

Cathay Century Insurance Co., Ltd.
Financial statements
Together with
Independent auditors' report
As of December 31, 2003 and 2004

Name of the company: Cathay Century Insurance Co., Ltd.
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English Translation of Independent Auditors' Report Originally Issued in Chinese
Independent auditors' report

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

We have audited the accompanying balance sheet of Cathay Century Insurance Co., Ltd. (the "Company") as of December 31, 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the year 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 audit. The Company's statements as of and for the year ended December 31, 2003 were audited by other auditors whose report, date January 16, 2004 expressed an unqualified opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "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
Republic of China
January 18, 2005

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets

As of December 31, 2003 and 2004

(Expressed in thousands of dollars)

| Assets | Notes | December 31, 2003 | | December 31, 2004 | |
|--------------------------------------------------------|-------|---------------------|------------------|---------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current assets | | | | | |
| Cash and cash equivalents | 2,4 | \$3,589,751 | \$105,612 | \$3,783,245 | \$119,195 |
| Short-term investments | 2,5 | 2,065,103 | 60,756 | 2,448,376 | 77,139 |
| Notes receivable | 2 | 187,896 | 5,528 | 140,884 | 4,439 |
| Interests receivable | | 26,298 | 774 | 20,563 | 648 |
| Premiums receivable | 2,6 | 525,251 | 15,453 | 938,056 | 29,554 |
| Claims recoverable from reinsurers | 2 | 209,135 | 6,153 | 252,969 | 7,970 |
| Due from reinsurers and ceding companies | | 91,880 | 2,703 | 18,266 | 575 |
| Other accounts receivable | 2 | 23,430 | 689 | 80,851 | 2,547 |
| Deferred income tax assets - current | 2,15 | 51,659 | 1,520 | 39,773 | 1,253 |
| Prepayments | | 2,563 | 75 | 2,816 | 89 |
| Subtotal | | 6,772,966 | 199,263 | 7,725,799 | 243,409 |
| Exchange bills negotiated, discounted and loans | | | | | |
| Medium-term secured loans | 2,7 | 401,799 | 11,821 | 397,909 | 12,537 |
| Long-term secured loans | | 359,968 | 10,590 | 390,441 | 12,301 |
| Subtotal | | 761,767 | 22,411 | 788,350 | 24,838 |
| Funds, long-term investments and receivable | | | | | |
| Long-term investments in stocks | 2,8 | | | | |
| Under the equity method | | 234,892 | 6,911 | 218,439 | 6,882 |
| Under the cost method | | 199,380 | 5,866 | 83,796 | 2,640 |
| Long-term investments in bonds | | 1,836,278 | 54,024 | 2,277,541 | 71,756 |
| Subtotal | | 2,270,550 | 66,801 | 2,579,776 | 81,278 |
| Property and equipment | | | | | |
| Communication and transportation equipment | 2,9 | 17,174 | 505 | 20,960 | 660 |
| Other equipment | | 149,437 | 4,397 | 170,616 | 5,376 |
| Subtotal | | 166,611 | 4,902 | 191,576 | 6,036 |
| Less: Accumulated depreciation | | (111,105) | (3,269) | (129,094) | (4,067) |
| Prepayments for equipment | | - | - | 2,520 | 79 |
| Subtotal | | 55,506 | 1,633 | 65,002 | 2,048 |
| Intangible assets | | | | | |
| Computer software cost | 2 | 7,261 | 214 | 15,020 | 473 |
| Subtotal | | 7,261 | 214 | 15,020 | 473 |
| Other assets | | | | | |
| Guarantee deposits paid | | 16,821 | 495 | 17,891 | 564 |
| Overdue receivables | 2 | 30,884 | 909 | 94,206 | 2,968 |
| Temporary payments and suspense accounts | | 14,919 | 439 | 7,038 | 222 |
| Securities serving as deposits paid-bonds | 10,18 | 360,284 | 10,600 | 359,937 | 11,340 |
| Funds held by ceding companies | | 107 | 3 | 8 | - |
| Deferred pension cost | | 6,059 | 178 | 6,302 | 199 |
| Deferred income tax assets- noncurrent | 2,15 | 14 | - | - | - |
| Subtotal | | 429,088 | 12,624 | 485,382 | 15,293 |
| Total assets | | \$10,297,138 | \$302,946 | \$11,659,329 | \$367,339 |

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 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 Century Insurance Co., Ltd.

Balance sheets - (Continued)

As of December 31, 2003 and 2004

(Expressed in thousands of dollars)

| Liabilities & stockholders' equity | Notes | December 31, 2003 | | December 31, 2004 | |
|---------------------------------------------------|-------|---------------------|------------------|---------------------|------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Current liabilities | | | | | |
| Collections for others | | \$4,891 | \$144 | \$6,158 | \$194 |
| Accrued expenses | | 235,046 | 6,915 | 268,910 | 8,472 |
| Commissions payable | | 3,935 | 116 | 1,836 | 58 |
| Dividends payable | | 1,441 | 42 | 7,888 | 249 |
| Claims outstanding | | 4,736 | 139 | 632 | 20 |
| Due to reinsurers and ceding companies | | 73,494 | 2,162 | 237,938 | 7,497 |
| Other payables | | 425,945 | 12,532 | 678,583 | 21,379 |
| Subtotal | | <u>749,488</u> | <u>22,050</u> | <u>1,201,945</u> | <u>37,869</u> |
| Long-term liabilities | | | | | |
| Accrued pension liabilities | | 8,584 | 253 | 9,209 | 290 |
| Subtotal | | <u>8,584</u> | <u>253</u> | <u>9,209</u> | <u>290</u> |
| Other liabilities | | | | | |
| Unearned premiums reserve | 2,11 | 3,601,016 | 105,943 | 4,031,204 | 127,007 |
| Special reserve | 2,11 | 2,262,767 | 66,572 | 2,570,454 | 80,985 |
| Claims reserve | 2,11 | 585,308 | 17,220 | 634,173 | 19,980 |
| Temporary receipts and suspense accounts | | 16,834 | 495 | 32,035 | 1,009 |
| Funds held for reinsurers | | 283 | 8 | 184 | 6 |
| Subtotal | | <u>6,466,208</u> | <u>190,238</u> | <u>7,268,050</u> | <u>228,987</u> |
| Total liabilities | | <u>7,224,280</u> | <u>212,541</u> | <u>8,479,204</u> | <u>267,146</u> |
| Stockholders' equity | | | | | |
| Capital stock | | | | | |
| Common stock | 12 | 2,317,006 | 68,167 | 2,317,006 | 73,000 |
| Capital surplus | | 430 | 13 | 1,909 | 60 |
| Retained earnings | | | | | |
| Legal reserve | 13 | 161,475 | 4,751 | 220,741 | 6,955 |
| Unappropriated retained earnings | | 592,660 | 17,436 | 640,617 | 20,183 |
| Equity adjustment | | | | | |
| Cumulative conversion adjustments | | 1,287 | 38 | (148) | (5) |
| Total stockholders' equity | | <u>3,072,858</u> | <u>90,405</u> | <u>3,180,125</u> | <u>100,193</u> |
| Total liabilities and stockholders' equity | | <u>\$10,297,138</u> | <u>\$302,946</u> | <u>\$11,659,329</u> | <u>\$367,339</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 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 Century Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2003 and 2004

(Expressed in thousands of dollars, except earning per share)

| Items | Notes | 2003 | | 2004 | |
|-------------------------------------------------------|-------|--------------|-----------|--------------|-----------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Operating revenues | 2 | | | | |
| Premiums income | | \$7,044,600 | \$207,255 | \$8,307,758 | \$261,744 |
| Reinsurance commission earned | | 306,983 | 9,031 | 347,864 | 10,960 |
| Claims recovered from reinsurers | | 975,264 | 28,693 | 1,154,698 | 36,380 |
| Recovered unearned premiums reserve | | 3,352,667 | 98,637 | 3,601,016 | 113,453 |
| Recovered special claim reserve | | 157,197 | 4,625 | 87,057 | 2,743 |
| Recovered claims reserve | | 36,610 | 1,077 | 44,553 | 1,404 |
| Handling fee earned | | 343 | 10 | 53 | 2 |
| Interest income | | 216,325 | 6,364 | 224,779 | 7,082 |
| Gain on trading bills and securities | | 162,781 | 4,789 | 124,817 | 3,932 |
| Gain on long-term equity investment | | 1,453 | 43 | - | - |
| Subtotal | | 12,254,223 | 360,524 | 13,892,595 | 437,700 |
| Operating costs | 2 | | | | |
| Reinsurance premiums ceded | | (2,572,569) | (75,686) | (3,035,237) | (95,628) |
| Commissions expenses | | (134,072) | (3,944) | (140,224) | (4,418) |
| Insurance claims payment | | (3,229,577) | (95,016) | (3,623,241) | (114,154) |
| Provision for unearned premiums reserve | | (3,601,016) | (105,943) | (4,031,204) | (127,007) |
| Provision for special claim reserve | | (382,280) | (11,247) | (394,744) | (12,437) |
| Contribution to the stabilization funds | | (13,329) | (392) | (15,543) | (489) |
| Provision for claims reserve | | (44,553) | (1,311) | (51,941) | (1,636) |
| Handling fee paid | | (185,472) | (5,457) | (216,977) | (6,836) |
| Interest expenses | | (27) | (1) | (93) | (3) |
| Loss on long-term equity investment | | - | - | (16,495) | (520) |
| Agent expenses | | (2,488) | (73) | (4,087) | (129) |
| Subtotal | | (10,165,383) | (299,070) | (11,529,786) | (363,257) |
| Operating gross profit | | 2,088,840 | 61,454 | 2,362,809 | 74,443 |
| Operating expenses | 2 | | | | |
| Marketing expenses | | (1,153,637) | (33,940) | (1,291,930) | (40,704) |
| Administrative and general expenses | | (247,744) | (7,289) | (261,348) | (8,234) |
| Operating income | | 687,459 | 20,225 | 809,531 | 25,505 |
| Non-operating revenues | | | | | |
| Gain on foreign exchange | | 433 | 13 | 1,502 | 47 |
| Gain on disposal of property and equipment | | 166 | 5 | 361 | 11 |
| Miscellaneous income | | 13,615 | 400 | 35,603 | 1,122 |
| Subtotal | | 14,214 | 418 | 37,466 | 1,180 |
| Non-operating expenses | | | | | |
| Loss on foreign exchange | | (8,103) | (238) | (27,396) | (863) |
| Loss on disposal of property and equipment | | - | - | (18) | (1) |
| Subtotal | | (8,103) | (238) | (27,414) | (864) |
| Income from continuing operations before income taxes | | 693,570 | 20,405 | 819,583 | 25,821 |
| Income taxes | 2,15 | (100,910) | (2,969) | (178,966) | (5,638) |
| Net income | | \$592,660 | \$17,436 | \$640,617 | \$20,183 |
| Earning per share (In dollars) | | | | | |
| Income before income taxes | 16 | \$2.99 | \$0.09 | \$3.54 | \$0.11 |
| Net income | 16 | \$2.56 | \$0.08 | \$2.76 | \$0.09 |

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 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 Century Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the years ended December 31, 2003 and 2004
(Expressed in thousands of dollars)

| Summary | Capital stock | | Capital surplus | | Retained earnings | | | | Cumulative conversion adjustments | | Total | |
|-------------------------------------------------|--------------------|-----------------|-----------------|-------------|-------------------|----------------|----------------------------------|-----------------|-----------------------------------|--------------|--------------------|------------------|
| | Common stock | | | | Legal reserve | | Unappropriated retained earnings | | | | | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Balance on January 1, 2003 | \$2,317,006 | \$68,167 | \$- | \$- | \$138,025 | \$4,061 | \$234,503 | \$6,899 | \$2,172 | \$64 | \$2,691,706 | \$79,191 |
| Appropriations and distributions for 2002 | | | | | | | | | | | | |
| Legal reserve | | | | | 23,450 | 690 | (23,450) | (690) | | | - | - |
| Cash dividends | | | | | | | (209,612) | (6,167) | | | (209,612) | (6,167) |
| Bonus paid to employees | | | | | | | (1,441) | (42) | | | (1,441) | (42) |
| Capital surplus- long-term equity investment | | | 430 | 13 | | | | | | | 430 | 13 |
| Cumulative conversion adjustments | | | | | | | | | (885) | (26) | (885) | (26) |
| Net Income for the year ended December 31, 2003 | | | | | | | 592,660 | 17,436 | | | 592,660 | 17,436 |
| Balance on December 31, 2003 | <u>\$2,317,006</u> | <u>\$68,167</u> | <u>\$430</u> | <u>\$13</u> | <u>\$161,475</u> | <u>\$4,751</u> | <u>\$592,660</u> | <u>\$17,436</u> | <u>\$1,287</u> | <u>\$38</u> | <u>\$3,072,858</u> | <u>\$90,405</u> |
| Balance on January 1, 2004 | \$2,317,006 | \$73,000 | \$430 | \$13 | \$161,475 | \$5,088 | \$592,660 | \$18,672 | \$1,287 | \$40 | \$3,072,858 | \$96,813 |
| Appropriations and distributions for 2003 | | | | | | | | | | | | |
| Legal reserve | | | | | 59,266 | 1,867 | (59,266) | (1,867) | | | - | - |
| Cash dividends | | | | | | | (525,506) | (16,556) | | | (525,506) | (16,556) |
| Bonus paid to employees | | | | | | | (7,888) | (249) | | | (7,888) | (249) |
| Capital surplus- long-term equity investment | | | 1,479 | 47 | | | | | | | 1,479 | 47 |
| Cumulative conversion adjustments | | | | | | | | | (1,435) | (45) | (1,435) | (45) |
| Net Income for the year ended December 31, 2004 | | | | | | | 640,617 | 20,183 | | | 640,617 | 20,183 |
| Balance on December 31, 2004 | <u>\$2,317,006</u> | <u>\$73,000</u> | <u>\$1,909</u> | <u>\$60</u> | <u>\$220,741</u> | <u>\$6,955</u> | <u>\$640,617</u> | <u>\$20,183</u> | <u>(\$148)</u> | <u>(\$5)</u> | <u>\$3,180,125</u> | <u>\$100,193</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 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 Century Insurance Co., Ltd.

Statements of cash flows

For the years ended December 31, 2003 and 2004

(Expressed in thousands of dollars)

| Items | Notes | 2003 | | 2004 | |
|---------------------------------------------------------------------------------------------|-------|-------------|----------|-------------|-----------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from operating activities | | | | | |
| Net income | | \$592,660 | \$17,436 | \$640,617 | \$20,183 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Loss on bad debt | | 48,513 | 1,427 | - | - |
| Amortization | | 4,252 | 125 | 5,083 | 160 |
| Depreciation | | 24,532 | 722 | 20,949 | 660 |
| Provision for reserve for operations | | 4,027,849 | 118,501 | 4,477,888 | 141,080 |
| Recovered unearned premiums reserve | | (3,352,667) | (98,637) | (3,601,016) | (113,454) |
| Recovered special claim reserve | | (157,197) | (4,625) | (87,057) | (2,743) |
| Recovered claims reserve | | (36,610) | (1,077) | (44,553) | (1,404) |
| Loss on disposal of property and equipment | | - | - | 18 | 1 |
| Gain on disposal of property and equipment | | (166) | (5) | (361) | (11) |
| Unrealized (gain) loss on long-term investments | | (1,453) | (43) | 16,495 | 520 |
| Effects of exchange rate changes | | 7,670 | 225 | 25,894 | 816 |
| Decrease (increase) in short-term investments | | 23,570 | 694 | (301,289) | (9,492) |
| (Increase) decrease in notes receivable | | (17,079) | (502) | 47,488 | 1,496 |
| Decrease in interests receivable | | 5,054 | 149 | 5,735 | 181 |
| Increase in premiums receivable | | (100,132) | (2,946) | (419,000) | (13,201) |
| Decrease (increase) in claims recoverable from reinsurers | | 26,406 | 777 | (43,834) | (1,381) |
| Decrease in due from reinsurers and ceding companies | | 51,423 | 1,513 | 238,058 | 7,500 |
| Increase in other accounts receivable | | (6,479) | (191) | (57,422) | (1,809) |
| Decrease (increase) in prepayments | | 301 | 9 | (252) | (8) |
| (Increase) decrease in deferred income tax assets-current | | (6,747) | (198) | 11,886 | 375 |
| Decrease in deferred income tax assets-non-current | | 34 | 1 | 14 | - |
| Decrease (increase) in overdue receivables | | 25,227 | 742 | (118,604) | (3,737) |
| (Increase) decrease in temporary payments and suspense accounts | | (565) | (17) | 7,881 | 248 |
| (Decrease) increase in collections for others | | (7,711) | (227) | 1,267 | 40 |
| Increase in accrued expenses | | 63,025 | 1,854 | 33,864 | 1,067 |
| Decrease in income taxes payable | | (32,410) | (954) | - | - |
| Decrease in commissions payable | | (4,442) | (131) | (2,098) | (66) |
| Decrease in claims outstanding | | (63,266) | (1,861) | (4,105) | (129) |
| Increase in other payables | | 69,268 | 2,038 | 247,325 | 7,792 |
| Increase in accrued pension liabilities | | 399 | 12 | 382 | 12 |
| (Decrease) increase in temporary receipts and suspense accounts | | (46,863) | (1,379) | 15,202 | 479 |
| Increase in claims reserve | | 46,551 | 1,370 | 41,477 | 1,307 |
| Net cash provided by (used in) operating activities | | 1,182,947 | 34,802 | 1,157,932 | 36,482 |

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 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 Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the years ended December 31, 2003 and 2004

(Expressed in thousands of dollars)

| Items | Notes | 2003 | | 2004 | |
|-----------------------------------------------------------------|-------|---------------------------|-------------------------|---------------------------|-------------------------|
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cash flows from investing activities | | | | | |
| Decrease in short-term secured loans | | 22,000 | 647 | - | - |
| Decrease in medium-term secured loans | | 56,530 | 1,663 | 39,240 | 1,236 |
| Decrease (increase) in long-term secured loans | | 55,485 | 1,632 | (4,821) | (152) |
| Acquisition of long-term investment in stocks | | (75,000) | (2,206) | - | - |
| Disposal of long-term investments in stocks | | - | - | 33,600 | 1,059 |
| Increase in long-term investments in bonds | | (1,555,944) | (45,777) | (441,262) | (13,902) |
| Disposal of property and equipment | | 674 | 20 | 1,396 | 44 |
| Acquisition of property and equipment | | (13,019) | (383) | (26,186) | (825) |
| Acquisition of intangible assets | | (5,370) | (158) | (12,843) | (405) |
| Increase in guarantee deposits paid | | (2,353) | (69) | (1,069) | (34) |
| Decrease in securities serving as deposits paid-bonds | | 4,915 | 145 | 347 | 11 |
| Decrease in funds held by ceding companies | | 38 | 1 | 99 | 3 |
| Net cash provided by (used in) investing activities | | <u>(1,512,044)</u> | <u>(44,485)</u> | <u>(411,499)</u> | <u>(12,965)</u> |
| Cash flows from financing activities | | | | | |
| Paid other payable for acquisition of property and equipment in | | | | | |
| former period | | (16,479) | (485) | - | - |
| Decrease in funds held for reinsurers | | (410) | (12) | (98) | (3) |
| Bonus to employees | | (3,755) | (110) | (1,441) | (45) |
| Cash dividends | | <u>(209,612)</u> | <u>(6,167)</u> | <u>(525,506)</u> | <u>(16,557)</u> |
| Net cash provided by (used in) financing activities | | <u>(230,256)</u> | <u>(6,774)</u> | <u>(527,045)</u> | <u>(16,605)</u> |
| Effects of exchange rate changes | | (7,670) | (225) | (25,894) | (816) |
| (Decrease) increase in cash and cash equivalents | | (567,023) | (16,682) | 193,494 | 6,096 |
| Cash and cash equivalents at the beginning of period | | <u>4,156,774</u> | <u>122,294</u> | <u>3,589,751</u> | <u>113,099</u> |
| Cash and cash equivalents at the end of period | | <u><u>\$3,589,751</u></u> | <u><u>\$105,612</u></u> | <u><u>\$3,783,245</u></u> | <u><u>\$119,195</u></u> |
| Supplemental disclosure of cash flows information | | | | | |
| Interest paid during period | | <u>\$27</u> | <u>\$1</u> | <u>\$93</u> | <u>\$3</u> |
| Interest paid excluding capitalized interest | | <u>\$27</u> | <u>\$1</u> | <u>\$93</u> | <u>\$3</u> |
| Income tax paid | | <u>\$140,033</u> | <u>\$4,120</u> | <u>\$123,827</u> | <u>\$3,901</u> |
| Partial cash investing and financing activities | | | | | |
| Equipment | | \$13,019 | \$383 | \$31,499 | \$992 |
| Other payable at the year-end | | - | - | (5,313) | (167) |
| Cash paid | | <u>\$13,019</u> | <u>\$383</u> | <u>\$26,186</u> | <u>\$825</u> |

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2004 were NT\$33.99 and NT\$31.74 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 Century Insurance Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of December 31, 2003 and 2004

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

1. Organization and business scope

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engaged in the business of property and casualty insurance. On April 22, 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On August 2, 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

As of December 31, 2003 and 2004, the total numbers of employees were 789 and 880, respectively.

2. Summary of significant accounting policies

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

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

Current assets are assets which can be liquidated or disposed within one year. Assets that do not belong to current assets are 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.

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Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of December 31, 2003 and 2004

(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.

(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 value. The cost of beneficiary certificates sold is determined based on the weighted-average method.

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

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

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

(4) Allowance for bad and doubtful debts

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

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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 over which the Company lacks significant operational influence are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's ownership interest accounted for less than 20% of the common stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and is already less than cost, the market value becomes the new cost basis and the difference is accounted for as if it were a realized loss, and included in the determination of net income. Stock dividends are not recognized as income but treated as an increase in the number of shares held. Upon sales of long-term investments (accounted for under 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 have 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 should be accounted for at cost, and any premium or discount should be amortized based on a reasonable and systematic basis.

(6) Property and equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed currently. Upon the sale or disposal of property 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 on depreciable assets is calculated on a

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straight-line method over the estimated service lives prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the ROC Executive Yuan (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.

(7) Intangible assets

“Computer software cost” are stated at cost and amortized over three years on the straight-line method.

(8) Reserve for operations

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

(9) Premiums income

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

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

(10) Contribution to the stabilization funds

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

(11) Pension plan

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

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In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company followed the ROC 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 obligations and the fair value of plan assets.

(12) Securities serving as deposits paid-bonds

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

(13) Foreign currency transactions

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

(14) Income Taxes

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

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

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

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

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

(15) Capital expenditure expenses

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

(16) Derivative financial products transaction

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

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The premiums of futures transaction are stated at cost. For those hedging the risks of existed assets or liabilities, the unrealized gains/losses are recognized as current gains/losses or as deferred assets/liabilities, stated at income statement when resold. For those hedging the forecast risks of transactions, the unrealized gains/losses of futures transactions are deferred to the actual trading date as adjustments to the transaction value. The premiums of non-hedging transactions are value upon market value one a monthly basis; its unrealized gains/losses are recognized upon current gains/losses.

(17) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 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\$33.99 and NT\$31.74 to US\$1.00 effective on December 31, 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 dollar amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects

None.

4. Cash and cash equivalents

| Item | December 31, | | | |
|-----------------------------------|----------------------|----------------------|---------------------|---------------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cash on hand | \$7,475 | \$220 | \$6,249 | \$197 |
| Cash in banks | 300,087 | 8,829 | 266,458 | 8,395 |
| Time deposits | 3,003,269 | 88,357 | 3,381,799 | 106,547 |
| Cash equivalents | 278,920 | 8,206 | 128,739 | 4,056 |
| Total | <u>\$3,589,751</u> | <u>\$105,612</u> | <u>\$3,783,245</u> | <u>\$119,195</u> |
| Interest rate of time deposits | <u>0.80%~2.00%</u> | <u>0.80%~2.00%</u> | <u>1.225%~1.55%</u> | <u>1.225%~1.55%</u> |
| Interest rate of cash equivalents | <u>0.975%~1.025%</u> | <u>0.975%~1.025%</u> | <u>0.975%~1.10%</u> | <u>0.975%~1.10%</u> |

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(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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5. Short – term investments

| Item | December 31, | | | |
|-------------------------------------------|--------------|----------|-------------|----------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Parent stock | \$228,587 | \$6,725 | \$228,587 | \$7,202 |
| Less: Allowance for valuation loss | (52,611) | (1,548) | (14,579) | (459) |
| Subtotal | 175,976 | 5,177 | 214,008 | 6,743 |
| Common stock and beneficiary certificates | 970,515 | 28,553 | 1,356,782 | 42,747 |
| Appoint purpose trust funds | 47,868 | 1,408 | 41,413 | 1,305 |
| Financial debentures | 203,473 | 5,986 | 461,493 | 14,540 |
| Corporate bonds | 667,271 | 19,632 | 374,680 | 11,804 |
| Short-term notes | 278,920 | 8,206 | 128,739 | 4,056 |
| Subtotal | 2,168,047 | 63,785 | 2,363,107 | 74,452 |
| Less: Cash equivalents | (278,920) | (8,206) | (128,739) | (4,056) |
| Subtotal | 1,889,127 | 55,579 | 2,234,368 | 70,396 |
| Total | \$2,065,103 | \$60,756 | \$2,448,376 | \$77,139 |

6. Premiums receivable

| Item | December 31, | | | |
|-------------------------------|--------------|----------|-----------|----------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Premiums receivable | \$528,531 | \$15,550 | \$947,531 | \$29,853 |
| Less: Allowance for bad debts | (3,280) | (97) | (9,475) | (299) |
| Net | \$525,251 | \$15,453 | \$938,056 | \$29,554 |

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As of December 31, 2003 and 2004

7. Secured loans

| Item | December 31, | | | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Medium-term secured loans | \$507,651 | \$14,935 | \$468,411 | \$14,758 |
| Less: Allowance for bad debts | (105,852) | (3,114) | (70,502) | (2,221) |
| Subtotal | 401,799 | 11,821 | 397,909 | 12,537 |
| Long-term secured loans | 454,800 | 13,380 | 459,620 | 14,481 |
| Less: Allowance for bad debts | (94,832) | (2,790) | (69,179) | (2,180) |
| Subtotal | 359,968 | 10,590 | 390,441 | 12,301 |
| Total | \$761,767 | \$22,411 | \$788,350 | \$24,838 |
| Interest rate | <u>2.50%~5.00%</u> | <u>2.50%~5.00%</u> | <u>2.07%~4.59%</u> | <u>2.07%~4.59%</u> |

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

8. Long –term investments

A. Long-term investments in stocks:

| Investee | December 31, | | | |
|----------------------------------------|--------------|----------|-----------|---------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| a. Under the equity method: | | | | |
| Cathay Venture Capital Corp. | \$221,256 | \$6,510 | \$208,614 | \$6,573 |
| Vista Technology Venture Capital Corp. | 13,636 | 401 | 9,825 | 309 |
| Subtotal | 234,892 | 6,911 | 218,439 | 6,882 |
| b. Under the cost method: | | | | |
| Koo Group Telecommunication Co., Ltd. | 124,380 | 3,659 | - | - |
| Taiwan Cement Corp. | - | - | 8,796 | 277 |
| KGEX. Com Co., Ltd. | 75,000 | 2,207 | 75,000 | 2,363 |
| Subtotal | 199,380 | 5,866 | 83,796 | 2,640 |
| Total | \$434,272 | \$12,777 | \$302,235 | \$9,522 |

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- c. Changes in long-term investments in stocks under equity method are summarized as follows:

| | For the years ended December 31, | | | |
|---------------------------------------------------------------|----------------------------------|----------------|------------------|----------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance on Jan. 1 | \$158,893 | \$4,675 | \$234,892 | \$7,400 |
| Increase investment | 75,000 | 2,206 | - | - |
| Investment income (loss) by equity method recognized | 1,453 | 43 | (16,495) | (520) |
| Cumulative conversion adjustments by equity method recognized | (884) | (26) | (1,437) | (45) |
| Capital surplus by equity method recognized | 430 | 13 | 1,479 | 47 |
| Balance on December 31 | <u>\$234,892</u> | <u>\$6,911</u> | <u>\$218,439</u> | <u>\$6,882</u> |

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

| Investee | For the years ended December 31, | | | |
|----------------------------------------|----------------------------------|-------------|-------------------|----------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Venture Capital Corp. | \$4,917 | \$145 | \$(11,233) | \$(354) |
| Vista Technology Venture Capital Corp. | (3,464) | (102) | (5,262) | (166) |
| Total | <u>\$1,453</u> | <u>\$43</u> | <u>\$(16,495)</u> | <u>\$(520)</u> |

- e. The investment losses of Cathay Venture Capital Corp. for the year ended December 31, 2003 and 2004 were recognized by the equity method based on audited financial statements in the same period.
- f. If the Company holds less than 50% of an investee company's outstanding common stock and is not able to obtain the investee's financial statements for the current year when the

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Company closed its books, the investee's investment gains (losses) for the year can be deferred to recognize till the following year. As the treatment for investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investment loss of Vista Technology Venture Capital Corp. for the year ended December 31, 2004 was recognized by the equity method based on last year's audited financial statements.

- g. The company invested Koo Group Telecommunications Co., Ltd. was signed the merged contract with Far Eastone Telecommunications Co., Ltd. on October 7, 2003 by adopting partial cash and partial stocks as merging value consideration. After Koo Group Telecommunications and Far Eastone Telecommunications Co., Ltd. exchanged their stock on April 29, 2004, the stock held by the Company was reclassified from long-term investments to short-term investments.

B. Long-term investments in bonds

| Investee | December 31, | | | |
|-------------------------------|--------------|-------------|-------------|-------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Overseas investments in bonds | \$1,836,278 | \$54,024 | \$2,277,541 | \$71,756 |
| Interest rate | 4.00%~6.00% | 4.00%~6.00% | 4.00%~6.00% | 4.00%~6.00% |

9. Property and equipment

| Item | December 31, 2003 | | | | | |
|--------------------------------------------|-------------------|---------|--------------------------|---------|-----------|---------|
| | Cost | | Accumulated Depreciation | | Net Value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Communication and transportation equipment | \$17,174 | \$505 | \$7,280 | \$214 | \$9,894 | \$291 |
| Other equipment | 149,437 | 4,397 | 103,825 | 3,055 | 45,612 | 1,342 |
| Subtotal | \$166,611 | \$4,902 | \$111,105 | \$3,269 | \$55,506 | \$1,633 |

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| Item | December 31, 2004 | | | | | |
|--------------------------------------------|-------------------|---------|--------------------------|---------|-----------|---------|
| | Cost | | Accumulated Depreciation | | Net Value | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Communication and transportation equipment | \$20,960 | \$660 | \$9,892 | \$311 | \$11,068 | \$349 |
| Other equipment | 170,616 | 5,376 | 119,202 | 3,756 | 51,414 | 1,620 |
| Subtotal | 191,576 | 6,036 | 129,094 | 4,067 | 62,482 | 1,969 |
| Prepayments for equipment | 2,520 | 79 | - | - | 2,520 | 79 |
| Total | \$194,096 | \$6,115 | \$129,094 | \$4,067 | \$65,002 | \$2,048 |

The insurance of insured property and equipment were NT\$101,647 (US\$3,202) and NT\$121,839 (US\$3,839) as of December 31, 2003 and 2004, respectively.

10. Securities serving as deposits paid-bonds

| Item | December 31, | | | |
|------------------|--------------|-------------|-------------|-------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Government bonds | \$360,284 | \$10,600 | \$359,937 | \$11,340 |
| Interest rate | 6.25%~7.75% | 6.25%~7.75% | 6.25%~6.90% | 6.25%~6.90% |

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

11. Reserve for operations and liabilities

| | January 1, 2004 | | Provision | | Recovered | | December 31, 2004 | |
|-------------------|-----------------|-----------|-------------|-----------|-------------|-----------|-------------------|-----------|
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Unearned premiums | | | | | | | | |
| reserve | \$3,601,016 | \$113,453 | \$4,031,204 | \$127,007 | \$3,601,016 | \$113,453 | \$4,031,204 | \$127,007 |
| Special reserve | 2,262,767 | 71,291 | 394,744 | 12,437 | 87,057 | 2,743 | 2,570,454 | 80,985 |
| Claims reserve | 585,308 | 18,441 | 634,173 | 19,980 | 585,308 | 18,441 | 634,173 | 19,980 |
| Total | \$6,449,091 | \$203,185 | \$5,060,121 | \$159,424 | \$4,273,381 | \$134,637 | \$7,235,831 | \$227,972 |

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12. Capital stock and capital increment

As of December 31, 2003 and 2004, the total authorized shares both were 231,700,560, with par value of NT\$10 each.

13. Retained earnings

(1) Legal reserve

Pursuant to the Company Law, 10% of the Company's net income after tax shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for 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.

(A) Unappropriated retained earnings

A. According to the Company Law and the Company's articles of incorporations, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, shall be appropriated as legal reserve. In addition to distributing stock interest and 2% as a bonus for employees, the remainder shall be allocated in accordance with the resolutions of the Board of Directors.

B. According to related regulations, if the assessed unappropriated retained earnings of the Company assessed by the tax authority exceed 100% of the Company's paid-in capital, the Company shall distribute cash dividends or stock dividends in the year following the assessment. Otherwise, income tax will be levied on each stockholder's proportion of the total unappropriated retained earnings. Alternatively, the Company may pay an extra 10% income tax on the excessive unappropriated retained earnings.

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

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| | For the year ended December 31, | |
|-----------------------------------------------------------------|---------------------------------|--------|
| | 2003 | |
| | NT\$ | US\$ |
| a. Distribution | | |
| Bonus paid to employees-Cash | \$7,888 | \$249 |
| Bonus paid to employees-Stock | - | - |
| Remuneration paid to directors and supervisors | - | - |
| B. Earnings per share after income taxes (expressed in dollars) | \$2.56 | \$0.08 |
| Pro-forma earnings per share (expressed in dollars) | \$2.52 | \$0.08 |

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

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

14. Personnel, depreciation, depletion and amortization

| Item | For the year ended December 31, 2003 (NT\$) | | | For the year ended December 31, 2004 (NT\$) | | |
|-----------------------------------|---------------------------------------------|--------------------|-----------|---------------------------------------------|--------------------|-----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel Expenses | | | | | | |
| Salaries and wages | \$- | \$503,152 | \$503,152 | \$- | \$483,043 | \$483,043 |
| Labor & health insurance expenses | - | 34,491 | 34,491 | - | 32,174 | 32,174 |
| Pension expenses | - | 30,304 | 30,304 | - | 34,887 | 34,887 |
| Other expenses | - | 192,597 | 192,597 | - | 201,230 | 201,230 |
| Depreciation | - | 24,532 | 24,532 | - | 20,949 | 20,949 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 4,252 | 4,252 | - | 5,083 | 5,083 |

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| Item | For the year ended December 31, 2003 (US\$) | | | For the year ended December 31, 2004 (US\$) | | |
|-----------------------------------|---------------------------------------------|--------------------|----------|---------------------------------------------|--------------------|----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel Expenses | | | | | | |
| Salaries and wages | \$- | \$14,803 | \$14,803 | \$- | \$15,219 | \$15,219 |
| Labor & health insurance expenses | - | 1,015 | 1,015 | - | 1,014 | 1,014 |
| Pension expenses | - | 892 | 892 | - | 1,099 | 1,099 |
| Other expenses | - | 5,666 | 5,666 | - | 6,340 | 6,340 |
| Depreciation | - | 722 | 722 | - | 660 | 660 |
| Depletion | - | - | - | - | - | - |
| Amortization | - | 125 | 125 | - | 160 | 160 |

15. Estimated income taxes

(1) Income tax expenses include the following:

| Item | For the years ended December 31, | | | |
|--------------------------------------------------------------------------|----------------------------------|----------|-----------|----------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income before taxes | \$693,570 | \$20,405 | \$819,583 | \$25,821 |
| Adjustments | | | | |
| Interest income of tax on a separate basis | (5,107) | (150) | (6,505) | (205) |
| Losses (gains) on market price loss (recovery) of short-term investments | (53,611) | (1,577) | (38,032) | (1,198) |
| Bad debts exceeding legal limitation (recovery) | 27,203 | 800 | (49,571) | (1,562) |
| Investment losses (gains) recognized by equity method | (1,453) | (43) | 16,495 | 520 |
| Losses (gains) on trading securities | (97,483) | (2,868) | (53,575) | (1,688) |
| Unrealized losses on trading securities | 25,620 | 754 | - | - |
| Others | (37,253) | (1,096) | (31,369) | (988) |
| Taxable Income | 551,486 | 16,225 | 657,026 | 20,700 |
| Time; taxes rate; less: progressive difference | 25%-10 | - | 25%-10 | - |
| Subtotal | 137,861 | 4,056 | 164,247 | 5,175 |

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(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

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| | | | | |
|-----------------------------------------|------------------|----------------|------------------|----------------|
| Extra 10% income tax on | | | | |
| unappropriated retained earnings | 5,198 | 153 | 2,826 | 89 |
| Tax effects under integrated income tax | | | | |
| systems | (5,198) | (153) | (2,816) | (89) |
| Income tax credit | (31,042) | (913) | (1,830) | (58) |
| Subtotal | 106,819 | 3,143 | 162,427 | 5,117 |
| Tax on a separate basis | 1,021 | 30 | 1,301 | 41 |
| Adjustment of prior year's income tax | (216) | (6) | 3,338 | 105 |
| Deferred income tax expenses (benefits) | (6,714) | (198) | 11,900 | 375 |
| Total income tax expenses | <u>\$100,910</u> | <u>\$2,969</u> | <u>\$178,966</u> | <u>\$5,638</u> |

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

| | December 31, | | | |
|--------------------------------------|------------------|----------------|------------------|----------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| A. Total deferred tax assets | <u>\$51,673</u> | <u>\$1,520</u> | <u>\$39,773</u> | <u>\$1,253</u> |
| Total deferred tax liabilities | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> |
| B. Temporary differences: | | | | |
| Employee benefits | \$135 | \$4 | \$- | \$- |
| Bad debts exceeding legal limitation | 206,500 | 6,075 | 156,929 | 4,944 |
| Others | 57 | 2 | 2,163 | 68 |
| Total | <u>\$206,692</u> | <u>\$6,081</u> | <u>\$159,092</u> | <u>\$5,012</u> |
| C. Deferred tax assets-current | <u>\$51,659</u> | <u>\$1,520</u> | <u>\$39,773</u> | <u>\$1,253</u> |
| D. Deferred tax assets - noncurrent | <u>\$14</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> |

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

| Law of income tax credits | The credits items | The amount of income tax credits | The remaining balance | Expiry year |
|-------------------------------------|--------------------|-------------------------------------|--------------------------|-------------|
| Statute for Upgrading Industries | Education training | <u>\$1,830 (US\$58)</u> | <u>\$-</u> | 2007 |

- (4) The Company's income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2002.

- (5) Information related to imputation:

| | December 31, | | | |
|--------------------------------------|-------------------|----------------|-------------------|--------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Balance of imputation credit account | <u>\$176,703</u> | <u>\$5,199</u> | <u>\$9,468</u> | <u>\$298</u> |
| | December 31, 2003 | | December 31, 2004 | |
| | (Actual) | | (Estimate) | |
| Imputation credit account ratio | <u>29.73%</u> | | <u>1.48%</u> | |

- (6) Information relating of unappropriated earnings:

| Year | December 31, | | | |
|---------------|------------------|-----------------|------------------|-----------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Prior to 1997 | \$- | \$- | \$- | \$- |
| After 1998 | 592,660 | 17,436 | 640,617 | 20,183 |
| Total | <u>\$592,660</u> | <u>\$17,436</u> | <u>\$640,617</u> | <u>\$20,183</u> |

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16. Earnings per share

| | For the years ended December 31, | | | |
|-----------------------------------------------------------|----------------------------------|-------------|-------------|-------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Income before taxes (A) | \$693,570 | \$20,405 | \$819,583 | \$25,821 |
| Net income after taxes (B) | \$592,660 | \$17,436 | \$640,617 | \$20,183 |
| Outstanding number of shares at year-end | 231,700,560 | 231,700,560 | 231,700,560 | 231,700,560 |
| Adjusted weighted average outstanding number of shares(C) | 231,700,560 | 231,700,560 | 231,700,560 | 231,700,560 |
| Earnings per share before income taxes | | | | |
| (A)/(C) (dollars) | \$2.99 | \$0.09 | \$3.54 | \$0.11 |
| Earnings per share after income taxes | | | | |
| (B)/(C) (dollars) | \$2.56 | \$0.08 | \$2.76 | \$0.09 |

17. Related party transactions

(1) Related parties

| Name | Relationship |
|------------------------------------------------------|----------------|
| Cathay Financial Holding Co., Ltd. | Parent company |
| Cathay Life Insurance Co., Ltd. | Affiliate |
| Cathay United Bank | Affiliate |
| San-Ching Engineering Co., Ltd. | Affiliate |
| Seaward Leasing Ltd. | Affiliate |
| Cathay Real Estate Development Co., Ltd. | Affiliate |
| Cathay General Hospital | Affiliate |
| Cathay Securities Investment Trust Co., Ltd. | Affiliate |
| Symphox Information Co., Ltd. | Affiliate |
| Lin Yuan Building Management & Maintenance Co., Ltd. | Affiliate |
| Cathay Futures Corp (formerly Seaward Futures Corp.) | Affiliate |
| Lin Yuan Investment Co., Ltd. | Affiliate |
| Cathay Securities Corp. | Affiliate |
| Cathay Capital Management Inc. | Affiliate |
| Wan Pao Development Co., Ltd. | Affiliate |

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| | |
|-------------------------------------------|----------------|
| Cathay Securities Investment Co., Ltd. | Affiliate |
| Vista Technology Venture Capital Corp. | Affiliate |
| Culture and Charity Foundation of the CUB | Affiliate |
| Wu Ming-Yang | Senior manager |

(2) Transactions with related parties

A. Premiums income and premiums receivable

| Name | For the year ended December 31, 2003 | | | |
|---------------------------------|--------------------------------------|----------------|---------------------|--------------|
| | Direct written premiums | | Premiums receivable | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$174,748 | \$5,141 | \$2,242 | \$66 |
| Cathay United Bank | 55,719 | 1,639 | 16,297 | 480 |
| San-Ching Engineering Co., Ltd. | 606 | 18 | 3 | - |
| Cathay General Hospital | 5,702 | 168 | 522 | 15 |
| Others | 6,664 | 196 | 795 | 23 |
| Total | <u>\$243,439</u> | <u>\$7,162</u> | <u>\$19,859</u> | <u>\$584</u> |

| Name | For the year ended December 31, 2004 | | | |
|------------------------------------------|--------------------------------------|----------------|---------------------|--------------|
| | Direct written premiums | | Premiums receivable | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$177,836 | \$5,603 | \$21,910 | \$690 |
| Cathay United Bank | 115,075 | 3,626 | 3,619 | 114 |
| Cathay Real Estate Development Co., Ltd. | 1,147 | 36 | 13 | 1 |
| Cathay General Hospital | 5,248 | 165 | 291 | 9 |
| Seaward Leasing Ltd. | 2,601 | 82 | 60 | 2 |
| Others | 1,681 | 53 | 278 | 9 |
| Total | <u>\$303,588</u> | <u>\$9,565</u> | <u>\$26,171</u> | <u>\$825</u> |

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B. Insurance claims payment

| Name | For the years ended December 31, | | | |
|---------------------------------|----------------------------------|-------|--------------------------|---------|
| | 2003 | | 2004 | |
| | Insurance claims payment | | Insurance claims payment | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$17,559 | \$516 | \$15,767 | \$497 |
| Cathay United Bank | 9,783 | 288 | 104,924 | 3,306 |
| Total | \$27,342 | \$804 | \$120,691 | \$3,803 |

C. Rental expenses, guarantee deposits paid and prepaid rents

| Name | For the year ended December 31, 2003 | | | | | |
|---------------------------------|--------------------------------------|---------|-------------------------|-------|---------------|------|
| | Rental expenses | | Guarantee deposits paid | | Prepaid rents | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$52,912 | \$1,557 | \$13,078 | \$385 | \$2,219 | \$65 |

| Name | For the year ended December 31, 2004 | | | | | |
|---------------------------------|--------------------------------------|---------|-------------------------|-------|---------------|------|
| | Rental expenses | | Guarantee deposits paid | | Prepaid rents | |
| | NT\$ | US\$ | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$55,941 | \$1,762 | \$13,657 | \$430 | \$2,405 | \$76 |

D. Cash in banks

| Name | Type | For the year ended December 31, 2003 | | |
|--------------------|---------------|--------------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | NT\$ | | NT\$ |
| Cathay United Bank | Cash in banks | \$189,589 | 0.10%~0.50% | \$265 |
| | Time deposits | \$173,000 | 0.90%~1.85% | \$12,384 |

| Name | Type | For the year ended December 31, 2003 | | |
|--------------------|---------------|--------------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | US\$ | | US\$ |
| Cathay United Bank | Cash in banks | \$5,578 | 0.10%~0.50% | \$8 |
| | Time deposits | \$5,090 | 0.90%~1.85% | \$364 |

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| Name | Type | For the year ended December 31, 2004 | | |
|--------------------|---------------|--------------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | NT\$ | | NT\$ |
| Cathay United Bank | Cash in banks | \$277,670 | 0.10% | \$209 |
| | Time deposits | \$269,700 | 1.50% | \$3,144 |

| Name | Type | For the year ended December 31, 2004 | | |
|--------------------|---------------|--------------------------------------|---------------|-----------------|
| | | Ending balance | Interest rate | Interest income |
| | | US\$ | | US\$ |
| Cathay United Bank | Cash in banks | \$8748 | 0.10% | \$7 |
| | Time deposits | \$8,497 | 1.50% | \$99 |

E. Secured loans

| Name | For the year ended December 31, 2003 | | | |
|--------------|--------------------------------------|----------------|---------------|-----------------|
| | Maximum amount | Ending balance | Interest rate | Interest income |
| | NT\$ | NT\$ | | NT\$ |
| Wu Ming-Yang | \$3,189 | \$2,374 | 3.50% | \$92 |

| Name | For the year ended December 31, 2003 | | | |
|--------------|--------------------------------------|----------------|---------------|-----------------|
| | Maximum amount | Ending balance | Interest rate | Interest income |
| | US\$ | US\$ | | US\$ |
| Wu Ming-Yang | \$94 | \$70 | 3.50% | \$3 |

| Name | For the year ended December 31, 2004 | | | |
|--------------|--------------------------------------|----------------|---------------|-----------------|
| | Maximum amount | Ending balance | Interest rate | Interest income |
| | NT\$ | NT\$ | | NT\$ |
| Wu Ming-Yang | \$2,374 | \$1,651 | 2.60% | \$48 |

| Name | For the year ended December 31, 2004 | | | |
|--------------|--------------------------------------|----------------|---------------|-----------------|
| | Maximum amount | Ending balance | Interest rate | Interest income |
| | US\$ | US\$ | | US\$ |
| Wu Ming-Yang | \$75 | \$52 | 2.60% | \$2 |

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F. Handling fee paid

| Name | For the years ended December 31, | | | |
|---------------------------------|----------------------------------|-------|-------------------|-------|
| | 2003 | | 2004 | |
| | Handling fee paid | | Handling fee paid | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$5,603 | \$165 | \$4,838 | \$152 |

G. Marketing expense and accrued expense

| Name | For the year ended December 31, 2003 | | | |
|---------------------------------|--------------------------------------|---------|-----------------|-------|
| | Marketing expense | | Accrued expense | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$304,237 | \$8,951 | \$15,873 | \$467 |

| Name | For the year ended December 31, 2004 | | | |
|---------------------------------|--------------------------------------|----------|-----------------|---------|
| | Marketing expense | | Accrued expense | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Life Insurance Co., Ltd. | \$515,399 | \$16,238 | \$62,522 | \$1,970 |

H. Short-term investments-beneficiary certificates

| Name | Transaction type | December 31, | | | |
|-------------------------------------------------|------------------|--------------|----------|-----------|----------|
| | | 2003 | | 2004 | |
| | | NT\$ | US\$ | NT\$ | US\$ |
| Cathay Securities Investment Trust Co., Ltd. | Book value | \$339,410 | \$9,986 | \$351,590 | \$11,077 |
| | Fair value | \$351,953 | \$10,355 | \$371,564 | \$11,706 |

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18. Pledged assets

| Item | December 31, | | | |
|--------------------------------|--------------|----------|-----------|----------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Securities serving as deposits | | | | |
| paid-government bonds | \$360,284 | \$10,600 | \$359,937 | \$11,340 |

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

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

19. Other important matters and contingent liabilities

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in both years 2001 and 2002 tax returns, amounting to NT\$2,474 (US\$78) and NT\$1,658 (US\$52), respectively, were rejected by the Tax Authority as being able to offset income tax payable. The Company disputed the above tax assessments and had filed for reinvestigation.

B. By the date December 31, 2004, the Company had signed some significant rental contracts, and base, which we estimate that the rents for the following 5 years are, as follows:

| Period | Amount (NT\$) | Amount (US\$) |
|--------------------------------------|------------------|------------------|
| January 01, 2005 ~ December 31, 2005 | \$56,607 | \$1,784 |
| January 01, 2006 ~ December 31, 2006 | 58,144 | 1,832 |
| January 01, 2007 ~ December 31, 2007 | 59,843 | 1,885 |
| January 01, 2008 ~ December 31, 2008 | 61,593 | 1,941 |
| January 01, 2009 ~ December 31, 2009 | 63,396 | 1,997 |
| Total | \$299,583 | \$9,439 |

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20. Serious damages

None.

21. Subsequent events

None.

22. Other important events

(1) Pension related information

A. Pension funded status:

| | For the years ended December 31, | | | |
|------------------------------------------------------------------------------|----------------------------------|---------|------------|-----------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| (1) Vested benefit obligation | \$(32,199) | \$(948) | \$(38,680) | \$(1,219) |
| (2) Non-vested benefit obligation | (106,402) | (3,130) | (131,823) | (4,153) |
| (3) Accumulated benefit obligation | (138,601) | (4,078) | (170,503) | (5,372) |
| (4) Additional benefits based on future salaries | (72,036) | (2,119) | (87,443) | (2,755) |
| (5) Projected benefit obligation | (210,637) | (6,197) | (257,946) | (8,127) |
| (6) Fair value of plan assets | 132,542 | 3,899 | 164,201 | 5,173 |
| (7) Vested benefit | 80,957 | 2,382 | 142,586 | 4,492 |
| (8) Funded status=(5)+(6) | (78,095) | (2,298) | (93,745) | (2,954) |
| (9) Unrecognized transitional net benefit obligation (net assets) | 8,703 | 256 | 8,123 | 256 |
| (10) Unrecognized prior service cost | - | - | - | - |
| (11) Unrecognized pension gain and loss | 69,392 | 2,042 | 85,622 | 2,698 |
| (12) Additional accrued pension liability | (6,059) | (178) | (6,302) | (199) |
| (13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12) | \$(6,059) | \$(178) | \$(6,302) | \$(199) |

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B. Net periodic pension cost:

| | For the years ended December 31, | | | |
|--------------------------------------------------------------|----------------------------------|--------------|-----------------|----------------|
| | 2003 | | 2004 | |
| | NT\$ | US\$ | NT\$ | US\$ |
| (1) Service cost | \$26,405 | \$777 | \$30,015 | \$946 |
| (2) Interest cost | 6,544 | 193 | 7,373 | 232 |
| (3) Projected return on plan assets | (4,805) | (141) | (5,182) | (163) |
| (4) Amortization of unrealized transit on obligation (asset) | 580 | 17 | 580 | 18 |
| (5) Amortization of prior service cost | - | - | - | - |
| (6) Amortization of gain or loss | 1,580 | 46 | 2,101 | 66 |
| (7) Net periodic pension cost | <u>\$30,304</u> | <u>\$892</u> | <u>\$34,887</u> | <u>\$1,099</u> |

C. Actuarial assumptions

| | For the years ended December 31, | |
|--------------------------------------------|----------------------------------|-------------|
| | 2003 | 2004 |
| (1) Discount rate | 3.70% | 3.70% |
| (2) Rate of increase in future salaries | 1.08%~8.69% | 1.08%~8.69% |
| (3) Expected return on pension plan assets | 3.70% | 3.70% |

(2) Financial instruments related information

A Derivative financial instruments related information :

a. Purpose

As of December 31, 2004, the Company enters into forward foreign exchange contracts and futures contracts. The former were to hedge against risks of foreign currency and net assets exchange rate fluctuations while the latter were mainly to hedge against the volatile risks of stock quotes decline. For the purpose of hedging the maximum market risks, the Company adopted those financial derivative instruments highly relevant to the hedged items and assessed its strategies on a regular basis.

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b. Credit and market risks

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

On a discretionary basis, Fuh Hwa Securities Investment Trust conducts transactions with Taiwan Futures Exchange for the Company. The credit risks of those transactions are not substantial to the point of causing loss; on the other hand, the market risks of stock quotes volatility which might cause loss is offset by the gains/losses from hedging instruments of electronic sector stocks.

c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward and futures contracts, no demand for substantial cash flow is expected in connection with such transactions.

d. Forward foreign exchange contracts

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

| Item | December 31, 2003 | | December 31, 2004 | |
|----------------------------|--------------------|-----------------|--------------------|-----------------|
| | NT\$ | US\$ | NT\$ | US\$ |
| Forward exchange contracts | | | | |
| receivable | \$1,831,560 | \$53,885 | \$2,317,142 | \$73,004 |
| Discount on forward | | | | |
| exchange contracts | 10,671 | 314 | 12,392 | 390 |
| Payables on forward | | | | |
| exchange purchased | <u>(1,834,812)</u> | <u>(53,981)</u> | <u>(2,266,107)</u> | <u>(71,396)</u> |
| Net-other receivable | | | | |
| (Payable) | <u>\$7,419</u> | <u>\$218</u> | <u>\$63,427</u> | <u>\$1,998</u> |

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- (b) As of December 31, 2003 and 2004, the Company has forward exchange contracts of approximately US\$54,000 and US\$71,000, respectively, in notional value. The forward foreign exchange contracts as of December 31, 2003 were due between July 14, 2004 and December 29, 2004. In addition, the forward contracts as of December 31, 2004 were due between February 25, 2005 and October 19, 2005.

| | | December 31, 2003 | | | |
|---------|-----------------|-------------------|----------|-------------|----------|
| | | Fair value | | Due value | |
| Item | Contract amount | NT\$ | US\$ | NT\$ | US\$ |
| Forward | US\$54,000 | \$1,834,812 | \$53,981 | \$1,831,560 | \$53,885 |

| | | December 31, 2004 | | | |
|---------|-----------------|-------------------|----------|-------------|----------|
| | | Fair value | | Due value | |
| Item | Contract amount | NT\$ | US\$ | NT\$ | US\$ |
| Forward | US\$71,000 | \$2,266,107 | \$71,396 | \$2,317,142 | \$73,004 |

The above-mentioned forward foreign exchange contracts hedge against risks associated with net assets exchange rate fluctuations for the following long-term investments in bonds.

| Net assets | December 31, | |
|--------------------------------|--------------|------------|
| | 2003 | 2004 |
| Long-term investments in bonds | US\$54,000 | US\$71,000 |

Futures Contract:

- a. The Company recognizes NT\$80 (US\$3) offsets before December 31, 2004, as futures trading loss (NT\$75 (US\$2) unrealized future contract loss included).

b.

| | | December 31, 2004 | | | | | |
|-----------------------|-------------------------|-------------------|----------|-----------------|------|------------|------|
| | | Open Interest | | Contract amount | | Fair value | |
| Type | | Buy/Sell | Position | NT\$ | US\$ | NT\$ | US\$ |
| Taiwan Stock Exchange | | | | | | | |
| | Electronic Sector Index | Sell | 2 | \$1,772 | \$56 | \$1,847 | \$58 |

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The Futures contract mentioned above is to hedge the volatility.

| Net Asset | December 31, 2004 | | | |
|------------------------|-------------------|-------|------------|-------|
| | Carrying amount | | Fair Value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Short-term investments | \$14,081 | \$444 | \$13,494 | \$425 |

c. 2003: None.

If financial instruments have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on financial information or other information on the balance sheet date.

B. Non-derivative financial instruments related information :

| Item | December 31, 2003 | | | |
|-------------------------------------------|-------------------|-------------|-----------------|------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets | | | | |
| Cash and cash equivalents | \$3,589,751 | \$3,589,751 | \$105,612 | \$105,612 |
| Short-term investments | 2,065,103 | 2,162,167 | 60,756 | 63,612 |
| Receivables | 739,445 | 739,445 | 21,755 | 21,755 |
| Claims recoverable from reinsurers | 209,135 | 209,135 | 6,153 | 6,153 |
| Due from reinsurers and ceding companies | 91,880 | 91,880 | 2,703 | 2,703 |
| Secured loans | 761,767 | 761,767 | 22,411 | 22,411 |
| Long-term investment in stocks | 434,272 | 434,272 | 12,777 | 12,777 |
| Guarantee deposits paid | 16,821 | 16,821 | 495 | 495 |
| Securities serving as deposits paid-bonds | 360,284 | 360,284 | 10,600 | 10,600 |
| Liabilities | | | | |
| Claims outstanding | 4,736 | 4,736 | 139 | 139 |
| Due to reinsurers and ceding companies | 73,494 | 73,494 | 2,162 | 2,162 |
| Reserve for operations and liabilities | 6,449,091 | 6,449,091 | 189,735 | 189,735 |

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| Item | December 31, 2004 | | | |
|-------------------------------------------|-------------------|-------------|-----------------|------------|
| | NT\$ | | US\$ | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets | | | | |
| Cash and cash equivalents | \$3,783,245 | \$3,783,245 | \$119,195 | \$119,195 |
| Short-term investments | 2,434,295 | 2,461,424 | 76,695 | 77,550 |
| Receivables | 1,099,503 | 1,099,503 | 34,641 | 34,641 |
| Claims recoverable from reinsurers | 252,969 | 252,969 | 7,970 | 7,970 |
| Due from reinsurers and ceding companies | 18,266 | 18,266 | 575 | 575 |
| Secured loans | 788,350 | 788,350 | 24,838 | 24,838 |
| Long-term investment in stocks | 302,235 | 322,430 | 9,522 | 10,158 |
| Guarantee deposits paid | 16,470 | 16,470 | 519 | 519 |
| Securities serving as deposits paid-bonds | 359,937 | 359,937 | 11,340 | 11,340 |
| Liabilities | | | | |
| Claims outstanding | 632 | 632 | 20 | 20 |
| Due to reinsurers and ceding companies | 237,938 | 237,938 | 7,497 | 7,497 |
| Reserve for operations and liabilities | 7,235,831 | 7,235,831 | 227,972 | 227,972 |

Methods and assumptions for estimating the fair value of nonderivative financial instruments are as follows:

- ① Short-term financial instruments estimate their fair values are stated at carrying amount on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents, receivables, claims recoverable from reinsurers, due from/to reinsurers and ceding companies, secured loans, claims outstanding and reserve for operations and liabilities.
- ② The amounts are expected to receive guarantee deposits paid and securities serving as deposits paid-bonds are closed to the fair value; accordingly their fair value is equal to their carrying amount.

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As of December 31, 2003 and 2004

③ If short-term investments and long-term investments in stocks have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on other financial information or their carrying amount on the balance sheet date.

(3) Discretionary account management

| Item | December 31, 2003 | | | |
|-----------------------------------|-------------------|----------------|-----------------|----------------|
| | Book value | | Fair value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$19,616 | \$577 | \$18,829 | \$554 |
| Cash in banks | 32,124 | 945 | 32,124 | 945 |
| Net other assets less liabilities | (64) | (2) | (64) | (2) |
| Total | <u>\$51,676</u> | <u>\$1,520</u> | <u>\$50,889</u> | <u>\$1,497</u> |

| Item | December 31, 2004 | | | |
|-----------------------------------|-------------------|----------------|------------------|----------------|
| | Book value | | Fair value | |
| | NT\$ | US\$ | NT\$ | US\$ |
| Listed stocks | \$85,713 | \$2,700 | \$85,265 | \$2,686 |
| Short-term notes | 28,034 | 883 | 28,034 | 883 |
| Cash in banks | 34,238 | 1,079 | 34,238 | 1,079 |
| Net other assets less liabilities | (103) | (3) | (103) | (3) |
| Total | <u>\$147,882</u> | <u>\$4,659</u> | <u>\$147,434</u> | <u>\$4,645</u> |

As of December 31, 2003 and 2004, the Company had discretionary account management contracts in the amount of NT\$50,000(US\$1,575) and NT\$150,000(US\$4,726), respectively.

(4) Material Contract: None

(5) Presentation of Financial Statements:

Certain accounts in financial statements for the year ended December 31, 2003 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2004.

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As of December 31, 2003 and 2004

23. Information for investment in Mainland China

None.

24. Segment information

None.