

**Cathay Life Insurance Co., Ltd.**  
**Unaudited financial statements**  
**Together with**  
**Review report of independent auditors**  
**As of March 31, 2004 and 2005**

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

**Address: 296, Jen Ai Road, Sec.4, Taipei, Taiwan, ROC.**

**Telephone: 886-2-2755-1399**

## INDEX TO UNAUDITED FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' review report	3
Unaudited balance sheets as of March 31, 2004 and 2005	4-5
Unaudited statements of income for the three months ended March 31, 2004 and 2005	6
Unaudited statements of changes in stockholders' equity for the three months ended March 31, 2004 and 2005	7
Unaudited statements of cash flows for the three months ended March 31, 2004 and 2005	8-9
Notes to unaudited financial statements	10-57

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

### Independent auditors' review report

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

We have reviewed the accompanying balance sheet of Cathay Life Insurance Co., Ltd. as of March 31, 2005 and the related statements of income, changes in stockholders' equity, and cash flows for the three-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 three-month period ended March 31, 2004 were reviewed by other auditors whose report, dated April 14, 2004, expressed a qualified review report due to certain unreviewed equity investees.

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.

Base on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three-month period ended March 31, 2005 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  
April 15, 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 jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets**  
**As of March 31, 2004 and 2005**  
**(Expressed in thousands of dollars)**

Assets	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4	\$137,338,227	\$4,161,764	\$193,434,874	\$6,148,597
Short-term investments	2,5	402,450,910	12,195,482	320,816,731	10,197,608
Notes receivable		10,251,081	310,639	8,686,030	276,098
Notes receivable-related parties	17	2	-	-	-
Accounts receivable-related parties	17	1,177,049	35,668	103,607	3,293
Interest receivable		10,526,642	318,989	8,811,585	280,089
Other accounts receivable		14,961,251	453,372	10,980,023	349,015
Other financial assets-current		-	-	10,000,000	317,864
Prepayments		91,986	2,787	146,300	4,650
Subtotal		<u>576,797,148</u>	<u>17,478,701</u>	<u>552,979,150</u>	<u>17,577,214</u>
<b>Exchange bills negotiated, discounted and loans</b>					
Policy loans	2,6	182,466,369	5,529,284	167,411,734	5,321,416
Short-term secured loans		66,075	2,002	87,785	2,790
Medium-term secured loans		9,462,051	286,729	10,813,333	343,717
Long-term secured loans		279,264,231	8,462,552	268,244,991	8,526,541
Subtotal		<u>471,258,726</u>	<u>14,280,567</u>	<u>446,557,843</u>	<u>14,194,464</u>
<b>Funds, long-term investments, and receivable</b>					
Long-term investments in stocks	2,7				
Under the equity method		2,139,411	64,831	3,598,545	114,385
Under the cost method		44,042,948	1,334,635	20,595,331	654,651
Allowance for valuation loss on long-term investments in stocks		(19,419)	(589)	(30,406)	(966)
Long-term investments in bonds	2,8	261,448,267	7,922,675	468,911,232	14,904,998
Investments in real estate	2,9	100,761,068	3,053,366	101,447,675	3,224,656
Less: Accumulated impairment - long-term investment	2,9	-	-	(211,630)	(6,727)
Subtotal		<u>408,372,275</u>	<u>12,374,918</u>	<u>594,310,747</u>	<u>18,890,997</u>
<b>Property and equipment</b>					
Land	2,10	5,225,247	158,341	5,056,331	160,723
Buildings and construction		11,442,532	346,743	11,281,285	358,591
Communication and transportation equipment		124,820	3,783	79,338	2,522
Other equipment		4,263,186	129,187	4,516,999	143,579
Subtotal		<u>21,055,785</u>	<u>638,054</u>	<u>20,933,953</u>	<u>665,415</u>
Less: Accumulated depreciation		(5,643,598)	(171,018)	(6,104,683)	(194,046)
Less: Accumulated impairment-property and equipment		-	-	(85,519)	(2,718)
Construction in progress and prepayment for equipment		111,413	3,376	46,770	1,486
Subtotal		<u>15,523,600</u>	<u>470,412</u>	<u>14,790,521</u>	<u>470,137</u>
<b>Intangible assets</b>					
Computer software cost	2	12,098	367	89,200	2,835
Subtotal		<u>12,098</u>	<u>367</u>	<u>89,200</u>	<u>2,835</u>
<b>Other assets</b>					
Non-operating assets	2	2,396,786	72,630	896,457	28,495
Guarantee deposits paid	2,18	1,546,698	46,869	2,913,511	92,610
Overdue receivables	2,11	1,297,752	39,326	774,948	24,633
Temporary payments and suspense accounts		412,815	12,509	728,757	23,165
Securities serving as deposits paid-bonds	2,8,18	7,927,253	240,220	8,089,725	257,143
Other assets-other	19	-	-	39,564	1,258
Deferred income tax assets	2,15	277,518	8,410	448,220	14,247
Investment-linked products assets	2	19,432,998	588,879	43,676,385	1,388,315
Subtotal		<u>33,291,820</u>	<u>1,008,843</u>	<u>57,567,567</u>	<u>1,829,866</u>
<b>Total assets</b>		<u>\$1,505,255,667</u>	<u>\$45,613,808</u>	<u>\$1,666,295,028</u>	<u>\$52,965,513</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets - (continued)**  
**As of March 31, 2004 and 2005**  
**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Notes payable		\$1,575	\$48	\$1,427	\$45
Accounts payable-related parties	17	81,576	2,472	102,591	3,261
Collections for others		133,917	4,058	149,884	4,764
Accrued expenses		1,370,674	41,536	1,632,985	51,907
Taxes payable		568,393	17,224	585,538	18,612
Commissions payable		725,737	21,992	1,148,208	36,498
Dividends payable		125,445	3,801	93,212	2,963
Life insurance proceeds payable		967	29	2,513	80
Other payable		311,321	9,434	2,181,505	69,342
Deferred income tax liabilities- current	2,15	1,088,553	32,987	164,897	5,242
Accounts collected in advance		188,276	5,705	218,376	6,941
Subtotal		4,596,434	139,286	6,281,136	199,655
Long-term liabilities					
Reserve for land revaluation increment tax		3,726	113	3,726	118
Accrued pension liability	2,22	907,995	27,515	1,495,732	47,544
Subtotal		911,721	27,628	1,499,458	47,662
Other liabilities					
Reserve for operations and liabilities	2				
Unearned premium reserve		8,910,456	270,014	9,180,780	291,824
Reserve for life insurance		1,356,970,259	41,120,311	1,493,265,420	47,465,525
Special reserve		16,024,312	485,585	16,467,712	523,449
Claims reserve		341,114	10,336	335,652	10,669
Miscellaneous liabilities					
Guarantee deposits received		1,310,959	39,726	1,633,451	51,922
Temporary receipts and suspense accounts		760,546	23,047	2,010,952	63,921
Investment-linked products liabilities	2	19,432,998	588,879	43,676,385	1,388,315
Subtotal		1,403,750,644	42,537,898	1,566,570,352	49,795,625
Total liabilities		1,409,258,799	42,704,812	1,574,350,946	50,042,942
Stockholders' equity					
Capital stock					
Common stock	12	50,686,158	1,535,944	50,686,158	1,611,130
Capital surplus		5,200	158	13,153	418
Retained earnings	13,15				
Legal reserve		14,552,065	440,972	16,330,948	519,102
Special reserve		6,249,135	189,368	8,016,080	254,802
Unappropriated retained earnings		24,521,028	743,061	17,039,811	541,634
Equity adjustment					
Unrealized valuation losses on long-term equity investment	2,7	(19,419)	(589)	(30,406)	(966)
Cumulative conversion adjustments	2,13	2,701	82	(111,662)	(3,549)
Total stockholders' equity		95,996,868	2,908,996	91,944,082	2,922,571
Total liabilities and stockholders' equity		\$1,505,255,667	\$45,613,808	\$1,666,295,028	\$52,965,513

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 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 three months ended March 31, 2004 and 2005**  
**(Expressed in thousands of dollars, except earnings per share)**

Item	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$59,789,426	\$1,811,801	\$60,880,626	\$1,935,176
Reinsurance commission earned		11,460	\$347	10,350	329
Claims recovered from reinsures		87,343	2,647	38,609	1,227
Recovered premiums reserve		23,835,117	722,276	22,915,247	728,393
Recovered special reserve		-	-	426,257	13,549
Recovered claims reserve		-	-	12,382	394
Handling fees earned		100,529	3,046	359,438	11,425
Interest income		13,037,640	395,080	12,877,443	409,327
Gain on disposal of investments		10,123,634	306,777	3,487,652	110,860
Gain on long-term equity investments		7,238	219	23,407	744
Gain on investments-real estate		1,084,872	32,875	1,340,160	42,599
Investment-linked products revenues	2	5,852,289	177,343	9,219,656	293,060
Subtotal		113,929,548	3,452,411	111,591,227	3,547,083
Operating costs	2				
Insurance expenses		(147,657)	(4,475)	(157,654)	(5,011)
Brokerage expenses		(4,724,612)	(143,170)	(6,043,665)	(192,106)
Commissions expenses		(110,272)	(3,342)	(128,669)	(4,090)
Insurance claims payment		(29,694,893)	(899,845)	(30,037,435)	(954,782)
Provision for premiums reserve		(60,186,617)	(1,823,837)	(59,172,576)	(1,880,883)
Provision for special reserve		(2,644,322)	(80,131)	(161,850)	(5,144)
Contribution to the stabilization funds		(59,635)	(1,807)	(60,871)	(1,935)
Provision for claims reserve		(11,263)	(341)	-	-
Handling fees paid		(124,089)	(3,760)	(152,208)	(4,838)
Interest expenses		(6,016)	(182)	(17,579)	(559)
Provisions expenses		-	-	(7,740)	(246)
Other operating cost		(843,359)	(25,556)	(1,539,494)	(48,935)
Investment-linked products expenses	2	(5,852,289)	(177,343)	(9,219,656)	(293,060)
Subtotal		(104,405,024)	(3,163,789)	(106,699,397)	(3,391,589)
Operating gross profit		9,524,524	288,622	4,891,830	155,494
Operating expenses	2				
Marketing expenses		(662,022)	(20,062)	(440,632)	(14,006)
Administrative and general expenses		(2,405,261)	(72,887)	(2,427,071)	(77,148)
Operating income		6,457,241	195,673	2,024,127	64,340
Non-operating revenues & gains					
Gains on disposal of property and equipment		1,061	32	5,586	178
Miscellaneous income		432,583	13,109	345,335	10,977
Subtotal		433,644	13,141	350,921	11,155
Non-operating expenses & losses					
Losses on foreign exchange		(166,908)	(5,058)	(1,118,721)	(35,560)
Losses on disposal of property and equipment		(471)	(14)	(1,158)	(37)
Impairment loss		-	-	(297,149)	(9,446)
Miscellaneous expenses		(1,030)	(31)	(1,075)	(34)
Subtotal		(168,409)	(5,103)	(1,418,103)	(45,077)
Income from continuing operations before income taxes		6,722,476	203,711	956,945	30,418
Income taxes benefit	2,15	19,044	577	473,378	15,047
Net income		\$6,741,520	\$204,288	\$1,430,323	\$45,465
Earnings per share (In dollars)	16				
Income before income tax		\$1.34	\$0.04	\$0.19	\$0.01
Net income		\$1.34	\$0.04	\$0.28	\$0.01

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 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 statements of changes in stockholders' equity**  
**(Expressed in thousands of dollars)**  
**For the three months ended March 31, 2004 and 2005**

Summary	Retained earnings										Equity adjustments							
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investment		Cumulative conversion adjustments		Treasury stock		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2004	\$50,686,158	\$1,535,944	\$5,200	\$158	\$14,552,065	\$440,972	\$6,249,135	\$189,368	\$17,788,827	\$539,055	\$(19,419)	\$(589)	\$4,341	\$132	\$(3,032,966)	\$(91,908)	\$86,233,341	\$2,613,132
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(1,640)	(50)	-	-	(1,640)	(50)
Disposal of treasury stock	-	-	-	-	-	-	-	-	(9,319)	(282)	-	-	-	-	3,032,966	91,908	3,023,647	91,626
Net income after tax for the three months ended March 31, 2004	-	-	-	-	-	-	-	-	6,741,520	204,288	-	-	-	-	-	-	6,741,520	204,288
Balance on March 31, 2004	<u>\$50,686,158</u>	<u>\$1,535,944</u>	<u>\$5,200</u>	<u>\$158</u>	<u>\$14,552,065</u>	<u>\$440,972</u>	<u>\$6,249,135</u>	<u>\$189,368</u>	<u>\$24,521,028</u>	<u>\$743,061</u>	<u>\$(19,419)</u>	<u>\$(589)</u>	<u>\$2,701</u>	<u>\$82</u>	<u>\$-</u>	<u>\$-</u>	<u>\$95,996,868</u>	<u>\$2,908,996</u>
Balance on January 1, 2005	\$50,686,158	\$1,611,130	\$12,591	\$400	\$16,330,948	\$519,102	\$8,016,080	\$254,802	\$15,609,488	\$496,169	\$-	\$-	\$(83,445)	\$(2,652)	\$-	\$-	\$90,571,820	\$2,878,951
Capital surplus-long-term equity investment	-	-	562	18	-	-	-	-	-	-	-	-	-	-	-	-	562	18
Unrealized valuation losses on long-term equity investment	-	-	-	-	-	-	-	-	-	-	(30,406)	(966)	-	-	-	-	(30,406)	(966)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(28,217)	(897)	-	-	(28,217)	(897)
Net income after tax for the three months ended March 31, 2005	-	-	-	-	-	-	-	-	1,430,323	45,465	-	-	-	-	-	-	1,430,323	45,465
Balance on March 31, 2005	<u>\$50,686,158</u>	<u>\$1,611,130</u>	<u>\$13,153</u>	<u>\$418</u>	<u>\$16,330,948</u>	<u>\$519,102</u>	<u>\$8,016,080</u>	<u>\$254,802</u>	<u>\$17,039,811</u>	<u>\$541,634</u>	<u>\$(30,406)</u>	<u>\$(966)</u>	<u>\$(111,662)</u>	<u>\$(3,549)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$91,944,082</u>	<u>\$2,922,571</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of cash flows**  
**(Expressed in thousands of dollars)**  
**For the three months ended March 31, 2004 and 2005**

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the year	\$6,741,520	\$204,288	\$1,430,323	\$45,465
Adjustments:				
Recovered bad debt	(15,312)	(464)	(102,419)	(3,255)
Depreciation	561,640	17,019	538,710	17,124
Amortization	-	-	5,456	173
Impairment loss	-	-	297,149	9,445
Provision or recovered for each reserve	39,007,085	1,182,033	35,980,540	1,143,692
Gain on disposal of property and equipment	(559)	(17)	(4,428)	(141)
Gain on disposal of investments	(519)	(16)	-	-
Loss(gain) on disposal of real estate	2,639	80	(2,719)	(86)
Amortization of long-term investments in bonds	15,125	458	53,198	1,691
Unrealized gain on long-term investments	(7,238)	(219)	(23,407)	(744)
Effects of exchange rate changes	-	-	4,015	128
Increase in short-term investments	(7,836,684)	(237,475)	(58,879,682)	(1,871,573)
Decrease in notes receivable	5,005,180	151,672	3,674,629	116,803
Increase in notes and accounts receivable-related parties	(1,129,350)	(34,223)	(24,034)	(764)
Increase in prepayments	(61,564)	(1,866)	(122,426)	(3,891)
(Increase)decrease in other current assets	(7,793,441)	(236,164)	1,211,910	38,522
(Increase)decrease in temporary payments and suspense accounts	(168,691)	(5,112)	332,560	10,571
Decrease in other assets-other	-	-	3,394	108
Increase in deferred income tax assets-noncurrent	(17,794)	(539)	(91,293)	(2,902)
Decrease in notes payable	(28)	-	(521)	(17)
(Decrease) increase in accounts payable-related parties	(128,165)	(3,884)	17,290	550
Decrease in accrued expenses	(2,027,841)	(61,450)	(1,584,472)	(50,365)
Decrease in other payable	(1,156,931)	(35,059)	(130,718)	(4,155)
Decrease (increase) in accounts collected in advance	(346,801)	(10,509)	62,574	1,989
(Decrease) increase in other current liabilities	(8,780)	(266)	3,180	101
Increase in accrued pension liability	175,504	5,318	68,022	2,162
Increase(decrease) in temporary receipts and suspense accounts	158,089	4,791	(199,505)	(6,342)
Decrease in deferred income tax liabilities-current	(36,691)	(1,112)	(277,904)	(8,834)
Net cash provided(used) by operating activities	30,930,393	937,284	(17,760,578)	(564,545)
Cash flows from investing activities				
Decrease in policy loans	1,255,029	38,031	1,918,334	60,977
Decrease in secured loans	5,920,608	179,412	2,374,003	75,461
Acquisition of long-term investments	(8,361,119)	(253,367)	(11,546,609)	(367,025)
Proceeds from disposal of long-term investments	350,526	10,622	942,192	29,949
Disposal of investments in real estate	1,489,104	45,124	4,290	136
Acquisition of investments in real estate	(8,327,440)	(252,346)	(422,096)	(13,417)
Disposal of property and equipment	7,629	231	72,603	2,308
Acquisition of property and equipment	(67,648)	(2,050)	(204,390)	(6,497)
Acquisition of intangible assets	(12,098)	(366)	(25,735)	(818)
Decrease in non-operating assets	605,260	18,341	220,210	7,000
Increase in guarantee deposits paid	(369,871)	(11,208)	(1,691,748)	(53,775)
Decrease in overdue receivables	78,123	2,367	162,788	5,175
Net cash used in investing activities	(7,431,897)	(225,209)	(8,196,158)	(260,526)

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 to US\$1.00)

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



**Cathay life insurance Co., Ltd.**  
**Unaudited statements of cash flows-(continued)**  
**(Expressed in thousands of dollars)**  
**For the three months ended March 31, 2004 and 2005**

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Decrease in guarantee deposits received	(16,426)	(498)	(13,980)	(444)
Disposal of treasury stock	3,023,647	91,626	-	-
Net cash provided(used) in financing activities	3,007,221	91,128	(13,980)	(444)
Effects of exchange rate changes	-	-	(4,015)	(128)
Increase(decrease) in cash and cash equivalents	26,505,717	803,203	(25,974,731)	(825,643)
Cash and cash equivalents at the beginning of year	110,832,510	3,358,561	219,409,605	6,974,240
Cash and cash equivalents at the end of year	<u>\$137,338,227</u>	<u>\$4,161,764</u>	<u>\$193,434,874</u>	<u>\$6,148,597</u>
Supplemental disclosure of cash flows information				
Interest paid during the year	\$2,851	\$86	\$12,064	\$383
Interest paid (excluding capitalized interest)	\$2,851	\$86	\$12,064	\$383
Income tax paid	<u>\$116,656</u>	<u>\$3,535</u>	<u>\$255,719</u>	<u>\$8,128</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2004 and 2005 were NT\$33.00 and NT\$31.46 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 March 31, 2004 and 2005**

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 Personal Insurance Industries.” 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. 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 March 31, 2004 and 2005, the total number of employees was 28,332 and 26,370, 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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(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. 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 specific identification method.

Overseas investment trust funds are investments in foreign securities made through financial institutions with pre-determined purposes. The trust funds are recorded at the amount originally remitted and stated at the lower of cost or market value at each balance date. Realized interest, dividends and disposal gain which are remitted back are recognized at the amount received in the current period. Realized gain or loss which are not remitted back 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 the weighted-average method.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(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.

(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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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

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

**(6) Investments in real estate**

Investments in real estate are stated at cost when acquired.

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

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

Depreciation is calculated using the straight-line method in accordance with 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 capital increase.

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

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Upon the sale or disposal of properties and equipment, the relating cost, accumulated depreciation and accumulated impairment 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.

(8) Intangible assets

Intangible assets are computer software cost stated at cost and amortized on a straight-line basis over 3 years.

(9) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund“ and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From 1993 to March 31, 2005, an aggregate of NT\$2,347,781 (US\$74,627) was appropriated to this fund.

(10) Impairment of assets

Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- (b) if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

Impairment loss (reversal) is classified as non-operating losses/(income).

(11) 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 the form of a bond with the Central Bank of China (the “Central Bank”) as the “Guaranteed Depository Insurance”.

(12) 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.

In addition, according to the MOF regulation which became 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\$254,802) from the “Special Reserve for the Loss Movement” as of March 31, 2005.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(13) Insurance premium income and expenses

In accordance with “The General Accounting Systems for Insurance Companies” published by the Finance Ministry of the ROC, the Company records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(14) Pension plan

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

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company follows the ROC Statement of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed 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.

(15) 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.



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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

**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.

**(16) 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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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.

(17) 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.

(18) 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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

**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.

**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. When early settled, the cost of options calculated using the first-in first-out method. Options are measured at fair market value at each balance sheet date. Any gain or loss arising from hedging risks associated with the existing asset or liability is recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

F. Futures

Only memo entries are made on the contract date. Any gain or loss arising from hedging risks associated with the existing asset or liability is recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

(19) 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".

(20) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the March 31, 2004 and 2005 NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.00 to US\$1.00 and NT\$31.46 to US\$1.00 effective at March 31, 2004 and 2005, 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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

3. Changes in accounting and its effects

The Company adopted the ROC Statement of Financial Accounting Standards No. 35, “Accounting for Asset Impairment” (“SFAS No.35”) to account for the impairment of its assets for its financial statements ended on and after March 31, 2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the Company’s investments in real estate and property and equipment by NT\$211,630 (US\$6,727) and NT\$85,519 (US\$2,718) as of March 31, 2005, respectively, and decreased the Company’s net income by NT\$297,149 (US\$9,446) for the three months ended March 31, 2005. The Company considers such an effect was insignificant.

In the first quarter of 2005, the Company adopted the amended ROC’s Statement of Financial Accounting Standards No. 5, “Long-term Investment in Equity securities” (“SFAS No. 5 (r3)”). Under the SFAS No. 5(r3), a deferred equity pick-up for being unable to obtain the financial statements of equity investees is no longer allowed. No retrospective adjustments are needed. Such a change in accounting principles decreased the Company’s long-term investment account by NT\$36,467 (US\$1,159) as of March 31, 2005 and net income by NT\$1,401 (US\$45) for the three months ended March 31, 2005, respectively. Such an effect is not considered significant.

4. Cash and cash equivalents

	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$385,705	\$11,688	\$390,540	\$12,414
Cash in banks	3,296,269	99,887	3,686,374	117,176
Time deposits	62,145,581	1,883,199	133,103,398	4,230,877
Cash equivalents	71,510,672	2,166,990	56,254,562	1,788,130
Total	<u>\$137,338,227</u>	<u>\$4,161,764</u>	<u>\$193,434,874</u>	<u>\$6,148,597</u>

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

5. Short-term investments

	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Common stock and beneficiary certificates	\$130,301,287	\$3,948,524	\$132,813,221	\$4,221,654
Overseas investments	173,309,314	5,251,797	109,565,829	3,482,703
Designated purpose trust fund	51,697,757	1,566,599	24,680,326	784,499
Corporate bonds	7,714,171	233,763	8,030,550	255,262
Government bonds	13,963,196	423,127	11,027,024	350,509
Financial debentures	18,000,000	545,455	34,013,392	1,081,163
Short-term notes	78,975,857	2,393,207	56,940,951	1,809,948
Sub-total	473,961,582	14,362,472	377,071,293	11,985,738
Less: Cash equivalents	(71,510,672)	(2,166,990)	(56,254,562)	(1,788,130)
Allowance for valuation loss of short-term investment	-	-	-	-
Total	<u>\$402,450,910</u>	<u>\$12,195,482</u>	<u>\$320,816,731</u>	<u>\$10,197,608</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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(2) Secured loans

	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$66,501	\$2,015	\$88,350	\$2,808
Less: Allowance for bad debts	(426)	(13)	(565)	(18)
Sub-total	66,075	2,002	87,785	2,790
Medium-term secured loans	9,523,199	288,582	10,883,120	345,935
Less: Allowance for bad debts	(61,148)	(1,853)	(69,787)	(2,218)
Sub-total	9,462,051	286,729	10,813,333	343,717
Long-term secured loans	281,144,065	8,519,517	270,007,253	8,582,557
Less: Allowance for bad debts	(1,879,834)	(56,965)	(1,762,262)	(56,016)
Sub-total	279,264,231	8,462,552	268,244,991	8,526,541
Total	<u>\$288,792,357</u>	<u>\$8,751,283</u>	<u>\$279,146,109</u>	<u>\$8,873,048</u>

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

Short-term: within one year

Medium-term: over one year but less than seven years

Long-term: over seven years

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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>	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$11,377	\$362,179	\$11,512
Vista Technology Venture Capital Corp.	68,181	2,066	39,892	1,268
Omnitek Venture Capital Corp.	150,572	4,563	152,726	4,855
Wa Tech Venture Capital Co., Ltd.	179,871	5,451	168,819	5,366
IBT Venture Capital Corp.	565,288	17,130	499,458	15,876
Cathay Insurance (Bermuda) Co., Ltd.	55,359	1,677	59,253	1,883
Symphox Information Co., Ltd.	255,548	7,744	267,739	8,511
Cathay Securities Investment Trust Co., Ltd.	213,685	6,475	232,213	7,381
Cathay Venture Capital Crop.	221,331	6,707	223,005	7,089
Lin Yuan Property Management Co., Ltd.	16,140	489	41,276	1,312
Cathay Securities Investment Co., Ltd.	18,577	563	28,014	891
Cathay Life Insurance Ltd. (Shanghai)	-	-	1,493,565	47,475
Sub-total	2,119,992	64,242	3,568,139	113,419



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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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

Chunghwa Telecom Co., Ltd.	\$33,581,819	\$1,017,631	\$-	\$-
WK Technology Fund Co., Ltd.	100,000	3,030	100,000	3,179
Taiwan Aerospace Company	110,500	3,348	110,500	3,513
Koo Group Telecommunications Co., Ltd.	401,361	12,163	-	-
Concord Venture Capital Co., Ltd.	89,280	2,706	89,280	2,838
Taipei Financial Center Corp.	1,441,591	43,685	1,541,591	49,002
InveStar Dayspring V.C. Inc.	200,000	6,061	200,000	6,357
FAT Venture Capital Co., Ltd.	50,000	1,515	50,000	1,589
Concord Venture Capital Co., Ltd.	50,000	1,515	50,000	1,589
WK Technology Fund Co., Ltd.	150,000	4,545	150,000	4,768
WK Technology Fund Co., Ltd.	127,200	3,855	127,200	4,043
Century Venture Capital Co., Ltd.	100,000	3,030	100,000	3,179
China Power Venture Capital Co., Ltd.	190,000	5,758	190,000	6,040
Super Tech Venture Capital Corp.	100,000	3,030	100,000	3,179
CDIB & Partners Investment Holding Corp.	500,000	15,152	500,000	15,893
Alex-Tech Machinery Industrial Co., Ltd.	7,008	212	7,008	223

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

R.O.C. Venture Capital Co., Ltd.	\$151,970	\$4,605	\$151,970	\$4,831
National Venture Capital Co., Ltd.	100,000	3,030	100,000	3,179
WK Technology Fund Co., Ltd.	200,000	6,061	200,000	6,357
Capital Venture Fund Corp.	50,000	1,515	50,000	1,589
Fu Yu Venture Capital Investment Corp.	200,000	6,061	200,000	6,357
Concord Venture Capital Co., Ltd.	100,000	3,030	100,000	3,179
New Century InfoComm Tech Co., Ltd.	1,268,000	38,424	1,268,000	40,305
Srsuntour Co., Ltd.	62,000	1,879	62,000	1,971
Titan Venture Capital Co., Ltd.	150,000	4,545	150,000	4,768
Harbinger Venture Capital Crop.	200,000	6,061	200,000	6,357
Prosperity Venture Capital Corp.	100,000	3,030	100,000	3,179
KGEx.com Co., Ltd.	175,000	5,303	175,000	5,563
United Venture Corp.	50,000	1,515	50,000	1,589
BioCare Corp.	12,000	364	12,000	382
Megic Corp.	18,000	545	18,000	572
WK Technology Fund Co., Ltd.	200,000	6,061	200,000	6,357
Hua Chih Venture Capital Corp.	60,000	1,818	60,000	1,907
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,424	80,000	2,543
Win Semiconductors Corp.	16,364	496	16,364	520
Kinik Precision Grinding Co., Ltd.	6,000	182	7,800	248

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Vita Genomics Inc.	\$87,500	\$2,652	\$87,500	\$2,781
Tong Hsing Electronic Inc. Co., Ltd.	27,144	823	27,144	863
China Technology Venture Capital Corp.	50,000	1,515	50,000	1,589
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,855	259,200	8,239
Applied Vacuum Coating Technologies Co., Ltd.	6,661	202	-	-
TaiGen Biotechnology Co., Ltd.	42,000	1,273	42,000	1,335
Cdid BioScience venture Inc.	285,000	8,636	285,000	9,059
Maxima Venture , Inc, Taiwan	221,130	6,701	221,130	7,029
Parawin Venture Capital Co., Ltd.	50,000	1,515	50,000	1,589
Darly 3 Venture Co., Ltd.	20,000	606	17,000	540
Top Taiwan Venture Capital Co., Ltd.	50,000	1,515	50,000	1,589
Cash Box Audio and Video Co., Ltd.	200,000	6,061	200,000	6,357
Zeng Hsing Industrial Co., Ltd	-	-	28,824	916
Hua Venture Capital Corp.	50,000	1,515	50,000	1,589
Shin Sheng Venture Capital Investment Corp.	50,000	1,515	50,000	1,589
Centillion Venture Capital Corp.	50,000	1,515	50,000	1,589
Harbinger Venture Capital Corp.	100,000	3,030	100,000	3,179
Unitive Semiconductor Taiwan Corp.	46,800	1,418	24,000	763
Taiwan High Speed Rail Co. – Preferred Stock	1,000,000	30,303	1,000,000	31,786

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Enermax Technology Co.	\$47,600	\$1,442	\$-	\$-
Creative Sensor Inc.	11,820	358	11,820	376
Tong Lung metal Industry Co., Ltd.-preferred stock	300,000	9,091	300,000	9,536
Hsin Tao Power Co., Ltd.	640,000	19,394	765,000	24,317
CTBI Venture Capital Co., Ltd.	50,000	1,515	50,000	1,589
Ip Fund Two Co., Ltd.	-	-	50,000	1,589
Global Top Partner Venture Capital Co.,Ltd	-	-	300,000	9,536
Chi Mei Corporation. - preferred stock	-	-	10,000,000	317,864
Super Alloy Industrial Co., Ltd.	-	-	10,000	318
Sub-total	44,042,948	1,334,635	20,595,331	654,651
Total	\$46,162,940	\$1,398,877	\$24,163,470	\$768,070

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

	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$2,114,394	\$64,073	\$3,602,793	\$114,520
Add: Equity investment gains	7,238	219	23,407	744
Capital surplus- long-term equity investment	-	-	562	18
Cumulative conversion adjustments	(1,640)	(50)	(28,217)	(897)
Less: Unrealized valuation losses on long-term equity investment	-	-	(30,406)	(966)
Balance as of March 31	\$2,119,992	\$64,242	\$3,568,139	\$113,419

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

- (3) The recognized equity investment gains (losses) for the three months ended March 31, 2004 and 2005 are listed below:

Investee	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
WK Technology Fund Co., Ltd.	\$-	\$-	\$2,590	\$82
Vista Technology Venture Capital Corp.	-	-	(9,579)	(305)
Omnitek Venture Capital Corp.	-	-	644	21
Wa Tech Venture Capital Co., Ltd.	-	-	(10,076)	(320)
IBT Venture Capital Corp	-	-	15,020	478
Cathay Insurance (Bermuda) Co., Ltd.	45	1	341	11
Symphox Information Co., Ltd.	(3,077)	(93)	1,918	61
Cathay Securities Investment Trust Co., Ltd.	6,084	184	9,471	301
Cathay Venture Capital Corp.	76	2	14,665	466
Lin Yuan Property Management Co., Ltd.	1,011	31	7,153	227
Cathay Securities Investment Co., Ltd.	3,099	94	2,352	75
Cathay Life Insurance Ltd. (Shanghai)	-	-	(11,092)	(353)
Total	\$7,238	\$219	\$23,407	\$744

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

- (4) In the first quarter of 2005, due to the amendment of SFAS No. 5 (r3) as discussed in the Note 3, the Company recognized the 2004 investment income in WK Technology Fund VI Co., Ltd., Vista technology Venture Capital Corp., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. based on the 2004 audited financial statements of the respective investees. However, according to SFAS No. 23, “Interim Financial Reporting and Disclosures”, the equity method was not used to account for those investees for their operating results of the first quarter of 2005.
- (5) The investment gains (losses) recognized in the first quarter of 2005 for Symphox Information Co., Ltd., Lin Yuan Property Management Co., Ltd., Cathay Venture Capital Corp and Cathay Life Insurance Ltd. (Shanghai) were recognized based on the investees’ respective reviewed financial statements for the three months ended March 31, 2005.

The investment gains (losses) recognized in the first quarter of 2005 for Cathay Insurance (Bermuda) Co., Ltd. Cathay Securities Investment Co., Ltd. and Cathay Securities Investment Trust Co., Ltd. were recognized based on the investees’ respective unreviewed financial statements for the three months ended March 31, 2005.

The investment gains (losses) recognized in the first quarter of 2004 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 the investees’ respective unreviewed financial statements for the three months ended March 31, 2004.

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

Long-term investments in bonds consist mainly of government bonds as of March 31, 2004 and 2005. Government Bonds were deposited with the Central Bank of China as capital guarantee deposits. As of March 31, 2004 and 2005, the capital guarantee deposits amounted to NT\$7,927,253 (US\$240,220) and NT\$8,089,725 (US\$257,143), respectively, and were categorized under “securities serving as deposits paid-bond”. Please see Note 19, “pledged assets” for details.

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

**Cathay Life Insurance Co., Ltd.**  
**Notes to unaudited financial statements – continued**  
 (Expressed in thousands of dollars except for share  
 and per share data and unless otherwise stated)  
**As of March 31, 2004 and 2005**

One of the long-term investments in bonds, Global structured notes, amounted to NT\$0 (US\$0) and NT\$50,758,452 (US\$1,613,428) as of March 31, 2004 and 2005, respectively.

9. Investments in real estate

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

Item	March 31, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$113,060,197	\$3,593,776	\$4,563	\$145	\$(13,478,703)	\$(428,439)	\$(211,630)	\$(6,727)	\$99,374,427	\$3,158,755
Construction	1,861,618	59,174	-	-	-	-	-	-	1,861,618	59,174
<b>Total</b>	<b>\$114,921,815</b>	<b>\$3,652,950</b>	<b>\$4,563</b>	<b>\$145</b>	<b>\$(13,478,703)</b>	<b>\$(428,439)</b>	<b>\$(211,630)</b>	<b>\$(6,727)</b>	<b>\$101,236,045</b>	<b>\$3,217,929</b>

- (1) The real estate investments are held mainly to generate 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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

10. Property and equipment

Item	March 31, 2004							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,223,220	\$158,279	\$2,027	\$62	\$-	\$-	\$5,225,247	\$158,341
Buildings and construction	11,442,532	346,743	-	-	(3,166,369)	(95,951)	8,276,163	250,792
Communication and transportation equipment	124,820	3,783	-	-	(58,413)	(1,770)	66,407	2,013
Other equipment	4,263,186	129,187	-	-	(2,418,816)	(73,297)	1,844,370	55,890
Sub-total	21,053,758	637,992	2,027	62	(5,643,598)	(171,018)	15,412,187	467,036
Construction in progress	74,194	2,248	-	-	-	-	74,194	2,248
Prepayment for equipment	37,219	1,128	-	-	-	-	37,219	1,128
<b>Total</b>	<b>\$21,165,171</b>	<b>\$641,368</b>	<b>\$2,027</b>	<b>\$62</b>	<b>\$(5,643,598)</b>	<b>\$(171,018)</b>	<b>\$15,523,600</b>	<b>\$470,412</b>

Item	March 31, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,054,119	\$160,653	\$2,212	\$70	\$-	\$-	\$(34,188)	\$(1,087)	\$5,022,143	\$159,636
Buildings and construction	11,281,285	358,591	-	-	(3,299,340)	(104,874)	(51,331)	(1,631)	7,930,614	252,086
Communication and transportation equipment	79,338	2,522	-	-	(44,912)	(1,428)	-	-	34,426	1,094
Other equipment	4,516,999	143,579	-	-	(2,760,431)	(87,744)	-	-	1,756,568	55,835
Sub-total	20,931,741	665,345	2,212	70	(6,104,683)	(194,046)	(85,519)	(2,718)	14,743,751	468,651
Construction in progress	46,770	1,486	-	-	-	-	-	-	46,770	1,486
<b>Total</b>	<b>\$20,978,511</b>	<b>\$666,831</b>	<b>\$2,212</b>	<b>\$70</b>	<b>\$(6,104,683)</b>	<b>\$(194,046)</b>	<b>\$(85,519)</b>	<b>\$(2,718)</b>	<b>\$14,790,521</b>	<b>\$470,137</b>

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



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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

11. Overdue receivables

	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,595,504	\$78,652	\$1,503,292	\$47,784
Allowance for bad and doubtful debts	(1,297,752)	(39,326)	(728,344)	(23,151)
Total	<u>\$1,297,752</u>	<u>\$39,326</u>	<u>\$774,948</u>	<u>\$24,633</u>

12. Capital stock

As of March 31, 2004 and 2005, the total authorized thousand shares were 5,068,616, 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 shall be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficit 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 appropriated 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.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

- B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.
- C. According to the amended 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. Personnel, depreciation, depletion and amortizations**

Item	For the three months ended March 31, 2004			For the three months ended March 31, 2004		
	NT\$			US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	\$3,966,314	\$1,285,463	\$5,251,777	\$120,191	\$38,954	\$159,145
Labor & health insurance expenses	287,653	50,050	337,703	8,717	1,516	10,233
Pension expenses	211,131	36,736	247,867	6,398	1,113	7,511
Other expenses	239,970	48,734	288,704	7,272	1,477	8,749
Depreciation	-	561,640	561,640	-	17,019	17,019
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

Item	For the three months ended March 31, 2005			For the three months ended March 31, 2005		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$5,430,475	\$1,086,227	\$6,516,702	\$172,615	\$34,527	\$207,142
Labor & health insurance expenses	249,247	45,901	295,148	7,923	1,459	9,382
Pension expenses	116,340	21,425	137,765	3,698	681	4,379
Other expenses	228,053	57,912	285,965	7,249	1,841	9,090
Depreciation	-	538,710	538,710	-	17,124	17,124
Depletion	-	-	-	-	-	-
Amortizations	-	5,456	5,456	-	173	173

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

15. Estimated income taxes

(1) Income tax expenses include the following:

	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$6,722,476	\$203,711	\$956,945	\$30,418
Adjustments				
Interest income of tax on a separate basis	(251,714)	(7,628)	(522,485)	(16,608)
Gain on disposal of investments	(6,740,261)	(204,250)	(2,712,810)	(86,231)
Equity investment gains	(7,238)	(219)	(23,407)	(744)
Unrealized exchange loss	166,908	5,058	1,114,706	35,433
Cash Dividend	-	-	(5,888)	(187)
Impairment loss	-	-	297,149	9,445
Gain on disposal of land	-	-	(2,681)	(85)
Pension expense not actually contributed	-	-	68,022	2,162
Others	70,054	2,123	(1,192)	(38)
Taxable Income	(39,775)	(1,205)	(831,641)	(26,435)
Times: taxes rate	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	-	-	-	-
Less: tax effects under integrated income tax systems	-	-	-	-
Sub-total	-	-	-	-
Add: Tax on a separate basis	50,343	1,526	103,728	3,297
Beginning deferred income tax assets	270,265	8,190	364,579	11,589
Ending deferred income tax liabilities	1,094,058	33,153	171,775	5,460
Less: Income tax credit	(9,944)	(301)	(207,910)	(6,609)
Beginning deferred income tax liabilities	(1,135,785)	(34,418)	(450,452)	(14,318)
Ending deferred income tax assets	(283,023)	(8,577)	(455,098)	(14,466)
Dissimilitude on estimate tax after time	(4,958)	(150)	-	-
Total income tax benefit	<u>\$(19,044)</u>	<u>\$(577)</u>	<u>\$(473,378)</u>	<u>\$(15,047)</u>

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

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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

	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Total deferred tax liabilities	\$1,094,058	\$33,153	\$171,775	\$5,460
Total deferred tax assets	\$283,023	\$8,576	\$455,098	\$14,465
Temporary differences:				
Employee benefits	\$27,553	\$835	\$9,438	\$300
Pension expense				
Unrealized exchange gains	(4,376,233)	(132,613)	(687,100)	(21,840)
Bad debts exceeding limit	187,498	5,682	-	-
Pension expense	907,995	27,515	1,495,732	47,544
Impairment loss	-	-	297,149	9,446
Other	9,046	274	11,738	373
Income tax credit	\$-	\$-	\$1,584	\$50
Deferred tax assets-current	\$5,505	\$166	\$6,878	\$218
Deferred tax liabilities-current	(1,094,058)	(33,153)	(171,775)	(5,460)
Net offset balance of deferred tax liabilities-current	<u>\$ (1,088,553)</u>	<u>\$ (32,987)</u>	<u>\$ (164,897)</u>	<u>\$ (5,242)</u>
Deferred tax assets-noncurrent	\$277,518	\$8,410	\$448,220	\$14,247
Deferred tax liabilities-noncurrent	-	-	-	-
Net balance of deferred tax assets -noncurrent	<u>\$277,518</u>	<u>\$8,410</u>	<u>\$448,220</u>	<u>\$14,247</u>

(4) Information related to imputation

	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$1,438,949</u>	<u>\$43,605</u>	<u>\$1,368,980</u>	<u>\$43,515</u>
			For the three months ended	
			March 31,	
			2004	2005
Imputation credit account ratio-estimate			-	8.04%
Imputation credit account ratio-actual (May 17, 2004)			<u>8.34%</u>	<u>-</u>

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(5) Related information on undistributed earnings

Year	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	17,779,508	538,773	15,609,488	496,169
Total	<u>\$17,779,508</u>	<u>\$538,773</u>	<u>\$15,609,488</u>	<u>\$496,169</u>

(6) Tax credits obtained 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	Education training	<u>\$1,584</u>	<u>\$50</u>	

16. Earnings per share

	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	<u>\$6,722,476</u>	<u>\$203,711</u>	<u>\$956,945</u>	<u>\$30,418</u>
Net income (b)	<u>\$6,741,520</u>	<u>\$204,288</u>	<u>\$1,430,323</u>	<u>\$45,465</u>
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,068,615,765	5,068,615,765
Weighted average outstanding number of shares (c)	5,025,562,182	5,025,562,182	5,068,615,765	5,068,615,765
Earnings per share before income taxes (a) / (c) (dollars)	<u>\$1.34</u>	<u>\$0.04</u>	<u>\$0.19</u>	<u>\$0.01</u>
Earnings per share after income taxes (b) / (c) (dollars)	<u>\$1.34</u>	<u>\$0.04</u>	<u>\$0.28</u>	<u>\$0.01</u>

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

**Cathay Life Insurance Co., Ltd.**  
**Notes to unaudited financial statements – continued**  
(Expressed in thousands of dollars except for share  
and per share data and unless otherwise stated)  
**As of March 31, 2004 and 2005**

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

(Shares)	For the three months ended March 31,	
	2004	2005
Shares at the beginning of period	5,068,615,765	5,068,615,765
Less: Treasury stock	(43,053,583)	-
Total	5,025,562,182	5,068,615,765

17. 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	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Taiwan Asset Management Corporation	Affiliate
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Cathay General Hospital	Their chairman is the Company's chairman
Cathay Securities Investment Trust Co., Ltd.	An equity method investee

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(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 years ended March 31, 2004 and 2005 are listed below:

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

Name	Item	For the three months ended March 31, 2005	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$1,238	\$39
	Cathay Golden & Slivr	3,791	121
	Ban Ciao Building	116,411	3,700
	Sheraton Taipei Building	12,105	385
	Sainyang Bulding	4,222	134
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	589	19
	Total	<u>\$138,637</u>	<u>\$4,407</u>

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

The total amount of contracted projects for real estate as of March 31, 2004 and 2005 between the Company and San Ching Engineering Co., Ltd. was NT\$9,576,421 (US\$290,195) and NT\$7,306,738 (US\$232,255), respectively.

(B) The Company sold real estate to a related parties for the three months ended March 31, 2004 and 2005 as follows:

Name	Item	For the three months ended March 31, 2004			
		Sales	Sales	Loss on	Loss on
		amount	amount	disposal	disposal
		NT\$	US\$	of assets	of assets
		NT\$	US\$	NT\$	US\$
Cathay	No.678 Sec.2				
General	Chung-Hwa Rd.				
Hospital	Hsinchu	<u>\$1,520,000</u>	<u>\$46,061</u>	<u>\$(8,390)</u>	<u>\$(254)</u>

The Company did not sell any real estate to its related parties for the three months ended March 31, 2005.

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

Name	Rental income			
	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$1,954	\$59	\$2,234	\$71
Cathay Real Estate Development Co., Ltd.	5,683	172	4,072	130
Cathay United Bank	57,468	1,741	66,227	2,105
Cathay Century Insurance Co., Ltd.	13,091	397	13,518	430
Cathay General Hospital	39,791	1,206	31,622	1,005
San Ching Engineering Co., Ltd.	3,603	109	1,893	60
Symphox Information Co., Ltd.	6,434	195	5,983	190
Cathay Securities Investment Trust Co., Ltd.	2,167	66	2,906	92
Taiwan Asset Management Corporation	-	-	3,585	114
Cathay Securities Co., Ltd.	-	-	3,505	111
Other	1,157	35	1,838	59
Total	<u>\$131,348</u>	<u>\$3,980</u>	<u>\$137,383</u>	<u>\$4,367</u>



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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Name	Guarantee deposits received			
	March 31, 2004		March 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$176	\$4,286	\$136
Cathay United Bank	66,389	2,012	73,535	2,337
Cathay Century Insurance Co., Ltd.	13,199	400	13,731	436
Cathay General Hospital	2,337	71	2,354	75
San Ching Engineering Co., Ltd.	7,079	214	2,195	70
Symphox Information Co., Ltd.	-	-	1,901	60
Cathay Securities Investment Trust Co., Ltd.	2,144	65	2,738	87
Cathay Securities Co., Ltd.	-	-	3,647	116
Taiwan Asset Management Corporation	-	-	3,477	111
Other	1,459	44	1,971	63
Total	<u>\$98,403</u>	<u>\$2,982</u>	<u>\$109,835</u>	<u>\$3,491</u>

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 three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,435	\$225	\$7,397	\$235
Lin Yuan Investment Co., Ltd.	1,670	51	1,672	53
Total	<u>\$9,105</u>	<u>\$276</u>	<u>\$9,069</u>	<u>\$288</u>

Name	Guarantee deposits paid			
	March 31, 2004		March 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,168	\$217	\$9,157	\$291
Lin Yuan Investment Co., Ltd.	1,650	50	1,650	53
Total	<u>\$8,818</u>	<u>\$267</u>	<u>\$10,807</u>	<u>\$344</u>

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

**Cathay Life Insurance Co., Ltd.**  
**Notes to unaudited financial statements – continued**  
 (Expressed in thousands of dollars except for share  
 and per share data and unless otherwise stated)  
**As of March 31, 2004 and 2005**

According to contracts, terms of leases with third parties generally were 3 years, and rents were paid monthly.

(E) Acquisition of property and equipment information:

Name	Item	For the three months ended March 31,	
		NT\$	US\$
Symphox Information Co., Ltd.	Communication and transportation equipment	\$1,560	\$47

The Company did not buy any property and equipment from its related parties for the three months ended March 31, 2005.

B. Cash in banks

Name	Item	For the three months ended March 31, 2004			
		Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay United Bank	Time deposit	\$10,556,550	\$47,679	0.75%~1.90%	\$5,451,550
	Cash in bank	29,027,360	-	0.00%~0.20%	4,117,913
	Total		\$47,679		\$9,569,463

Name	Item	For the three months ended March 31, 2004			
		Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay United Bank	Time deposit	\$319,895	\$1,445	0.75%~1.90%	\$165,199
	Cash in bank	879,617	-	0.00%~0.20%	124,785
	Total		\$1,445		\$289,984

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

		For the three months ended March 31, 2005			
Name	Item	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay United	Time deposit	\$54,269,150	\$78,622	0.85%~2.00%	\$25,090,650
Bank	Cash in bank	13,300,202	1,315	0.00%~0.10%	4,698,831
Total			<u>\$79,937</u>		<u>\$29,789,481</u>

		For the three months ended March 31, 2005			
Name	Item	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay united	Time deposit	\$1,725,021	\$2,499	0.85%~2.00%	\$797,541
Bank	Cash in bank	422,765	42	0.00%~0.10%	149,359
Total			<u>\$2,541</u>		<u>\$946,900</u>

C.Secured loans

		For the three months ended March 31, 2004			
Name		Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay General					
Hospital		<u>\$1,173,181</u>	<u>\$10,265</u>	3.50%	<u>\$1,172,992</u>

		For the three months ended March 31, 2004			
Name		Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay General					
Hospital		<u>\$35,551</u>	<u>\$35,545</u>	3.50%	<u>\$311</u>

		For the three months ended March 31, 2005			
Name		Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay General					
Hospital		<u>\$2,192,411</u>	<u>\$14,714</u>	2.60%~2.72%	<u>\$2,192,213</u>

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

For the three months ended March 31, 2005

Name	Maximum	Interest	Rate	Ending
	amount	income		balance
	US\$	US\$		US\$
Cathay General Hospital	\$69,689	\$468	2.60%~2.72%	\$69,683

D. Beneficiary certificates:

Name		March 31,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	Cost	\$4,346,000	\$131,697	\$5,166,000	\$164,209
	Market value	4,412,281	133,705	5,243,854	166,683

E. Notes receivable-related parties

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$2	\$-	\$-	\$-

F. Accounts receivable – related parties

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$-	\$-	\$65,962	\$2,097
Cathay General Hospital	1,172,390	35,527	29,415	935
Cathay Future Co., Ltd	-	-	126	4
Symphox Information Co., Ltd.	503	15	505	16
Cathay Insurance (Bermuda) Co., Ltd.	4,156	126	7,599	241
Total	\$1,177,049	\$35,668	\$103,607	\$3,293

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

G. Other receivable-tax refund receivable

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$96,244	\$2,916	\$769,892	\$24,472

H. Accounts payable-related parties

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,388	\$72	\$2,277	\$72
San Ching Engineering Co., Ltd.	-	-	20,513	652
Symphox Information Co., Ltd.	40,410	1,225	37,935	1,206
Lin Yuan Property Management Co., Ltd.	37,753	1,144	41,866	1,331
Cathay Real Estate Development Co., Ltd.	1,025	31	-	-
Total	\$81,576	\$2,472	\$102,591	\$3,261

I. Accounts collected in advance

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,213	\$67	\$2,506	\$80
Cathay General Hospital	425	13	446	14
Other	311	9	310	10
Total	\$2,949	\$89	\$3,262	\$104

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

J. Prepayment

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$16,704	\$506	\$5,401	\$172
Cathay Real Esta to Development Co., Ltd.	1,989	60	-	-
Total	<u>\$18,693</u>	<u>\$566</u>	<u>\$5,401</u>	<u>\$172</u>

K. Guarantee deposit paid

Name	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank.	<u>\$55,000</u>	<u>\$1,667</u>	<u>\$-</u>	<u>\$-</u>

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

L. Insurance income

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank.	\$53	\$2	\$55,355	\$1,760
Other	-	-	1,012	32
Total	<u>\$53</u>	<u>\$2</u>	<u>\$56,367</u>	<u>\$1,792</u>

M. Insurance expense

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$105,646</u>	<u>\$3,201</u>	<u>\$86,313</u>	<u>\$2,744</u>

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Insurance expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Among the insurance expense, \$966 (US\$29) and \$2,380 (US\$76) were paid for employees' fidelity guarantee insurance for the nine months ended March 31, 2004 and 2005, respectively.

N. Indemnity income

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$656	\$20	\$250	\$8

O. Reinsurance income

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$12,790	\$388	\$6,144	\$195

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 redirected 90% of such policies to the Company.

P. Reinsurance claims payment

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,714	\$52	\$1,892	\$60

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Q. Reinsurance commission expense

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,124	\$34	\$-	\$-

R. Reinsurance handling fee expense

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,332	\$40	\$-	\$-

S. Reinsurance handling fee income

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$11	\$-

T. Miscellaneous income

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$103,396	\$3,133	\$128,116	\$4,072
Cathay United Bank	9,215	279	40,554	1,289
Cathay Securities Investment Trust Co., Ltd.	1,470	45	1,343	43
Cathay Futures Co., Ltd.	88	3	66	2
Total	\$114,169	\$3,460	\$170,079	\$5,406



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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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

U. Commissions expense

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$57,336	\$1,737	\$50,389	\$1,602

V. Marketing expense

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$46,511	\$1,409	\$52,791	\$1,678

W. Administrative and general expense

Name	For the three months ended March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$162,083	\$4,912	\$206,917	\$6,577
Cathay Securities Investment Co., Ltd.	13,125	398	13,125	417
San Ching Engineering Co., Ltd.	2,250	68	1,440	46
Cathay Real Estate Development Co., Ltd.	2,250	68	1,722	55
Total	\$179,708	\$5,446	\$223,204	\$7,095

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

18. Pledged assets

As of March 31, 2004 and 2005, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and 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	March 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Long-term investment in bonds	\$7,927,253	\$240,220	\$8,089,725	\$257,143
Time deposits	844,450	25,589	278,750	8,861
Total	<u>\$8,771,703</u>	<u>\$265,809</u>	<u>\$8,368,475</u>	<u>\$266,004</u>

19. Other important matters and contingent liabilities

Letters of credit issued by the Company for the retrocede business amounted to US\$0 and US\$1,250 as of March 31, 2004 and 2005, respectively.

20. Serious damages

None.

21. Subsequent events

None.

22. Other important events

(1) Pension related information

- A. 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\$137,765 (US\$4,379) for the three months ended March 31, 2005, and the Company has contributed NT\$69,742 (US\$2,217) to the pension fund for the three months ended March 31, 2005.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(2) Financial instruments related information

A. Derivative financial instruments related information

(A) Purpose

As of March 31, 2005, the Company held the following derivative financial instruments: futures contracts, forward foreign exchange contracts and interest rate swaps. Futures contracts are entered into to hedge against risks of stock price fluctuations; forward contracts are entered into to hedge against risks of foreign currency and exchange rate fluctuations; interest rate swaps are entered into to hedge against risk of interest rate fluctuations. None of them was for trading purposes.

(B) Credit and market risks

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

(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.

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

**Cathay Life Insurance Co., Ltd.**  
**Notes to unaudited financial statements – continued**  
(Expressed in thousands of dollars except for share  
and per share data and unless otherwise stated)  
**As of March 31, 2004 and 2005**

(D) Product type and condition

a. Futures

March 31, 2004						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	3,297	\$4,154,739	\$125,901	\$(118,173)	\$(3,581)
TE	Selling out	100	100,936	3,059	(4,644)	(141)
TF	Selling out	261	249,921	7,573	(15,516)	(470)

March 31, 2005						
Item	Transaction type	Lot	Contract amount		Net income (loss) of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TF	Selling out	480	\$459,568	\$14,608	\$(4,880)	\$(155)
TX	Selling out	1,499	1,816,795	57,749	14,997	477

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.

(b) As of March 31, 2004 and 2005, the Company had forward foreign exchange contracts of approximately US\$12,123,300 and US\$13,510,800, respectively, in notional value.

The forward foreign exchange contracts as of March 31, 2004, were due between October 1, 2004 and December 30, 2005. In addition, the forward exchange contracts as of March 31, 2005, were due between April 6, 2004 and March 30, 2005.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

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

Item	Contract amount	March 31, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward					
& CCS	US\$15,980,800	\$504,149,954	\$16,025,110	\$590,061,216	\$18,755,919

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	March 31,	
	2004	2005
Short-term investment	US\$13,852,300	US\$15,980,800

Losses on the forward foreign exchange and currency swap contracts were NT\$1,231,760 (US\$39,153), for the three months ended March 31, 2005.

c. Interest rate swap agreement (IRS)

The IRS agreements of the Company as of March 31, 2005 are set forth below:

Category	Currency	Period	Amount
IRS	NTD	2002.09.13~2015.3.8	NT\$54,134,212 US\$1,720,731

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

d. Option

No option transactions were outstanding on March 31, 2004.

Item	Transaction type	Lot	March 31, 2005			
			Contract amount		Net income (loss) of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Call Option	21,800	\$6,531,500	\$207,613	\$10,582	\$336
TXO	Put Option	6,550	2,023,600	64,323	12,647	402
TFO	Put Option	20	4,900	156	(2)	-
Foreign exchange options	Put Option	-	20,000	636	(6,600)	(210)

B. Non-derivative financial instruments related information:

Except for the items listed in the following table, the carrying amounts of non-derivative financial instruments as of March 31, 2004 and 2005, were the same as their estimated fair value:

Item	March 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$137,338,227	\$137,338,227	\$4,161,764	\$4,161,764
Receivables	11,428,132	11,428,132	346,307	346,307
Short-term investments	402,450,910	413,597,902	12,195,482	12,533,270
Long-term investments in stocks	46,162,940	54,002,179	1,398,877	1,636,430
Guarantee deposits paid	1,546,698	1,546,698	46,869	46,869
Securities serving as deposits paid-bonds	7,927,253	7,927,253	240,220	240,220
<u>Liabilities</u>				
Payables	83,151	83,151	2,520	2,520
Guarantee deposits received	1,310,959	1,310,959	39,726	39,726

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

Item	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$193,434,874	\$193,434,874	\$6,148,597	\$6,148,597
Receivables	8,789,637	8,789,637	279,391	279,391
Short-term investments	320,816,731	332,241,770	10,197,608	10,560,768
Long-term investments in stocks	24,163,470	24,179,095	768,070	768,566
Guarantee deposits paid	2,913,511	2,913,511	92,610	92,610
Securities serving as deposits paid-bonds	8,089,725	8,089,725	257,143	257,143
<u>Liabilities</u>				
Payables	104,018	104,018	3,306	3,306
Guarantee deposits revived	1,633,451	1,633,451	51,922	51,922

The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

- ① The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ The fair value of the Company's short-term investments and long-term investments is based on market prices at the reporting date if market prices are available. The fair value of the Company's long-term investments is based on relevant financial or any other information if market prices are not available.

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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(3) Discretionary account management

Item	March 31, 2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,834,293	\$55,585	\$2,034,719	\$61,658
Repurchase bonds	4,767,243	144,462	4,767,959	144,484
Short-term securities	50,000	1,515	50,003	1,516
bonds				
Convertible bonds	677,643	20,534	756,462	22,923
Bonds	3,524,593	106,806	3,530,839	106,995
Cash in bank	793,781	24,054	793,915	24,058
Net other assets less				
liabilities	(88,858)	(2,693)	(88,858)	(2,693)
Total	<u>\$11,558,695</u>	<u>\$350,263</u>	<u>\$11,845,039</u>	<u>\$358,941</u>
Item	March 31, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,665,370	\$84,723	\$2,615,472	\$83,136
Repurchase bonds	7,772,783	247,069	7,772,783	247,069
Convertible bonds	55,391	1,761	53,504	1,701
Bonds	1,895,460	60,250	1,908,634	60,669
Cash in banks	237,035	7,534	237,035	7,534
Net other assets less				
liabilities	(80,087)	(2,546)	(80,087)	(2,546)
Total	<u>\$12,545,952</u>	<u>\$398,791</u>	<u>\$12,507,341</u>	<u>\$397,563</u>

As of March 31, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$10,300,000 (US\$312,121), and NT\$11,550,000 (US\$367,133), respectively.



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

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

**Notes to unaudited financial statements – continued**

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

**As of March 31, 2004 and 2005**

(4) Material contract:

None

(5) Presentation of financial statements:

Certain accounts in the financial statements for the year ended March 31, 2004 have been reclassified in order to be comparable with those in the financial statements for the year ended March 31, 2005.

(6) Other:

None

23. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2004, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$27,150 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2004, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of March 31, 2005, the Company's remittances to this new company totaled approximately US\$48,330.

24. Segment Information

None