

**Cathay Century Insurance Co., Ltd.**  
**Financial Statements**  
**Together with**  
**Independent auditors' report**  
**As of June 30, 2004 and 2005**

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

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**English Translation of Independent Auditors' Report Originally Issued in Chinese**

**Independent auditors' report**

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

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. as of June 30, 2004 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of June 30, 2004 and 2005, and the results of its operations and its cash flows for the six-month periods then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young  
Taipei, Taiwan  
Republic of China  
July 28, 2005

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets

As of June 30, 2004 and 2005

(Expressed in thousands of dollars)

Assets	Notes	June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$4,093,486	\$121,613	\$2,422,913	\$76,578
Short-term investments	2,5	2,080,998	61,824	2,552,758	80,681
Notes receivable	2	143,492	4,263	174,454	5,513
Interests receivable		28,240	839	37,503	1,185
Premiums receivable	2,6	857,169	25,466	1,000,967	31,636
Claims recoverable from reinsurers		188,370	5,596	207,902	6,571
Due from reinsurers and ceding companies		40,015	1,189	58,898	1,862
Other accounts receivable	2	13,955	415	94,306	2,981
Deferred income tax assets - current	2,15	50,595	1,503	37,830	1,196
Prepayments		2,472	73	2,885	91
Subtotal		7,498,792	222,781	6,590,416	208,294
Exchange bills negotiated, discounted and loans					
Short-term secured loans	2,7	-	-	20,009	632
Medium-term secured loans		444,718	13,212	749,150	23,677
Long-term secured loans		396,117	11,768	537,233	16,980
Subtotal		840,835	24,980	1,306,392	41,289
Funds, long-term investments and receivable					
Long-term investments in stocks					
Under the equity method		232,456	6,906	386,086	12,203
Under the cost method		83,796	2,490	83,796	2,648
Long-term investments in bonds		2,403,642	71,409	2,904,883	91,810
Subtotal		2,719,894	80,805	3,374,765	106,661
Property and equipment					
Communication and transportation equipment					
Other equipment	2,9	19,464	578	18,760	593
Subtotal		171,972	5,109	192,327	6,079
Less: Accumulated depreciation		(120,505)	(3,580)	(137,155)	(4,335)
Prepayments for equipment		1,425	42	2,520	79
Subtotal		52,892	1,571	57,692	1,823
Intangible assets					
Computer software cost	2	8,512	253	12,872	407
Subtotal		8,512	253	12,872	407
Other assets					
Guarantee deposits paid		16,747	498	21,545	681
Overdue receivables	2	82,862	2,462	164,764	5,208
Temporary payments and suspense accounts		20,396	606	9,525	301
Securities serving as deposits paid-bonds	10,18	357,833	10,631	359,518	11,363
Funds held by ceding companies		8	0	8	0
Deferred pension cost	2,22	6,059	180	6,302	199
Deferred income tax assets- noncurrent	2,15	15	0	-	-
Subtotal		483,920	14,377	561,662	17,752
Total assets		\$11,604,845	\$344,767	\$11,903,799	\$376,226

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.**

**Balance sheets - (Continued)**

**As of June 30, 2004 and 2005**

**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Collections for others		\$10,070	\$299	\$10,289	\$325
Accrued expenses		178,975	5,317	211,287	6,678
Taxes payable		-	-	780	25
Commissions payable		5,425	161	7,340	232
Dividends payable		533,394	15,847	4,580	145
Claims outstanding		2,559	76	795	25
Due to reinsurers and ceding companies		269,559	8,008	254,524	8,044
Other payables		534,272	15,873	657,141	20,769
Subtotal		1,534,254	45,581	1,146,736	36,243
<b>Long-term liabilities</b>					
Accrued pension liabilities	2,22	8,966	266	9,450	299
Subtotal		8,966	266	9,450	299
<b>Other liabilities</b>					
Unearned premiums reserve	2,11	3,880,826	115,295	4,303,790	136,024
Special reserve	2,11	2,527,028	75,075	2,738,802	86,561
Claims reserve	2,11	559,317	16,617	733,111	23,170
Temporary receipts and suspense accounts		74,045	2,200	74,890	2,367
Funds held for reinsurers		185	5	185	6
Subtotal		7,041,401	209,192	7,850,778	248,128
<b>Total liabilities</b>		<b>8,584,621</b>	<b>255,039</b>	<b>9,006,964</b>	<b>284,670</b>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	12	2,317,006	68,836	2,317,006	73,230
Capital surplus		1,909	57	2,021	64
<b>Retained earnings</b>					
Legal reserve		220,741	6,558	284,803	9,002
Unappropriated retained earnings		479,308	14,240	293,470	9,275
<b>Equity adjustment</b>					
Cumulative conversion adjustments		1,260	37	(465)	(15)
<b>Total stockholders' equity</b>		<b>3,020,224</b>	<b>89,728</b>	<b>2,896,835</b>	<b>91,556</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$11,604,845</b>	<b>\$344,767</b>	<b>\$11,903,799</b>	<b>\$376,226</b>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.**

**Statements of income**

**For the six months ended June 30, 2004 and 2005**

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

Items	Notes	June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$4,043,399	\$120,125	\$4,375,486	\$138,290
Reinsurance commission earned		187,346	5,566	232,990	7,364
Claims recovered from reinsurers		446,773	13,273	1,944,649	61,462
Recovered unearned premiums reserve		3,601,016	106,982	4,031,204	127,408
Recovered special claim reserve		36,796	1,093	150,438	4,755
Recovered claims reserve		20,744	616	25,987	821
Handling fee earned		28	1	27	1
Interest income		110,316	3,277	126,110	3,986
Gain on trading bills and securities		87,933	2,613	15,945	504
Gain on long-term equity investment		-	-	16,852	532
Subtotal		<u>8,534,351</u>	<u>253,546</u>	<u>10,919,688</u>	<u>345,123</u>
Operating costs	2				
Reinsurance premiums ceded		(1,384,261)	(41,125)	(1,440,764)	(45,536)
Commissions expenses		(61,787)	(1,836)	(83,582)	(2,641)
Insurance claims payment		(1,398,157)	(41,538)	(3,380,564)	(106,845)
Provision for unearned premiums reserve		(3,880,826)	(115,295)	(4,303,790)	(136,024)
Provision for special claim reserve		(301,057)	(8,944)	(318,785)	(10,075)
Contribution to the stabilization funds		(7,696)	(228)	(8,262)	(261)
Provision for claims reserve		(25,987)	(772)	(29,005)	(917)
Handling fee paid		(121,059)	(3,596)	(104,462)	(3,302)
Interest expenses		(92)	(3)	-	-
Loss on long-term equity investment		(3,886)	(115)	-	-
Agent expenses		(1,646)	(49)	(633)	(20)
Subtotal		<u>(7,186,454)</u>	<u>(213,501)</u>	<u>(9,669,847)</u>	<u>(305,621)</u>
Operating gross profit		<u>1,347,897</u>	<u>40,045</u>	<u>1,249,841</u>	<u>39,502</u>
Operating expenses	2				
Marketing expenses		(624,649)	(18,558)	(714,770)	(22,591)
Administrative and general expenses		(124,981)	(3,713)	(131,919)	(4,169)
Operating income		<u>598,267</u>	<u>17,774</u>	<u>403,152</u>	<u>12,742</u>
Non-operating revenues					
Gain on foreign exchange		575	17	653	21
Gain on disposal of property and equipment		184	6	451	14
Miscellaneous income		26,839	797	3,189	101
Subtotal		<u>27,598</u>	<u>820</u>	<u>4,293</u>	<u>136</u>
Non-operating expenses					
Loss on foreign exchange		(11,061)	(329)	(26,839)	(849)
Loss on disposal of property and equipment		(9)	0	(5)	0
Miscellaneous expenses		-	-	(11)	0
Subtotal		<u>(11,070)</u>	<u>(329)</u>	<u>(26,855)</u>	<u>(849)</u>
Income from continuing operations before income taxes		614,795	18,265	380,590	12,029
Income taxes	2,15	<u>(135,487)</u>	<u>(4,025)</u>	<u>(87,120)</u>	<u>(2,754)</u>
Net income		<u>\$479,308</u>	<u>\$14,240</u>	<u>\$293,470</u>	<u>\$9,275</u>
Earning per share (In dollars)					
Income before income taxes	16	<u>\$2.65</u>	<u>\$0.08</u>	<u>\$1.64</u>	<u>\$0.05</u>
Net income	16	<u>\$2.07</u>	<u>\$0.06</u>	<u>\$1.27</u>	<u>\$0.04</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.**  
**Statements of changes in stockholders' equity**  
**For the six months ended June 30, 2004 and 2005**  
**(Expressed in thousands of dollars)**

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative conversion adjustments		Total	
	Common stock				Legal reserve		Unappropriated retained earnings					
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2004	\$2,317,006	\$68,836	\$430	\$13	\$161,475	\$4,797	\$592,660	\$17,607	\$1,287	\$38	\$3,072,858	\$91,291
Appropriations and distributions for 2003												
Legal reserve					59,266	1,761	(59,266)	(1,761)			-	-
Cash dividends							(525,506)	(15,612)			(525,506)	(15,612)
Bonus paid to employees							(7,888)	(234)			(7,888)	(234)
Capital surplus- long-term equity investment			1,479	44							1,479	44
Cumulative conversion adjustments									(27)	(1)	(27)	(1)
Net Income for the six months ended June 30, 2004							479,308	14,240			479,308	14,240
Balance on June 30, 2004	\$2,317,006	\$68,836	\$1,909	\$57	\$220,741	\$6,558	\$479,308	\$14,240	\$1,260	\$37	\$3,020,224	\$89,728
Balance on January 1, 2005	\$2,317,006	\$73,230	\$1,909	\$60	\$220,741	\$6,977	\$640,617	\$20,247	\$(148)	\$(5)	\$3,180,125	\$100,509
Appropriations and distributions for 2004												
Legal reserve					64,062	2,025	(64,062)	(2,025)			-	-
Cash dividends							(571,975)	(18,077)			(571,975)	(18,077)
Bonus paid to employees							(4,580)	(145)			(4,580)	(145)
Capital surplus- long-term equity investment			112	4							112	4
Cumulative conversion adjustments									(317)	(10)	(317)	(10)
Net Income for the six months ended June 30, 2005							293,470	9,275			293,470	9,275
Balance on June 30, 2005	\$2,317,006	\$73,230	\$2,021	\$64	\$284,803	\$9,002	\$293,470	\$9,275	\$(465)	\$(15)	\$2,896,835	\$91,556

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the six months ended June 30, 2004 and 2005

(Expressed in thousands of dollars)

Items	Notes	June 30, 2004		June 30, 2005	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$479,308	\$14,240	\$293,470	\$9,275
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		2,233	66	3,627	115
Depreciation		9,770	290	11,742	371
Provision for reserve for operations		4,207,871	125,011	4,651,580	147,016
Recovered unearned premiums reserve		(3,601,016)	(106,982)	(4,031,204)	(127,409)
Recovered special claim reserve		(36,796)	(1,093)	(150,438)	(4,755)
Recovered claims reserve		(20,744)	(616)	(25,987)	(821)
Loss on disposal of property and equipment		9	0	5	0
Gain on disposal of property and equipment		(184)	(6)	(451)	(14)
Unrealized loss (gain) on long-term investments		3,886	115	(16,852)	(533)
Effects of exchange rate changes		10,486	312	26,186	828
Decrease (increase) in short-term investments		66,089	1,964	(104,382)	(3,299)
Decrease (increase) in notes receivable		44,853	1,333	(33,570)	(1,061)
Decrease in interests receivable		(1,942)	(58)	(16,940)	(535)
Increase in premiums receivable		(333,997)	(9,923)	(62,911)	(1,988)
Decrease (increase) in claims recoverable from reinsurers		20,765	617	45,067	1,424
Decrease in due from reinsurers and ceding companies		247,930	7,366	(24,046)	(761)
Increase in other accounts receivable		9,475	281	(13,454)	(425)
Decrease (increase) in prepayments		92	3	(69)	(2)
(Increase) decrease in deferred income tax assets-current		1,063	32	1,943	61
Decrease (increase) in overdue receivables		(131,191)	(3,898)	(70,558)	(2,230)
(Increase) decrease in temporary payments and suspense accounts		(5,478)	(163)	(2,487)	(79)
(Decrease) increase in collections for others		5,180	154	4,132	131
Increase in accrued expenses		(56,071)	(1,666)	(57,623)	(1,821)
Decrease in commissions payable		1,490	44	5,504	174
Decrease in income taxes payable		-	-	780	25
Decrease in claims outstanding		(2,178)	(65)	163	5
Increase in other payables		108,328	3,219	(21,442)	(678)
Increase in accrued pension liabilities		382	11	241	8
(Decrease) increase in temporary receipts and suspense accounts		57,212	1,700	42,854	1,354
Increase in claims reserve		(31,235)	(928)	95,920	3,032
Net cash provided by (used in) operating activities		1,055,590	31,360	550,800	17,408

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NT\$33.66 and NT\$31.64 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the six months ended June 30, 2004 and 2005

(Expressed in thousands of dollars)

Items	Notes	June 30, 2004		June 30, 2005	
		NTS	US\$	NTS	US\$
Cash flows from investing activities					
Decrease in short-term secured loans		-	-	(20,009)	(632)
Decrease in medium-term secured loans		(451)	(13)	(351,241)	(11,101)
Decrease (increase) in long-term secured loans		2,226	66	(146,792)	(4,639)
Acquisition of long-term investment in stocks		-	-	(151,000)	(4,772)
Disposal of long-term investments in stocks		33,600	998	-	-
Increase in long-term investments in bonds		(567,363)	(16,856)	(627,341)	(19,827)
Disposal of property and equipment		503	15	1,883	60
Acquisition of property and equipment		(7,485)	(222)	(5,869)	(186)
Acquisition of intangible assets		(3,485)	(103)	(1,479)	(48)
Increase in guarantee deposits paid		74	2	(3,654)	(116)
Decrease in securities serving as deposits paid-bonds		2,451	73	419	13
Decrease in funds held by ceding companies		99	3	-	-
Net cash provided by (used in) investing activities		(539,831)	(16,037)	(1,305,083)	(41,248)
Cash flows from financing activities					
Decrease in funds held for reinsurers		(98)	(2)	-	-
Bonus to employees		(1,441)	(43)	(7,888)	(249)
Cash dividends		-	-	(571,975)	(18,078)
Net cash provided by (used in) financing activities		(1,539)	(45)	(579,863)	(18,327)
Effects of exchange rate changes		(10,485)	(312)	(26,186)	(827)
(Decrease) increase in cash and cash equivalents		503,735	14,966	(1,360,332)	(42,994)
Cash and cash equivalents at the beginning of period		3,589,751	106,647	3,783,245	119,572
Cash and cash equivalents at the end of period		\$4,093,486	\$121,613	\$2,422,913	\$76,578
Supplemental disclosure of cash flows information					
Interest paid during period		\$92	\$3	\$0	\$0
Interest paid excluding capitalized interest		\$92	\$3	\$0	\$0
Income tax paid		\$167,593	\$4,979	\$80,608	\$2,548

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2004 and 2005 were NTS33.66 and NTS31.64 to US\$1.00)

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

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

**Cathay Century Insurance Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 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 Property and Casualty Insurance”. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

**1. Organization of business scope**

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

As of June 30, 2004 and 2005, the total numbers of employees were 838 and 858, respectively.

**2. Summary of significant accounting policies**

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**  
**As of June 30, 2004 and 2005**

to current liabilities are classified as non-current liabilities.

(2) Cash and cash equivalents

Cash and cash equivalents includes 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 not as investment income. The cost of marketable equity securities sold is determined by the weighted-average method.

Beneficiary certificates are stated at the lower of cost or market value. The cost of beneficiary certificates sold is determined by the weighted-average cost method.

Short-term notes are stated at the lower of cost or market value on the balance sheet date, if the market value is available. The costs of these notes, interest income, and gain or loss, either due to maturity or resulting from the sales of notes are determined by the specific identification method.

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

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

(4) Allowance for bad and doubtful debts

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

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

**Cathay Century Insurance Co., Ltd.**

**Notes to financial statements (continued)**

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

**As of June 30, 2004 and 2005**

(5) Long – term investments

A. Long-term investments in stocks

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

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company has significant operational influence. According to the ROC SFAS No.23, "Interim Financial Reporting and Disclosures", the equity method is not required where the Company's first quarter interim financial statements are prepared for a holding interest of between 20% and 50% on a consistent basis.

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

B. Long-term investments in bonds

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

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**(6) Property and equipment**

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

**(7) Intangible assets**

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

**(8) Accounting for Asset Impairment**

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.

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In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same time 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 rate 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).

**(9) Reserves for operations**

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

**(10) Premiums income**

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

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

**(11) Contribution to the stabilization funds**

The Company makes a monthly contribution from gross premiums to the stabilization funds and deposits it in "Property Insurance Stabilization Fund Committees". It is

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reported as “Contribution to the Stabilization funds” in income statements.

(12) Pension plan

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

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company followed the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligations and the fair value of plan assets.

The Labor Pension Act of ROC (“the Act”), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees’ individual pension accounts on a basis no less than 6% of the employees’ monthly wages.

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

(13) Securities serving as deposits paid-bonds

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

(14) Foreign currency transactions

Foreign currency transactions should be accounted for at cost and recognized on a

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straight-line method recorded in NT dollars at the spot rate when the transactions occur. Any Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. All assets and liabilities stated in foreign currencies are converted into New Taiwan Dollars at the exchange rate on the balance sheet date. And any gains or losses resulting from the transactions are recognized as current income.

(15)Income taxes

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

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

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

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

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits" for deductible income tax. The deductible income tax resulting from the expenditure on the

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purchase of equipment, R& D, education training, and investment in equity shall be dealt with under the current recognition method.

**(16)Capital expenditure expenses**

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

**(17)Derivative financial products transaction**

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

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

**(18)Convenience conversion into US dollars**

The financial statements are stated in NT dollars. Conversion of the June 30, 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

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NT\$33.66 and NT\$31.64 to US\$1.00 effective on June 30, 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 dollar amounts have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects

In accordance with the ROC SFAS No.5, “Long-Term Investments in Equity Securities” revised on December 9, 2004, the Company is required to obtain the investee company’s financial statements under the equity method for the same period, and recognized investment gain or loss based on those.

The adoption of ROC SFAS No.5 resulted in a decrease of long-term investment in stocks by NT\$29 (US\$1) thousand, and a decrease in net income for the six months ended, 2005 by NT\$29 (US\$1) thousand. The Company considers the effect is insignificant on this change in accounting principles.

4. Cash and cash equivalents

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$9,028	\$268	\$16,364	\$517
Cash in banks	338,480	10,056	254,979	8,059
Time deposits	3,211,686	95,416	2,061,570	65,157
Cash equivalents	534,292	15,873	90,000	2,845
Total	<u>\$4,093,486</u>	<u>\$121,613</u>	<u>\$2,422,913</u>	<u>\$76,578</u>
Interest rate of time deposits	<u>0.75%~1.6%</u>	<u>0.75%~1.6%</u>	<u>1.30%~1.645%</u>	<u>1.30%~1.645%</u>
Interest rate of cash equivalents	<u>0.95%~0.975%</u>	<u>0.95%~0.975%</u>	<u>1.06%~1.175%</u>	<u>1.06%~1.175%</u>

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5. Short – term investments

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$6,791	\$-	\$-
Less: Allowance for valuation loss	(27,827)	(827)	-	-
Subtotal	200,760	5,964	-	-
Common stock and beneficiary certificates	1,260,523	37,449	1,363,331	43,089
Designated purpose pecuniary trust funds	13,105	389	59,168	1,870
Financial debentures	202,885	6,027	864,997	27,339
Corporate bonds	403,725	11,994	273,315	8,638
Short-term notes	534,292	15,874	90,000	2,845
Subtotal	2,414,530	71,733	2,650,811	83,781
Less: Allowance for valuation loss	-	-	(8,053)	(255)
Cash equivalents	(534,292)	(15,873)	(90,000)	(2,845)
Subtotal	1,880,238	55,860	2,552,758	80,681
Total	\$2,080,998	\$61,824	\$2,552,758	\$80,681

6. Premiums receivable

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$862,527	\$25,625	\$1,011,078	\$31,956
Less: Allowance for bad debts	(5,358)	(159)	(10,111)	(320)
Net	\$857,169	\$25,466	\$1,000,967	\$31,636

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7. Secured loans

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$-	\$-	\$22,000	\$695
Less: Allowance for bad debts	-	-	(1,991)	(63)
Sub-total	-	-	20,009	632
Medium-term secured loans	508,102	15,095	823,679	26,033
Less: Allowance for bad debts	(63,384)	(1,883)	(74,529)	(2,356)
Sub-total	444,718	13,212	749,150	23,677
Long-term secured loans	452,574	13,445	590,679	18,669
Less: Allowance for bad debts	(56,457)	(1,677)	(53,446)	(1,689)
Sub-total	396,117	11,768	537,233	16,980
Total	\$840,835	\$24,980	\$1,306,392	\$41,289
Interest rate	2.48%~5.00%	2.48%~5.00%	1.91%~4.50%	1.91%~4.50%

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

8. Long-term investments

A. Long-term investments in stocks:

Investee	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$222,631	\$6,614	\$377,136	\$11,920
Vista Technology Venture Capital Corp.	9,825	292	8,950	283
Subtotal	232,456	6,906	386,086	12,203
b. Under the cost method:				
KGEX. Com Co., Ltd.	75,000	2,228	75,000	2,370
Taiwan Cement Corp.	8,796	262	8,796	278
Subtotal	83,796	2,490	83,796	2,648
Total	\$316,252	\$9,396	\$469,882	\$14,851

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

	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$234,890	\$6,978	\$218,439	\$6,904
Additional investment	-	-	151,000	4,773
Investment income (loss) by equity method recognized	(3,886)	(115)	16,852	532
Cumulative conversion adjustments by equity method recognized	(27)	(1)	(317)	(10)
Capital surplus by equity method recognized	1479	44	112	4
Balance on June 30	<u>\$232,456</u>	<u>\$6,906</u>	<u>\$386,086</u>	<u>\$12,203</u>

d. The investment gains (losses) recognized by the equity method for the six months ended June 30, 2004 and 2005 are listed below :

Investee	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$1,376	\$41	\$18,796	\$594
Vista Technology Venture Capital Corp.	(5,262)	(156)	(1,944)	(62)
Total	<u>(\$3,886)</u>	<u>(\$115)</u>	<u>\$16,852</u>	<u>\$532</u>

e. In accordance with the ROC SFAS No.5, "Long-Term Investments in Equity Securities" revised on December 9, 2004, and ROC SFAS No.23, "Interim Financial Reporting and Disclosures", the Company is required to obtain the investee Company's financial statements under the equity method for the same period exclude first and third quarter. The accounting treatment of - Investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity

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method. The investment loss of Vista Technology Venture Capital Corp. for the six-month period ended June 30, 2004 was recognized by the equity method based on audited financial statements of 2003 and for the six-month period ended June 30, 2005 was recognized by the equity method based on audited financial statements in the same period.

f. The investment gains of Cathay Venture Capital Corp. for the six-month period ended June 30, 2004 was recognized by the equity method based on unaudited financial statements and for the six-month period ended June 30, 2005 was recognized by the equity method based on audited financial statement.

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

Investee	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$2,403,642	\$71,409	\$2,904,883	\$91,810
Interest rate	4.00%~6.00%	4.00%~6.00%	4.00%~6.30%	4.00%~6.30%

**9. Property and equipment**

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

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Item	June 30, 2005					
	Cost		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$18,760	\$593	\$10,607	\$335	\$8,153	\$258
Other equipment	173,567	5,486	126,548	4,000	47,019	1,486
Subtotal	192,327	6,079	137,155	4,335	55,172	1,744
Prepayments for equipment	2,520	79	-	-	2,520	79
Total	<u>\$194,847</u>	<u>\$6,158</u>	<u>\$137,155</u>	<u>\$4,335</u>	<u>\$57,692</u>	<u>\$1,823</u>

The insurance of insured property and equipment were NT\$120,037(US\$3,566) and NT\$121,296 (US\$3,834) as of June 30, 2004 and 2005, respectively.

10. Securities serving as deposits paid-bonds

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	<u>\$357,833</u>	<u>\$10,631</u>	<u>\$359,518</u>	<u>\$11,363</u>
Interest rate	<u>6.25%~7.75%</u>	<u>6.25%~7.75%</u>	<u>3.00%~6.90%</u>	<u>3.00%~6.90%</u>

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

11. Reserve for operations and liabilities

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

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	January 1, 2005		Provision		Recovered		June 30, 2005	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,031,204	\$127,408	\$4,303,790	\$136,024	\$4,031,204	\$127,408	\$4,303,790	\$136,024
Special reserve	2,570,454	81,241	318,785	10,075	150,437	4,755	2,738,802	86,561
Claims reserve	634,173	20,044	707,157	22,350	608,219	19,223	733,111	23,171
Total	<u>\$7,235,831</u>	<u>\$228,693</u>	<u>\$5,329,732</u>	<u>\$168,449</u>	<u>\$4,789,860</u>	<u>\$151,386</u>	<u>\$7,775,703</u>	<u>\$245,756</u>

## 12. Capital stock and capital increment

As of June 30, 2004 and 2005, the Company has issued 231,701 thousand shares, with NT\$10 par value per share.

## 13. Retained Earnings

### (1) Legal reserve

Pursuant to the Company Law, 10% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if it approves by the Board of Directors.

### (2) Unappropriate retained earnings

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

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

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Alternatively; the Company may pay an extra 10% income tax on the excessive unappropriated retained earnings.

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

14. Personnel, depreciation, depletion and amortization

Item	For the six months ended June 30,2004			For the six months ended June 30,2005		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$233,046	\$233,046	-	\$276,683	\$276,683
Labor & health insurance expenses	-	15,083	15,083	-	17,677	17,677
Pension expenses	-	17,444	17,444	-	18,887	18,887
Other expenses	-	105,146	105,146	-	117,845	117,845
Depreciation	-	9,770	9,770	-	11,742	11,742
Depletion	-	-	-	-	-	-
Amortization	-	2,233	2,233	-	3,627	3,627

Item	For the six months ended June 30,2004			For the six months ended June 30,2005		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	\$6,924	\$6,924	-	\$8,745	\$8,745
Labor & health insurance expenses	-	448	448	-	559	559
Pension expenses	-	518	518	-	597	597
Other expenses	-	3,124	3,124	-	3,725	3,725
Depreciation	-	290	290	-	371	371
Depletion	-	-	-	-	-	-
Amortization	-	66	66	-	115	115

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15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$614,795	\$18,265	\$380,590	\$12,029
Adjustments				
Interest income of tax on a separate basis	(3,689)	(110)	(1,741)	(55)
Losses (gains) on market price loss (recovery) of short-term investments	(24,784)	(736)	16,410	519
Bad debts exceeding legal limitation (recovery)	(4,186)	(124)	(6,851)	(217)
Investment losses (gains) recognized by equity method	3,886	115	(16,852)	(533)
Gains on trading securities	(62,569)	(1,859)	(26,528)	(838)
Realized losses on foreign exchanges	-	-	(920)	(29)
Others	(659)	(19)	(5,750)	(182)
Taxable Income	522,794	15,532	338,358	10,694
Time; taxes rate less progressive difference	25%-10	-	25%-10	-
Subtotal	130,689	3,883	84,580	2,673
Extra 10% income tax on unappropriated retained earnings	2,826	84	-	-
Tax effects under integrated income tax systems	(2,816)	(84)	10	-
Income tax credit	(351)	(11)	(382)	(12)
Subtotal	130,348	3,872	84,208	2,661
Tax on a separate basis	738	22	331	11
Adjustment of prior year's income tax	3,338	99	638	20
Deferred income tax expenses (benefits)	1,063	32	1,943	62
Total income tax expenses	\$135,487	\$4,025	\$87,120	\$2,754

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

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$50,610	\$1,503	\$37,830	\$1,196
Total deferred income tax liabilities	\$-	\$-	\$-	\$-
B. Temporary differences:				
Employee benefits	\$67	\$2	\$-	\$-
Bad debts exceeding legal limitation	202,314	6,010	150,078	4,743
Others	57	2	1,243	40
Total	\$202,438	\$6,014	\$151,321	\$4,783
C. Deferred income tax assets – current	\$50,595	\$1,503	\$37,830	\$1,196
D. Deferred income tax assets – non-current	\$15	\$0	\$-	\$-

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$382 ( US\$12 )	\$-	2009

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

(5) Information related to imputation:

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$3,496	\$104	\$61	\$2

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	June 30, 2004 (Actual)	June 30, 2005(Actual)
Imputation credit account ratio	29.73%	1.83%

(6) Information relating of unappropriated earnings:

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	-	-
Total	\$-	\$-	\$-	\$-

Net income after tax for the six months ended June 30, 2004 and 2005 does not classify as undistributed earnings generated since 1998.

16. Earnings per share

	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$614,795	\$18,265	\$380,590	\$12,029
Net income after taxes (B)	\$479,308	\$14,240	\$293,470	\$9,275
Outstanding number of thousand shares at year-end	231,701	231,701	231,701	231,701
Adjusted weighted average outstanding number of thousand shares(C)	231,701	231,701	231,701	231,701
Earnings per share before income taxes (A)/(C) (dollars)	\$2.65	\$0.08	\$1.64	\$0.05
Earnings per share after income taxes (B)/(C) (dollars)	\$2.07	\$0.06	\$1.27	\$0.04

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17. Related party transactions

(1) *Related parties*

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Cathay Futures Corp	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Cathay Securities Corp.	Affiliate
Cathay Capital Management Inc.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	Affiliate
Vista Technology Venture Capital Corp.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Cathay Bank Property Agency of Association	Affiliate
Wu Ming-Yang	Senior manager

(2) *Transactions with related parties*

A. Premiums income and premiums receivable

Name	For the six months ended June 30, 2004			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$141,669	\$4,209	\$13,176	\$392
Cathay United Bank	61,447	1,826	6,499	193
Others	3,968	117	1,315	39
Total	<u>\$207,084</u>	<u>\$6,152</u>	<u>\$20,990</u>	<u>\$624</u>

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Name	For the six months ended June 30, 2005			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$116,580	\$3,684	\$14,859	\$470
Cathay United Bank	86,622	2,738	1,594	50
Others	8,212	260	925	29
Total	<u>\$211,414</u>	<u>\$6,682</u>	<u>\$17,378</u>	<u>\$549</u>

**B. Insurance claims payment**

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$8,215	\$244	\$2,479	\$78
Cathay United Bank	763	23	162,208	5,127
Total	<u>\$8,978</u>	<u>\$267</u>	<u>\$164,687</u>	<u>\$5,205</u>

**C. Rental expense, guarantee deposits paid and prepaid rents**

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

Name	For the six months ended June 30, 2005					
	Rental expenses		Guarantee deposits paid		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$29,188</u>	<u>\$923</u>	<u>\$13,764</u>	<u>\$435</u>	<u>\$2,417</u>	<u>\$76</u>

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D. Cash in banks

Name	Nature	June 30, 2004		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in Banks	\$310,894	0.10%	\$106
	Time deposits	\$220,400	0.75%~1.50%	\$1,188

Name	Nature	June 30, 2004		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in Banks	\$9,236	0.10%	\$3
	Time deposits	\$6,548	0.75%~1.50%	\$35

Name	Nature	June 30, 2005		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in Banks	\$260,700	0.10%	\$77
	Time deposits	\$320,250	1.67%	\$2,277

Name	Nature	June 30, 2005		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in Banks	\$8,240	0.10%	\$2
	Time deposits	\$10,122	1.67%	\$72

E. Secured loans

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

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Name	For the six months ended June 30, 2004			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$71	\$51	2.48%	\$1

Name	For the six months ended June 30, 2005			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$1,651	\$1,593	2.66%	\$21

Name	For the six months ended June 30, 2005			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$52	\$50	2.66%	\$1

F. Short-term investments-beneficiary certificates

Name		June 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Book value	\$329,705	\$9,795	\$55,410	\$1,751
Investment Trust Co., Ltd.	Fair value	\$341,733	\$10,152	\$65,375	\$2,066

G. Commissions expenses

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Bank Property Agency of Association	\$8,530	\$253	\$15,951	\$504

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H. Handling fee paid

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,242	\$67	\$2,892	\$91

I. Marketing expense and accrued expense

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

Name	For the six months ended June 30, 2005			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$269,482	\$8,517	\$71,031	\$2,245

18. Pledged assets

Item	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	\$357,833	\$10,631	\$359,518	\$11,363

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

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

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19. Other important matters and contingent liabilities

- A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in years 2001、 2002 and 1999 tax returns, amounting to NT\$2,474 (US\$78)、 NT\$1,658 (US\$52) and NT\$2,796 (US\$88), respectively, were rejected by the Tax Authority as being able to offset income tax payable. The Company disputed the above tax assessments and had filed for reinvestigation.
- B. By the date June 30, 2005, the Company had signed some significant rental contracts, and base, which we estimate that the rents for the following 5 years are, as follows:

Period	Amount (NT\$)	Amount (US\$)
July 01, 2005 ~ June 30, 2006	\$61,029	\$1,929
July 01, 2006 ~ June 30, 2007	62,084	1,962
July 01, 2007 ~ June 30, 2008	63,901	2,019
July 01, 2008 ~ June 30, 2009	65,773	2,079
July 01, 2009 ~ June 30, 2010	67,702	2,140
Total	\$320,489	\$10,129

20. Serious damages

None.

21. Subsequent events

None.

22. Other important events

(1) Pension related information

According to the ROC SFAS No. 23 "Interim Financial Reporting and Disclosures",

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the interim financial statements are not required to follow the principles outlined in the ROC SFAS No. 18 “Accounting for Pensions”.

(2) Financial instruments related information

A. Derivative financial instruments related information :

a. Purpose

As of June 30, 2005, the Company enters into forward foreign exchange contracts and futures contracts. The former were to hedge against risks of foreign currency and net assets exchange rate fluctuations while the latter were mainly to hedge against the volatile risks of stock quotes decline. For the purpose of hedging the maximum market risks, the Company adopted those financial derivative instruments highly relevant to the hedged items and assessed its strategies on a regular basis.

b. Credit and market risks

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

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

c. Cash flow and demand

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

d. Forward foreign exchange contracts

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

Item	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Forward exchange contracts				
receivable	\$2,389,638	\$70,993	\$2,886,869	\$91,241
Discount on forward exchange				
contracts	7,716	229	13,965	441
Payables on forward exchange				
purchased	(2,398,025)	(71,242)	(2,886,723)	(91,236)
Net-other receivable (Payable)	<u>\$(671)</u>	<u>\$(20)</u>	<u>\$14,111</u>	<u>\$446</u>

- (b) As of June 30, 2004 and 2005, the Company has forward exchange contracts of approximately US\$71,000 and US\$91,300, respectively, in notional value. The forward foreign exchange contracts as of June 30, 2004 were due between July 14, 2004 and May 26, 2005. In addition, the forward contracts as of June 30, 2005 were due between July 6, 2005 and March 14, 2006.

Item	Contract amount	June 30, 2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>US\$71,000</u>	<u>\$2,398,025</u>	<u>\$71,242</u>	<u>\$2,389,638</u>	<u>\$70,993</u>

  

Item	Contract amount	June 30, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>US\$91,300</u>	<u>\$2,886,723</u>	<u>\$91,236</u>	<u>\$2,886,869</u>	<u>\$91,241</u>

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

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investments in bonds.

Futures Contract:

- a. The Company recognizes NT\$79 (US\$2) offsets before June 30, 2005, as futures trading loss.
- b. 2004: None.

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

**B. Non-derivative financial instruments related information :**

Item	June 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$4,093,486	\$4,093,486	\$121,613	\$121,613
Short-term investments	2,080,998	2,105,029	61,824	62,538
Receivables	1,028,901	1,028,901	30,568	30,568
Claims recoverable from reinsurers	188,370	188,370	5,596	5,596
Due from reinsurers and ceding companies	40,015	40,015	1,189	1,189
Secured loans	840,835	840,835	24,980	24,980
Long-term investment in stocks	316,252	316,252	9,396	9,396
Guarantee deposits paid	16,747	16,747	498	498
Securities serving as deposits paid-bonds	357,833	357,833	10,631	10,631
<b>Liabilities</b>				
Claims outstanding	2,559	2,559	76	76
Due to reinsurers and ceding companies	269,559	269,559	8,008	8,008
Reserve for operations and liabilities	6,967,171	6,967,171	206,987	206,987

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Item	June 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$2,422,913	\$2,422,913	\$76,578	\$76,578
Short-term investments	2,552,758	2,552,758	80,681	80,681
Receivables	1,212,924	1,212,924	38,334	38,334
Claims recoverable from reinsurers	207,902	207,902	6,571	6,571
Due from reinsurers and ceding companies	58,898	58,898	1,862	1,862
Secured loans	1,306,392	1,306,392	41,289	41,289
Long-term investment in stocks	469,882	472,579	14,851	14,936
Guarantee deposits paid	17,203	17,203	544	544
Securities serving as deposits paid-bonds	359,518	359,518	11,363	11,363
<b>Liabilities</b>				
Claims outstanding	795	795	25	25
Due to reinsurers and ceding companies	254,524	254,524	8,044	8,044
Reserve for operations and liabilities	7,775,703	7,775,703	245,755	245,755

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

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

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

(3) Discretionary account management

Item	December 31, 2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$75,998	\$2,258	\$72,260	\$2,147
Short-term notes	20,019	594	20,019	594
Cash in banks	57,724	1,715	57,724	1,715
Net other assets less liabilities	(6,033)	(179)	(6,033)	(179)
Total	<u>\$147,708</u>	<u>\$4,388</u>	<u>\$143,970</u>	<u>\$4,277</u>

Item	December 31, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$48,913	\$1,546	\$51,037	\$1,613
Short-term notes	15,028	475	15,028	475
Cash in banks	40,236	1,272	40,236	1,272
Net other assets less liabilities	1,073	34	1,073	34
Total	<u>\$105,250</u>	<u>\$3,327</u>	<u>\$107,374</u>	<u>\$3,394</u>

As of June 30, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$150,000 (US\$4,456) and NT\$100,000 (US\$3,161), respectively.

(4) Material Contract

None

(5) Presentation of Financial Statements:

Certain accounts in financial statements for the six months ended June 30, 2004 have

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been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 2005.

23. Information for investment in Mainland China

None

24. Segment information:

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