No.678 Sec.2 Chung-Hwa Rd. Hsinchu	<u>\$1,520,000</u>	<u>\$44,719</u>	<u>\$(8,390)</u>	<u>\$(247)</u>

- (C) Real-estate rental income (from related parties) :

Name	Rental income			
	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$5,862	\$173	\$5,862	\$173
Cathay Real Estate Development Co., Ltd.	22,010	652	17,004	500
Cathay United Bank	135,010	3,997	185,592	5,460
Cathay Century Insurance Co., Ltd.	37,489	1,110	39,979	1,176
Cathay General Hospital	171,193	5,068	103,002	3,030
San Ching Engineering Co., Ltd.	14,439	427	10,770	317
Symphox Information Co., Ltd.	22,536	667	18,406	542

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Lin Yuan Investment Co., Ltd.	98	3	38	1
Cathay Securities Investment Trust Co., Ltd.	6,684	198	6,454	190
Cathay Securities Investments Co., Ltd.	3,105	92	3,175	93
Lin Yuan Property Management Co., Ltd.	324	10	337	10
KG Telecommunication Co., Ltd.	5,854	173	-	-
Cathay Securities Co., Ltd.	-	-	2,433	72
<b>Total</b>	<b><u>\$424,604</u></b>	<b><u>\$12,570</u></b>	<b><u>\$393,052</u></b>	<b><u>\$11,564</u></b>

**Guarantee deposits received**

Name	September 30, 2003		September 30, 2004	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$367	\$5,796	\$171
Cathay United Bank Co., Ltd.	52,234	1,546	71,532	2,105
Cathay Century Insurance Co., Ltd.	13,078	387	13,278	391
Cathay General Hospital San Ching Engineering Co., Ltd.	1,985	59	2,354	69
Symphox Information Co., Ltd.	6,779	201	6,779	199
Cathay Securities Investment Trust Co., Ltd.	1,421	42	1,394	41
Cathay Securities Investment Trust Co., Ltd.	2,144	64	2,144	63
Lin Yuan Property Management Co., Ltd.	49	1	49	1
KG Telecommunication Co., Ltd.	8,354	247	-	-
Cathay Securities Co., Ltd.	-	-	3,323	98
Lin Yuan Investment Co., Ltd.	16	-	16	-
<b>Total</b>	<b><u>\$98,446</u></b>	<b><u>\$2,914</u></b>	<b><u>\$106,665</u></b>	<b><u>\$3,138</u></b>

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Lease terms and collection of rental are governed by signed contracts, with lease terms generally 2 to 5 years. Rentals are collected monthly.

(D) Real-estate rental expense (to related parties) :

Name	Rental Expense			
	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$22,772	\$674	\$22,200	\$653
Lin Yuan Investment Co., Ltd.	3,345	99	5,006	147
Total	<u>\$26,117</u>	<u>\$773</u>	<u>\$27,206</u>	<u>\$800</u>

Name	Guarantee Deposits paid			
	September 30, 2003		September 30, 2004	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,352	\$277	\$9,157	\$269
Lin Yuan Investment Co., Ltd.	1,650	49	1,650	49
Total	<u>\$11,002</u>	<u>\$326</u>	<u>\$10,807</u>	<u>\$318</u>

According to contracts, terms of lease with third parties generally were 3 years, and rentals are paid monthly.

(E) Acquisition of property and equipment information:

Name	Item	For the nine months ended September 30,			
		2003		2004	
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	Communication and transportation equipment	<u>\$1,560</u>	<u>\$46</u>	<u>\$-</u>	<u>\$-</u>

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**B. Cash in banks**

		For the nine months ended September 30, 2003			
Name	Item	Maximum	Interest	Ending	
		Amount	Income	Balance	
		NT\$	NT\$	Rate	NT\$
Cathay United	Time Deposit	\$17,767,150	\$89,505	0.80%-2.50%	\$9,539,050
Bank					
	Cash In Bank	16,514,460	3,227	0.00%-0.50%	4,014,369
Total			<u>\$92,732</u>		<u>\$13,553,419</u>

		For the nine months ended September 30, 2003			
Name	Item	Maximum	Interest	Ending	
		Amount	Income	Balance	
		NT\$	NT\$	Rate	NT\$
United World	Time Deposit	\$6,750,000	\$26,263	0.90%-1.65%	\$3,275,000
Chinese					
Commercial					
Bank					
	Cash In Bank	5,959,331	438	0.00%-0.10%	749,693
Total			<u>\$26,701</u>		<u>\$4,024,693</u>

		For the nine months ended September 30, 2003			
Name	Item	Maximum	Interest	Ending	
		Amount	Income	Balance	
		US\$	US\$	Rate	US\$
Cathay United	Time Deposit	\$525,966	\$2,650	0.80%-2.50%	\$282,387
Bank					
	Cash In Bank	488,883	95	0.00%-0.50%	118,839
Total			<u>\$2,745</u>		<u>\$401,226</u>

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		For the nine months ended September 30, 2003			
Name	Item	Maximum	Interest		Ending
		Amount	Income	Rate	Balance
		US\$	US\$		US\$
United World Chinese Commercial Bank	Time Deposit	\$199,822	\$777	0.90%-1.65%	\$96,951
	Cash In Bank	176,416	13	0.00%-0.10%	22,193
Total			<u>\$790</u>		<u>\$119,144</u>

		For the nine months ended September 30, 2004			
Name	Item	Maximum	Interest		Ending
		Amount	Income	Rate	Balance
		NT\$	NT\$		NT\$
Cathay United Bank Co., Ltd.	Time Deposit	\$44,157,950	\$206,329	0.10%-2.00%	\$29,945,650
	Cash In Bank	18,073,956	2,348	0.00%-0.60%	5,561,865
Total			<u>\$208,677</u>		<u>\$35,507,515</u>

		For the nine months ended September 30, 2004			
Name	Item	Maximum	Interest		Ending
		Amount	Income	Rate	Balance
		US\$	US\$		US\$
Cathay United Bank Co., Ltd.	Time Deposit	\$1,299,145	\$6,070	0.10%-2.00%	\$881,014
	Cash In Bank	531,743	69	0.00%-0.60%	163,632
Total			<u>\$6,139</u>		<u>\$1,044,646</u>

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C. Secured loans

For the nine months ended September 30, 2003

Name	Maximum	Interest Income	Rate	Ending
	Amount			Balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$1,173,912	\$34,345	3.67%-4.25%	\$1,173,368

For the nine months ended September 30, 2003

Name	Maximum	Interest Income	Rate	Ending
	Amount			Balance
	US\$	US\$		US\$
Cathay General Hospital	\$34,752	\$1,017	3.67%-4.25%	\$34,736

For the nine months ended September 30, 2004

Name	Maximum	Interest Income	Rate	Ending
	Amount			Balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$2,192,866	\$36,544	2.60%-3.50%	\$2,192,609

For the nine months ended September 30, 2004

Name	Maximum	Interest Income	Rate	Ending
	Amount			Balance
	US\$	US\$		US\$
Cathay General Hospital	\$64,515	\$1,075	2.60%-3.50%	\$64,507

D. Beneficiary certificates:

Name	Item	September 30,			
		2003		2004	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	Cost	\$3,936,000	\$116,519	\$4,866,000	\$143,160
	Market Value	3,874,512	114,698	4,803,457	141,320

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E. Notes (Account) receivable-related parties

Name	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Notes Receivable				
Cathay General Hospital	\$57,192	\$1,693	\$-	\$-
Cathay Century Insurance Co., Ltd.	35,362	1,047	-	-
Symphox Information Co., Ltd.	582	17	-	-
Sub-Total	93,136	2,757	-	-
Account Receivable				
Cathay General Hospital	-	-	148,558	4,371
Cathay Century Insurance Co., Ltd.	-	-	46,771	1,376
Symphox Information Co., Ltd.	-	-	834	25
Cathay Insurance (Bermuda) Co., Ltd.	2,124	63	2,867	84
Sub-Total	2,124	63	199,030	5,856
Total	\$95,260	\$2,820	\$199,030	\$5,856

F. Other receivable-tax refund receivable

Name	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$454,719	\$13,461	\$187,737	\$5,523

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G. Accounts payable-related parties

Name	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$3,802	\$112	\$4,516	\$133
Symphox Information Co., Ltd.	24,855	736	20,477	602
Lin Yuan Property Management Co., Ltd.	39,341	1,165	45,826	1,348
Cathay Real Estate Development Co., Ltd.	1,417	42	1,800	53
Total	<u>\$69,415</u>	<u>\$2,055</u>	<u>\$72,619</u>	<u>\$2,136</u>

H. Accounts collected in advance

Name	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$-	\$-	\$2,383	\$70
Cathay General Hospital	119,205	3,529	425	13
Other	720	21	113	3
Total	<u>\$119,925</u>	<u>\$3,550</u>	<u>\$2,921</u>	<u>\$86</u>

I. Prepayment

Name	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$23,553</u>	<u>\$697</u>	<u>\$7,779</u>	<u>\$229</u>



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J. Guarantee deposit paid

Name	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$55,000	\$1,628	\$-	\$-

Guarantee deposit paid was the funds deposited with Cathay United Bank Co., Ltd.

K. Insurance income

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay United Bank Co., Ltd.	\$100,891	\$2,987	\$222,071	\$6,533
Cathay Financial Holding Co., Ltd.	-	-	373	11
Total	\$100,891	\$2,987	\$222,444	\$6,544

L. Insurance expense

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$159,762	\$4,729	\$157,244	\$4,626

Insurance expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Among the insurance expense, NT\$10,422 (US\$309) and NT\$9,290 (US\$273) were paid for employees' fidelity guarantee insurance for the nine months ended September 30, 2003 and 2004, respectively.

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M. Indemnity income

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$7,613	\$225	\$14,880	\$438

Indemnity Income mainly consists of claims on insured property and equipment, cash, and public accident. Among the claims received for the nine-month periods ended September 30, 2003 and 2004, NT\$0 and NT\$6,571 (US\$193), respectively, were the claims for employees' fidelity guarantee insurance.

N. Reinsurance income

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$51,929	\$1,537	\$57,830	\$1,701

Cathay Insurance (Bermuda) Co., Ltd. started its reinsurance business on April 1, 2000 by assuming damage reinsurance policies from Reinsurance Group of America Incorporated and Central Reinsurance Corporation. Cathay Insurance (Bermuda) Co., Ltd. subsequently retroceded 90% of such policies to the Company.

O. Reinsurance claims payment

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$29,528	\$874	\$8,397	\$247

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P. Reinsurance commission expense

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$12,503	\$370	\$10,681	\$314

Q. Reinsurance handing fee expense

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$4,527	\$134	\$5,530	\$163

R. Miscellaneous income

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$194,846	\$5,768	\$371,325	\$10,924
Cathay United Bank Co., Ltd.	-	-	171,900	5,057
Cathay Securities Investment Trust Co., Ltd.	-	-	4,985	147
Cathay Futures Co., Ltd.	-	-	199	6
Total	\$194,846	\$5,768	\$548,409	\$16,134

The miscellaneous income was commission and cross-selling income received for fire and earthquake insurance bundled with loans to customers.

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S. Commissions expense

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$108,364	\$3,208	\$207,334	\$6,100

T. Marketing expense

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$291,565	\$8,631	\$195,903	\$5,764

U. Administrative and general expense

Name	For the nine months ended September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$542,787	\$16,068	\$552,676	\$16,260
Cathay Securities Investment Co., Ltd.	25,000	740	39,375	1,159
San Ching Engineering Co., Ltd.	-	-	4,500	132
Cathay Real Estate Development Co., Ltd.	14,725	436	6,058	178
<b>Total</b>	<b>\$582,512</b>	<b>\$17,244</b>	<b>\$602,609</b>	<b>\$17,729</b>

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19. Pledged assets

As of September 30, 2003 and 2004, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees. In addition, these time deposits serve as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Law, the Company is required to deposit long-term investment in bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	September 30,			
	2003		2004	
	NT\$	US\$	NT\$	US\$
Long-term investment in bonds	\$7,951,632	\$235,395	\$7,936,557	\$233,497
Time deposits	1,013,750	30,010	303,350	8,925
Total	<u>\$8,965,382</u>	<u>\$265,405</u>	<u>\$8,239,907</u>	<u>\$242,422</u>

20. Other important matters and contingent liabilities

None.

21. Serious damages

None.

22. Subsequent events

None.

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23. Other important events

(1) Pension related information

Pension funded status:

With respect to the accounting for pensions, the Company calculated the pension amount based on minimum pension liability and net periodic pension cost. The Company's expected net periodic pension cost was NT\$743,601 (US\$21,877) for the nine months ended September 30, 2004, and the Company has allotted NT\$227,223 (US\$6,685) to the pension fund for the nine months ended September 30, 2004.

(2) Financial instruments related information

A. Derivative financial instruments related information

(A) Purpose

As of September 30, 2004, the Company held the following derivative financial instruments: futures, forward foreign exchange contracts and interest rate swaps. Futures hedge against risks of stock price fluctuations; forward contracts hedge against risks of foreign currency and exchange rate fluctuations; interest rate swaps hedge against risk of interest rate fluctuations. None of them was for trading purposes.

(B) Credit and market risks

The counterpart for all of the Company's futures contracts, forward foreign exchange contracts, and interest rate swaps was in each case an international financial organization with a superior credit rating. In addition, the Company worked with several other financial institutions to diversify its risks. The Company has therefore concluded that the possibility of a breach of contract was quite low. Moreover, if there was a breach, the Company has concluded that it would not encounter major loss due to the nature of the investments it purchases. Further, the Company was exposed to various exchange rate risks but the possible loss can be balanced out by gain/loss from hedging transactions.

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(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 in connection with such transactions.

(D) Product type and condition

a. Futures

Item	Transaction Type	September 30, 2003		
		Lot	Contract Amount	Net Gain of Fair Value Estimated
Taiwan weighted stock index futures	Selling out	150	NT\$169,230 US\$5,010	NT\$3,455 US\$102

Item	Transaction Type	September 30, 2004		
		Lot	Contract Amount	Net Gain (loss) of Fair Value Estimated
Overseas stock futures	Selling out	3,086	NT\$7,812,121 US\$229,836	NT\$98,019 US\$2,884
Overseas bonds futures	Selling out	6,550	NT\$24,618,584 US\$724,289	NT\$(135,787) US\$(3,995)

b. Forward and CCS contracts

(a) Receivables and payables resulting from forward foreign exchange contracts are offset against each other. The differences between receivables and payables are recorded as assets or liabilities.

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(b) As of September 30, 2003 and 2004, the Company had forward foreign exchange contracts of approximately US\$9,235,800 and US\$13,780,800, respectively, in notional value.

The forward foreign exchange contracts as of September 30, 2003, are due between October 1, 2003 and December 2, 2004. In addition, the forward contracts as of September 30, 2004, are due between October 1, 2004 and October 25, 2005.

Item	Contract Amount	September 30, 2003			
		Fair Value		Due Value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD\$11,274,800	\$382,423,730	\$11,321,010	\$388,168,512	\$11,491,075

Item	Contract Amount	September 30, 2004			
		Fair Value		Due Value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD\$14,830,800	\$503,479,509	\$14,812,577	\$500,548,772	\$14,726,354

The above-mentioned forward foreign exchange contracts hedge against risks associated with net assets exchange rate fluctuations for the following short-term investment.

Net Assets	September 30,	
	2003	2004
Short-term investment	USD\$11,274,800	USD\$14,830,800

Losses on the forward foreign exchange and currency swap contracts were NT\$713,846 (US\$21,132) and NT\$1,150,878 (US\$33,859), respectively, for the nine-month periods ended September 30, 2003 and 2004.



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**Cathay Life Insurance Co., Ltd.**

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**As of September 30, 2003 and 2004**

c. Interest rate swap agreement (IRS)

The IRS agreements of the Company as of September 30, 2004 are set forth below:

<u>Category</u>	<u>Currency</u>	<u>Period</u>	<u>Amount</u>
IRS	NTD	2002.09.13~2014.05.12	NT\$50,384,212 US\$1,482,325

d. Option

<u>Item</u>	<u>Transaction Type</u>	<u>Lot</u>	<u>September 30, 2004</u>	
			<u>Contract Amount</u>	<u>Net Loss of Fair Value Estimated</u>
Taiwan weighted stock index futures	Call Option	35,129	NT\$157,803 US\$4,643	NT\$(77,538) US\$(2,281)

No option transactions were outstanding on September 30, 2003.

B. Non-derivative financial instruments related information:

Except for the item listed in the following table, the carrying amount of non-derivative financial instruments as of September 30, 2003 and 2004, was the same as their estimated fair value:

<u>Item</u>	<u>September 30, 2003</u>			
	<u>NT\$</u>		<u>US\$</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Short-term investment	\$326,942,272	\$333,696,751	\$9,678,575	\$9,878,530
Long-term investment-cost method	43,694,632	44,960,115	1,293,506	1,330,968

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Item	September 30, 2004			
	NT\$		US\$	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term investment	\$366,133,359	\$372,592,573	\$10,771,796	\$10,961,829
Long-term investment-cost method	10,161,968	10,161,968	298,969	298,969

(3) Discretionary account management

Item	September 30, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,068,292	\$31,625	\$1,055,747	\$31,254
Repurchase bonds	5,591,046	165,514	5,592,124	165,545
Convertible bonds	543,464	16,088	578,541	17,127
Governmental bonds	1,185,010	35,080	1,180,976	34,961
Cash in banks	205,480	6,083	205,480	6,083
Net other assets less liabilities	(8,576)	(254)	(8,576)	(254)
<b>Total</b>	<b>\$8,584,716</b>	<b>\$254,136</b>	<b>\$8,604,292</b>	<b>\$254,716</b>

Item	September 30, 2004			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,039,631	\$60,007	\$2,055,522	\$60,474
Repurchase bonds	2,253,090	66,287	2,253,613	66,302
Convertible bonds	737,656	21,702	713,528	20,992
Governmental bonds	5,375,992	158,164	5,381,432	158,324
Cash in bank	439,620	12,934	439,620	12,934
Net other assets less liabilities	(22,009)	(648)	(22,009)	(647)
<b>Total</b>	<b>\$10,823,980</b>	<b>\$318,446</b>	<b>\$10,821,706</b>	<b>\$318,379</b>

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**As of September 30, 2003 and 2004**

As of September 30, 2003 and 2004, the Company had discretionary account management contracts in the amount of NT\$7,800,000 (US\$230,906) and NT\$10,050,000 (US\$295,675), respectively.

(4) Material contract:

None

(5) Presentation of financial statements:

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

(6) Other:

None

24. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company called Guangzhou Cathay Life Insurance Co., Ltd. to engage in the life insurance business. On September 25, 2003, MOEAIC authorized the Company to change such company's location from Guangzhou to Shanghai. The Cathay Life Insurance Co., Ltd. in Shanghai is currently in its preparatory stage. As of September 30, 2004, the Company's remittances to this new company totaled approximately US\$48,330.

25. Segment Information

None