

Cathay Life Insurance Co., Ltd.
Financial statements
Together with
Report of independent auditors
As of June 30, 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 FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' report	3
Balance sheets as of June 30, 2004 and 2005	4-5
Statements of income for the six months ended June 30, 2004 and 2005	6
Statements of changes in stockholders' equity for the six months ended June 30, 2004 and 2005	7
Statements of cash flows for the six months ended June 30, 2004 and 2005	8-9
Notes to financial statements	10-59

English Translation of Report Originally Issued in Chinese

Independent auditors' report

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

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. as of June 30, 2004 and 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 auditing standards generally accepted in the Republic of China, and "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements". 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Life Insurance Co., Ltd. as of June 30, 2004 and 2005, and the results of its operations and their cash flows for the six month periods then ended 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
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 jurisdictions. 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 Life Insurance Co., Ltd.

Balance sheets

As of June 30, 2004 and 2005

(Expressed in thousands of dollars)

Assets	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$132,008,318	\$3,921,816	\$211,949,462	\$6,698,782
Short-term investments	2,5	371,443,785	11,035,169	367,401,851	11,611,942
Notes receivable		12,562,060	373,204	10,278,092	324,845
Accounts receivable-related parties	18	163,699	4,863	84,885	2,683
Tax refund receivable		17,720	526	17,721	560
Interest receivable		8,549,522	253,996	8,957,774	283,115
Other accounts receivable		4,620,197	137,262	5,425,096	171,463
Other financial assets-current		-	-	5,000,000	158,028
Prepayments		104,760	3,112	87,101	2,753
Subtotal		<u>529,470,061</u>	<u>15,729,948</u>	<u>609,201,982</u>	<u>19,254,171</u>
Exchange bills negotiated, discounted and loans					
Policy loans	2,6	178,400,034	5,300,060	166,262,058	5,254,806
Short-term secured loans		5,564	165	202,115	6,388
Medium-term secured loans		10,091,346	299,803	11,805,476	373,119
Long-term secured loans		277,401,430	8,241,278	266,322,070	8,417,259
Subtotal		<u>465,898,374</u>	<u>13,841,306</u>	<u>444,591,719</u>	<u>14,051,572</u>
Funds, long-term investments, and receivable					
Long-term investments in stocks	2,7				
Under the equity method		2,142,276	63,645	3,702,256	117,012
Under the cost method		43,743,787	1,299,577	20,933,511	661,615
Allowance for valuation loss on long-term investments in stocks		(19,419)	(577)	(3,176)	(100)
Long-term investments in bonds	2,8	345,554,058	10,266,015	442,870,971	13,997,186
Investments in real estate	2,9	100,960,476	2,999,420	101,641,333	3,212,431
Other long-term investments		1,628,689	48,387	-	-
Less: Accumulated impairment - long-term investments	2,9	-	-	(199,599)	(6,308)
Subtotal		<u>494,009,867</u>	<u>14,676,467</u>	<u>568,945,296</u>	<u>17,981,836</u>
Property and equipment					
Land	2,10	5,140,646	152,723	5,100,448	161,203
Buildings and construction		11,363,335	337,592	10,874,798	343,704
Communication and transportation equipment		117,680	3,496	75,254	2,378
Other equipment		4,307,361	127,966	4,591,232	145,109
Subtotal		<u>20,929,022</u>	<u>621,777</u>	<u>20,641,732</u>	<u>652,394</u>
Less: Accumulated depreciation		(5,775,662)	(171,588)	(6,019,294)	(190,243)
Less: Accumulated impairment-property and equipment		-	-	(85,519)	(2,703)
Construction in progress and prepayment for equipment		182,641	5,426	17,412	550
Subtotal		<u>15,336,001</u>	<u>455,615</u>	<u>14,554,331</u>	<u>459,998</u>
Intangible assets					
Computer software cost	2	15,346	456	148,929	4,707
Subtotal		<u>15,346</u>	<u>456</u>	<u>148,929</u>	<u>4,707</u>
Other assets					
Non-operating assets	2	1,853,575	55,068	765,374	24,190
Guarantee deposits paid	2,19	4,603,108	136,753	3,755,312	118,689
Overdue receivables	2,11	1,101,134	32,713	702,872	22,215
Temporary payments and suspense accounts		720,241	21,398	999,359	31,585
Securities serving as deposits paid-bonds	2,8,19	7,914,509	235,131	8,075,676	255,236
Deferred income tax assets	2,16	273,251	8,118	430,815	13,616
Investment-linked products assets	2	26,425,804	785,080	54,677,960	1,728,128
Subtotal		<u>42,891,622</u>	<u>1,274,261</u>	<u>69,407,368</u>	<u>2,193,659</u>
Total assets		<u>\$1,547,621,271</u>	<u>\$45,978,053</u>	<u>\$1,706,849,625</u>	<u>\$53,945,943</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 Life Insurance Co., Ltd.

Balance sheets - (continued)

As of June 30, 2004 and 2005

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Notes payable		\$1,415	\$42	\$2,145	\$68
Accounts payable-related parties	18	62,593	1,860	87,158	2,755
Collections for others		177,144	5,262	138,006	4,362
Accrued expenses		1,863,235	55,354	1,906,868	60,268
Taxes payable		529,972	15,745	503,040	15,899
Commissions payable		772,263	22,943	759,869	24,016
Dividends payable		14,249,547	423,338	30,315	958
Life insurance proceeds payable		1,235	36	2,999	95
Other payable		5,157,752	153,231	2,513,278	79,433
Deferred income tax liabilities- current	2,16	749,167	22,257	220,415	6,966
Accounts collected in advance		172,868	5,136	276,279	8,732
Subtotal		23,737,191	705,204	6,440,372	203,552
Long-term liabilities					
Reserve for land revaluation increment tax		3,726	111	3,726	118
Accrued pension liability	2,23	1,083,151	32,179	1,564,460	49,445
Subtotal		1,086,877	32,290	1,568,186	49,563
Other liabilities					
Reserve for operations and liabilities	2				
Unearned premium reserve		8,957,380	266,113	9,506,482	300,458
Reserve for life insurance		1,383,576,713	41,104,478	1,530,486,964	48,371,901
Special reserve		16,418,130	487,764	16,755,665	529,572
Claims reserve		338,377	10,053	350,496	11,077
Miscellaneous liabilities					
Guarantee deposits received		1,418,522	42,143	1,634,584	51,662
Temporary receipts and suspense accounts		859,853	25,545	1,715,544	54,221
Investment-linked products liabilities	2	26,425,804	785,080	54,677,960	1,728,128
Subtotal		1,437,994,779	42,721,176	1,615,127,695	51,047,019
Total liabilities		1,462,818,847	43,458,670	1,623,136,253	51,300,134
Stockholders' equity					
Capital stock					
Common stock	12	50,686,158	1,505,828	50,686,158	1,601,965
Capital surplus		12,591	374	13,153	416
Retained earnings					
Legal reserve	13,16	16,330,948	485,174	17,891,897	565,483
Special reserve		8,016,080	238,149	11,082,320	350,263
Unappropriated retained earnings		9,772,212	290,320	4,150,109	131,167
Equity adjustment					
Unrealized valuation losses on long-term equity investment	2,7	(19,419)	(577)	(3,176)	(100)
Cumulative conversion adjustments	2,13	3,854	115	(107,089)	(3,385)
Total stockholders' equity		84,802,424	2,519,383	83,713,372	2,645,809
Total liabilities and stockholders' equity		\$1,547,621,271	\$45,978,053	\$1,706,849,625	\$53,945,943

(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 Life Insurance Co., Ltd.

Statements of income

For the six months ended June 30, 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		\$127,547,819	\$3,789,299	\$126,610,856	\$4,001,607
Reinsurance commission earned		100,797	2,995	177,767	5,618
Claims recovered from reinsures		158,451	4,707	67,721	2,140
Recovered premiums reserve		60,084,834	1,785,052	50,701,949	1,602,464
Recovered special reserve		84,961	2,524	400,481	12,658
Handling fees earned		504,919	15,001	608,344	19,227
Interest income		27,052,206	803,690	26,177,746	827,362
Gain on disposal of investments		11,587,237	344,244	8,171,190	258,255
Gain on long-term equity investments		68,700	2,041	37,214	1,176
Gain on investments-real estate		2,194,070	65,183	2,732,416	86,360
Investment-linked products revenues	2	14,573,555	432,964	23,007,420	727,163
Subtotal		<u>243,957,549</u>	<u>7,247,700</u>	<u>238,693,104</u>	<u>7,544,030</u>
Operating costs	2				
Insurance expenses		(240,252)	(7,138)	(279,024)	(8,819)
Brokerage expenses		(11,117,227)	(330,280)	(11,411,922)	(360,680)
Commissions expenses		(253,084)	(7,519)	(246,211)	(7,782)
Insurance claims payment		(73,633,270)	(2,187,560)	(65,843,334)	(2,081,015)
Provision for premiums reserve		(123,089,711)	(3,656,854)	(124,506,525)	(3,935,099)
Provision for special reserve		(3,123,100)	(92,784)	(424,028)	(13,402)
Contribution to the stabilization funds		(127,423)	(3,786)	(126,522)	(3,999)
Provision for claims reserve		(8,526)	(253)	(2,462)	(78)
Handling fees paid		(301,905)	(8,969)	(312,252)	(9,869)
Interest expenses		(11,928)	(354)	(23,703)	(749)
Provisions expenses		-	-	(15,924)	(503)
Other operating cost		(1,752,281)	(52,058)	(3,595,258)	(113,630)
Investment-linked products expenses	2	(14,573,555)	(432,964)	(23,007,420)	(727,162)
Subtotal		<u>(228,232,262)</u>	<u>(6,780,519)</u>	<u>(229,794,585)</u>	<u>(7,262,787)</u>
Operating gross profit		<u>15,725,287</u>	<u>467,181</u>	<u>8,898,519</u>	<u>281,243</u>
Operating expenses	2				
Marketing expenses		(1,311,817)	(38,973)	(1,067,623)	(33,743)
Administrative and general expenses		(4,151,884)	(123,348)	(4,151,890)	(131,223)
Operating income		<u>10,261,586</u>	<u>304,860</u>	<u>3,679,006</u>	<u>116,277</u>
Non-operating revenues & gains					
Gains on disposal of property and equipment		1,683	50	7,402	234
Miscellaneous income		1,102,469	32,753	763,347	24,126
Subtotal		<u>1,104,152</u>	<u>32,803</u>	<u>770,749</u>	<u>24,360</u>
Non-operating expenses & losses					
Losses on foreign exchange		(1,513,629)	(44,968)	(895,024)	(28,288)
Losses on disposal of property and equipment		(902)	(27)	(1,210)	(38)
Impairment loss		-	-	(285,118)	(9,011)
Miscellaneous expenses		(2,202)	(65)	(3,957)	(125)
Subtotal		<u>(1,516,733)</u>	<u>(45,060)</u>	<u>(1,185,309)</u>	<u>(37,462)</u>
Income from continuing operations before income taxes		9,849,005	292,603	3,264,446	103,175
Income taxes benefit (expense)	2,16	(67,475)	(2,005)	885,663	27,992
Net income		<u>\$9,781,530</u>	<u>\$290,598</u>	<u>\$4,150,109</u>	<u>\$131,167</u>
Earnings per share (In dollars)	17				
Income before income tax		<u>\$1.95</u>	<u>\$0.06</u>	<u>\$0.64</u>	<u>\$0.02</u>
Net income		<u>\$1.94</u>	<u>\$0.06</u>	<u>\$0.82</u>	<u>\$0.03</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.

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

Summary	Retained earnings										Equity adjustments				Treasury stock		Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investment		Cumulative conversion adjustments		NT\$	US\$	NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$				
Balance on January 1, 2004	\$50,686,158	\$1,505,828	\$5,200	\$154	\$14,552,065	\$432,325	\$6,249,135	\$185,655	\$17,788,827	\$528,486	\$(19,419)	\$(577)	\$4,341	\$129	\$(3,032,966)	\$(90,106)	\$86,233,341	\$2,561,894
Appropriations and Distributions for 2003																		
Legal reserve	-	-	-	-	1,778,883	52,849	-	-	(1,778,883)	(52,849)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,766,945	52,494	(1,766,945)	(52,494)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(14,010,243)	(416,229)	-	-	-	-	-	-	(14,010,243)	(416,229)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(241)	-	-	-	-	-	-	(8,100)	(241)
Bonus paid to employees	-	-	-	-	-	-	-	-	(224,656)	(6,674)	-	-	-	-	-	-	(224,656)	(6,674)
Capital surplus-long-term equity investment	-	-	7,391	220	-	-	-	-	-	-	-	-	-	-	-	-	7,391	220
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(487)	(14)	-	-	(487)	(14)
Disposal of treasury stock	-	-	-	-	-	-	-	-	(9,318)	(277)	-	-	-	-	3,032,966	90,106	3,023,648	89,829
Net income after tax for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	9,781,530	290,598	-	-	-	-	-	-	9,781,530	290,598
Balance on June 30, 2004	<u>\$50,686,158</u>	<u>\$1,505,828</u>	<u>\$12,591</u>	<u>\$374</u>	<u>\$16,330,948</u>	<u>\$485,174</u>	<u>\$8,016,080</u>	<u>\$238,149</u>	<u>\$9,772,212</u>	<u>\$290,320</u>	<u>\$(19,419)</u>	<u>\$(577)</u>	<u>\$3,854</u>	<u>\$115</u>	<u>\$-</u>	<u>\$-</u>	<u>\$84,802,424</u>	<u>\$2,519,383</u>
Balance on January 1, 2005	\$50,686,158	\$1,601,965	\$12,591	\$398	\$16,330,948	\$516,149	\$8,016,080	\$253,353	\$15,609,488	\$493,346	\$-	\$-	\$(83,445)	\$(2,637)	\$-	\$-	\$90,571,820	\$2,862,574
Appropriations and Distributions for 2004																		
Legal reserve	-	-	-	-	1,560,949	49,334	-	-	(1,560,949)	(49,334)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,066,240	96,910	(3,066,240)	(96,910)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,906,612)	(344,710)	-	-	-	-	-	-	(10,906,612)	(344,710)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(256)	-	-	-	-	-	-	(8,100)	(256)
Bonus paid to employees	-	-	-	-	-	-	-	-	(67,587)	(2,136)	-	-	-	-	-	-	(67,587)	(2,136)
Capital surplus-long-term equity investment	-	-	562	18	-	-	-	-	-	-	-	-	-	-	-	-	562	18
Unrealized valuation losses on long-term equity investment	-	-	-	-	-	-	-	-	-	-	(3,176)	(100)	-	-	-	-	(3,176)	(100)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(23,644)	(748)	-	-	(23,644)	(748)
Net income after tax for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	4,150,109	131,167	-	-	-	-	-	-	4,150,109	131,167
Balance on June 30, 2005	<u>\$50,686,158</u>	<u>\$1,601,965</u>	<u>\$13,153</u>	<u>\$416</u>	<u>\$17,891,897</u>	<u>\$565,483</u>	<u>\$11,082,320</u>	<u>\$350,263</u>	<u>\$4,150,109</u>	<u>\$131,167</u>	<u>\$(3,176)</u>	<u>\$(100)</u>	<u>\$(107,089)</u>	<u>\$(3,385)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$83,713,372</u>	<u>\$2,645,809</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.

Cathay Life Insurance Co., Ltd.
Statements of cash flows
(Expressed in thousands of dollars)
For the six months ended June 30, 2004 and 2005

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the period	\$9,781,530	\$290,598	\$4,150,109	\$131,167
Adjustments:				
Recovered bad debt	(66,483)	(1,975)	(172,516)	(5,452)
Depreciation	933,425	27,731	1,102,045	34,831
Amortization	1,083	32	14,743	466
Miscellaneous expenses	76	2	-	-
Impairment loss	-	-	285,118	9,011
Provision or recovered for each reserve	66,051,542	1,962,316	73,830,584	2,333,457
Gain on disposal of property and equipment	(780)	(23)	(6,191)	(196)
Loss(gain) on disposal of investments	906	27	(252,345)	(7,976)
Gain(loss) on disposal of real estate	(97)	(3)	10,664	337
Realized loss on long-term investments	-	-	3,585	113
Amortization of long-term investments in bonds	29,076	864	110,984	3,508
Unrealized gain(loss) on long-term investments	(1,559)	(46)	8,393	265
Effects of exchange rate changes	(52)	(2)	1,109	35
Increase in short-term investments	(56,868,943)	(1,689,511)	(80,944,756)	(2,558,305)
Decrease in notes receivable	2,694,202	80,042	2,082,568	65,821
Increase in notes and accounts receivable-related parties	(115,998)	(3,446)	(5,312)	(168)
Increase in prepayments	(74,338)	(2,208)	(63,228)	(1,998)
Decrease in other current assets	4,507,013	133,898	11,602,929	366,717
(Increase)decrease in temporary payments and suspense accounts	(476,117)	(14,145)	61,957	1,958
Decrease in other assets-other	-	-	42,957	1,358
Increase in deferred income tax assets-noncurrent	(13,527)	(402)	(73,887)	(2,335)
(Decrease)increase in notes payable	(187)	(6)	197	6
(Decrease)increase in accounts payable-related parties	(147,148)	(4,372)	1,857	59
Decrease in accrued expenses	(1,555,226)	(46,204)	(1,780,940)	(56,288)
Increase in other payable	3,805,834	113,067	138,158	4,367
(Increase)decrease in accounts collected in advance	(362,209)	(10,761)	120,477	3,808
(Increase)decrease in other current liabilities	34,448	1,023	(8,698)	(275)
Increase in accrued pension liability	350,661	10,418	136,750	4,322
Increase(decrease) in temporary receipts and suspense accounts	257,396	7,647	(494,914)	(15,642)
Decrease in deferred income tax liabilities-current	(376,076)	(11,173)	(222,385)	(7,029)
Net cash provided by operating activities	28,388,452	843,388	9,680,012	305,942
Cash flows from investing activities				
Decrease in policy loans	5,321,365	158,091	3,068,010	96,966
Decrease in secured loans	7,143,256	212,218	3,194,516	100,965
Acquisition of long-term investments	(14,215,637)	(422,330)	(13,605,239)	(430,001)
Proceeds from disposal of long-term investments	806,476	23,959	4,216,078	133,252
Recovered proceeds of long-term investments	-	-	40,861	1,291
Disposal of investments in real estate	1,493,592	44,373	29,450	931
Acquisition of investments in real estate	(8,576,883)	(254,809)	(897,150)	(28,355)
Disposal of property and equipment	12,376	368	103,503	3,271
Acquisition of property and equipment	(223,423)	(6,638)	(317,817)	(10,045)
Acquisition of intangible assets	-	-	(94,751)	(2,995)
Decrease in non-operating assets	1,148,472	34,120	351,292	11,103
Increase in guarantee deposits paid	(3,426,282)	(101,791)	(2,533,549)	(80,074)
Decrease in overdue receivables	307,308	9,130	300,896	9,510
Net cash used in investing activities	(10,209,380)	(303,309)	(6,143,900)	(194,181)

(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.

Cathay life insurance Co., Ltd.
Statements of cash flows-(continued)
(Expressed in thousands of dollars)
For the six months ended June 30, 2004 and 2005

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Decrease in guarantee deposits received	91,137	2,708	(12,847)	(406)
Remuneration paid to directors and supervisors	(8,100)	(241)	(8,100)	(256)
Bonus paid to employees	-	-	(67,587)	(2,136)
Cash dividends	(110,000)	(3,268)	(10,906,612)	(344,710)
Disposal of treasury stock	3,023,647	89,829	-	-
Net cash provided(used) in financing activities	2,996,684	89,028	(10,995,146)	(347,508)
Effects of exchange rate changes	52	2	(1,109)	(35)
Increase(decrease) in cash and cash equivalents	21,175,808	629,109	(7,460,143)	(235,782)
Cash and cash equivalents at the beginning of year	110,832,510	3,292,707	219,409,605	6,934,564
Cash and cash equivalents at the end of year	\$132,008,318	\$3,921,816	\$211,949,462	\$6,698,782
Supplemental disclosure of cash flows information				
Interest paid during the year	\$5,759	\$171	\$12,678	\$401
Interest paid (excluding capitalized interest)	\$5,759	\$171	\$12,678	\$401
Income tax paid	\$235,770	\$7,004	\$488,270	\$15,432

(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 Life 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 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 June 30, 2004 and 2005, the total number of employees was 27,780 and 26,163, 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 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

(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 weighted-average method.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(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 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

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 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

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 June 30, 2005, an aggregate of NT\$2,413,432 (US\$76,278) 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 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

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\$11,082,320 (US\$350,263) from the “Special Reserve for the Loss Movement” as of June 30, 2005.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(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.

The Labor Pension Act of R.O.C. (“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.

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(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.

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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.

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) Treasury stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is recorded at the cost of the shares purchased. When the disposal price of the treasury stock is greater than the cost, the difference is credited to capital surplus. If the disposal price is lower than cost, the difference is debited to capital surplus. If capital surplus is insufficient to cover the excess of the cost over the price, the difference is charged to retained earnings. The book value of treasury stock is calculated using the weighted-average method based on the security type and the reason of repurchase.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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

(19) Derivative financial products transaction

A. Forward foreign exchange contracts for hedging purposes

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

B. Currency swap (CS)

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

The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis in the balance sheets.

C. Cross-currency swap (CCS)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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.

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.

(20) 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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”.

(21) Convenience conversion into U.S. 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 NT\$33.66 to US\$1.00 and NT\$31.64 to US\$1.00 effective at 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 dollars have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects

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 June 30, 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\$199,599 (US\$6,308) and NT85, 519 (US\$2,703) as of June 30, 2005, respectively, and decreased the Company’s income before income tax by NT\$285,118 (US\$9,011) for the six months ended June 30, 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 increase the Company’s long-term investment account by NT\$34,580 (US\$1,093) as of June 30, 2005, cumulative conversion adjustments increased by NT\$347 (US\$11), unrealized valuation losses on long-term equity investments decrease by NT\$27,230 (US \$861) and net income increased by NT\$7,003 (US\$221) for the six months ended June 30, 2005, respectively. Such an effect is not considered significant.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

4. Cash and cash equivalents

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$396,159	\$11,769	\$346,142	\$10,940
Cash in banks	4,245,553	126,131	2,611,947	82,552
Time deposits	77,189,274	2,293,205	144,046,462	4,552,670
Cash equivalents	50,177,332	1,490,711	64,944,911	2,052,620
Total	<u>\$132,008,318</u>	<u>\$3,921,816</u>	<u>\$211,949,462</u>	<u>\$6,698,782</u>

5. Short-term investments

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Common stock and beneficiary certificates	\$125,772,503	\$3,736,557	\$134,414,124	\$4,248,234
Overseas investments	154,397,823	4,586,982	152,152,911	4,808,879
Designated purpose trust fund	42,326,889	1,257,483	23,614,390	746,346
Corporate bonds	8,202,001	243,672	7,408,547	234,151
Government bonds	17,054,309	506,664	13,822,916	436,881
Financial debentures	18,000,000	534,760	35,890,261	1,134,332
Short-term notes	55,867,592	1,659,762	65,043,613	2,055,740
Sub-total	421,621,117	12,525,880	432,346,762	13,664,563
Less: Cash equivalents	(50,177,332)	(1,490,711)	(64,944,911)	(2,052,621)
Allowance for valuation loss of short-term investment	-	-	-	-
Total	<u>\$371,443,785</u>	<u>\$11,035,169</u>	<u>\$367,401,851</u>	<u>\$11,611,942</u>

6. Loans

(1) Policy loans

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

- 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.

(2) Secured loans

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$5,600	\$166	\$203,417	\$6,429
Less: Allowance for bad debts	(36)	(1)	(1,302)	(41)
Sub-total	5,564	165	202,115	6,388
Medium-term secured loans	10,156,603	301,741	11,881,563	375,524
Less: Allowance for bad debts	(65,257)	(1,938)	(76,087)	(2,405)
Sub-total	10,091,346	299,803	11,805,476	373,119
Long-term secured loans	279,252,216	8,296,263	268,073,269	8,472,605
Less: Allowance for bad debts	(1,850,786)	(54,985)	(1,751,159)	(55,346)
Sub-total	277,401,430	8,241,278	266,322,070	8,417,259
Total	\$287,498,340	\$8,541,246	\$278,329,661	\$8,796,766

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 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

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>	June 30,			
	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.	\$375,627	\$11,159	\$361,530	\$11,426
Vista Technology Venture Capital Corp.	49,126	1,460	44,751	1,414
Omnitek Venture Capital Corp.	152,081	4,518	161,420	5,102
Wa Tech Venture Capital Co., Ltd.	178,895	5,315	148,434	4,691
IBT Venture Capital Corp.	575,239	17,090	508,247	16,064
Cathay Insurance (Bermuda) Co., Ltd.	59,883	1,779	59,492	1,880
Symphox Information Co., Ltd.	261,257	7,762	265,795	8,401
Cathay Securities Investment Trust Co., Ltd.	208,198	6,185	219,630	6,942
Cathay Venture Capital Crop.	222,631	6,614	377,136	11,920
Lin Yuan Property Management Co., Ltd.	19,430	577	40,508	1,280
Cathay Securities Investment Co., Ltd.	20,490	609	29,710	939
Cathay Life Insurance Ltd. (Shanghai)	-	-	1,482,427	46,853
Sub-total	2,122,857	63,068	3,699,080	116,912

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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

Chunghwa Telecom Co., Ltd.	33,581,819	997,677	-	-
WK Technology Fund Co., Ltd.	100,000	2,971	100,000	3,161
Taiwan Aerospace Company	110,500	3,283	110,500	3,492
Concord Venture Capital Co., Ltd.	89,280	2,652	89,280	2,822
Taipei Financial Center Corp.	1,441,591	42,828	1,541,591	48,723
InveStar Dayspring V.C. Inc.	200,000	5,942	200,000	6,321
FAT Venture Capital Co., Ltd.	50,000	1,485	40,000	1,264
Concord Venture Capital Co., Ltd.	50,000	1,485	50,000	1,580
WK Technology Fund Co., Ltd.	150,000	4,456	150,000	4,741
WK Technology Fund Co., Ltd.	127,200	3,779	127,200	4,020
Century Venture Capital Co., Ltd.	100,000	2,971	100,000	3,161
China Power Venture Capital Co., Ltd.	190,000	5,645	190,000	6,005
Super Tech Venture Capital Corp.	100,000	2,971	100,000	3,161
CDIB & Partners Investment Holding Corp.	500,000	14,854	500,000	15,803
Alex-Tech Machinery Industrial Co., Ltd.	7,008	208	7,008	221
R.O.C. Venture Capital Co., Ltd.	151,970	4,515	151,970	4,803

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

National Venture Capital Co., Ltd.	100,000	2,971	100,000	3,161
WK Technology Fund Co., Ltd.	200,000	5,942	200,000	6,321
Capital Venture Fund Corp.	50,000	1,485	50,000	1,580
Fu Yu Venture Capital Investment Corp.	200,000	5,942	200,000	6,321
Concord Venture Capital Co., Ltd.	100,000	2,971	100,000	3,161
New Century InfoComm Tech Co., Ltd.	1,268,000	37,671	1,268,000	40,076
Srsuntour Co., Ltd.	62,000	1,842	62,000	1,960
Titan Venture Capital Co., Ltd.	150,000	4,456	150,000	4,741
Harbinger Venture Capital Corp.	200,000	5,942	200,000	6,321
Prosperity Venture Capital Corp.	100,000	2,971	100,000	3,161
KGEx.com Co., Ltd.	175,000	5,199	175,000	5,531
United Venture Corp.	50,000	1,485	50,000	1,580
BioCare Corp.	12,000	357	12,000	379
Megic Corp.	18,000	535	18,000	569
WK Technology Fund Co., Ltd.	200,000	5,942	200,000	6,321
Hua Chih Venture Capital Corp.	60,000	1,783	60,000	1,896
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,377	80,000	2,528
Win Semiconductors Corp.	16,364	486	16,364	517
Kinik Precision Grinding Co., Ltd.	6,000	178	7,800	247
Vita Genomics Inc.	87,500	2,600	87,500	2,765
Tong Hsing Electronic Inc. Co., Ltd.	27,144	807	27,144	858

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

China Technology Venture Capital Corp.	50,000	1,485	50,000	1,580
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,701	259,200	8,192
Applied Vacuum Coating Technologies Co., Ltd.	6,661	198	-	-
TaiGen Biotechnology Co., Ltd.	42,000	1,248	42,000	1,327
Cdid BioScience venture Inc.	285,000	8,467	285,000	9,008
Maxima Venture , Inc, Taiwan	221,130	6,570	315,630	9,976
Parawin Venture Capital Co., Ltd.	50,000	1,485	50,000	1,580
Darly 3 Venture Co., Ltd.	20,000	594	10,200	322
Top Taiwan Venture Capital Co., Ltd.	50,000	1,485	50,000	1,580
Cash Box Audio and Video Co., Ltd.	200,000	5,942	200,000	6,321
Zeng Hsing Industrial Co., Ltd	-	-	28,824	911
Hua Venture Capital Corp.	50,000	1,485	50,000	1,580
Shin Sheng Venture Capital Investment Corp.	50,000	1,485	50,000	1,580
Centillion Venture Capital Corp.	50,000	1,485	50,000	1,580
Harbinger Venture Capital Corp.	100,000	2,971	100,000	3,161
Unitive Semiconductor Taiwan Corp.	24,000	713	24,000	758
Taiwan High Speed Rail Co. – Preferred Stock	1,000,000	29,709	1,000,000	31,606
Enermax Technology Co.	47,600	1,414	-	-
Creative Sensor Inc.	11,820	351	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Tong Lung metal Industry Co., Ltd.-preferred stock	300,000	8,913	300,000	9,482
Hsin Tao Power Co., Ltd.	765,000	22,727	765,000	24,178
CTBI Venture Capital Co., Ltd.	50,000	1,485	50,000	1,580
Ip Fund Two Co., Ltd.	-	-	50,000	1,580
Global Top Partner Venture Capital Co.,Ltd	-	-	300,000	9,482
Chi Mei Corporation. - preferred stock	-	-	10,000,000	316,056
Super Alloy Industrial Co., Ltd.	-	-	10,000	316
Hui Yang Private Equity Fund Co. Ltd	-	-	100,000	3,161
Nan Ya PCB Corporation	-	-	72,300	2,285
Toppoly Optoelectronics Corporation	-	-	100,000	3,161
Sub-total	<u>43,743,787</u>	<u>1,299,577</u>	<u>20,933,511</u>	<u>661,615</u>
Total	<u>\$45,866,644</u>	<u>\$1,362,645</u>	<u>24,632,591</u>	<u>778,527</u>

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

	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$2,114,394	\$62,816	\$3,602,793	\$113,868
Add: Equity investment gains	68,700	2,041	37,214	1,176
Capital surplus- long-term equity investment	7,391	220	562	18
Additional investment	-	-	155,000	4,899
Less: Unrealized valuation losses on long-term equity investment	-	-	(3,176)	(100)
Cash dividends	(67,141)	(1,995)	(45,608)	(1,442)
Recovered proceeds of long-term investments	-	-	(24,061)	(760)
Cumulative conversion adjustments	(487)	(14)	(23,644)	(747)
Balance as of June 30	<u>\$2,122,857</u>	<u>\$63,068</u>	<u>\$3,699,080</u>	<u>\$116,912</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Investee	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
WK Technology Fund Co., Ltd.	\$5,436	\$161	\$ (10,205)	\$ (323)
Vista Technology Venture Capital Corp.	(26,309)	(781)	(9,719)	(307)
Omnitek Venture Capital Corp.	15,039	447	9,924	314
Wa Tech Venture Capital Co., Ltd.	13,793	410	(6,400)	(202)
IBT Venture Capital Corp	30,601	909	22,003	695
Cathay Insurance (Bermuda) Co., Ltd.	3,280	97	414	13
Symphox Information Co., Ltd.	2,632	78	(26)	(1)
Cathay Securities Investment Trust Co., Ltd.	13,538	402	20,185	638
Cathay Venture Capital Corp.	1,376	41	18,796	594
Lin Yuan Property Management Co., Ltd.	4,301	128	14,484	458
Cathay Securities Investment Co., Ltd.	5,013	149	4,048	128
Cathay Life Insurance Ltd. (Shanghai)	-	-	(26,290)	(831)
Total	\$68,700	\$2,041	\$37,214	\$1,176

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

- (4) The equity investment gains (losses) were recognized based on their audited financial statements for the six months ended June 30, 2005, except for Wa Tech Venture capital Co., Ltd. was recognized based on the unaudited financial statements.
- (5) It is not practicable for some investee companies under the equity method to provide timely audited financial statements. If the Company owns less than 50% interest of such investees, the recognition investment gains or losses for those investees shall be deferred to next year. That is, the Company will recognize its investment gains or losses in proportion to its equivalent stock ownership in the following year.

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

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

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

8. Long-term investments in bonds

Long-term investments in bonds consist mainly of government bonds as of June 30, 2004 and 2005. Government Bonds were deposited with the Central Bank of China as capital guarantee deposits. As of June 30, 2004 and 2005, the capital guarantee deposits amounted to NT\$7,914,509 (US\$235,131) and NT\$8,075,676 (US\$255,236), 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 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

One of the long-term investments in bonds, Global structured notes, amounted to NT\$35,120,909 (US\$1,043,402) and NT\$42,522,503 (US\$1,343,948) as of June 30, 2004 and 2005, respectively.

9. Investments in real estate

Item	June 30, 2004									
	Cost		Revaluation surplus		Accumulated depreciation		Net value			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$104,476,112	\$3,103,866	\$4,681	\$139	\$(12,323,151)	\$(366,107)	\$92,157,642		\$2,737,898	
Construction	8,802,834	261,522	-	-	-	-	8,802,834		261,522	
Total	\$113,278,946	\$3,365,388	\$4,681	\$139	\$(12,323,151)	\$(366,107)	\$100,960,476		\$2,999,420	
Item	June 30, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$113,453,569	\$3,585,764	\$4,563	\$144	\$(14,088,344)	\$(445,270)	\$(199,599)	\$(6,308)	\$99,170,189	\$3,134,330
Construction	2,271,545	71,793	-	-	-	-	-	-	2,271,545	71,793
Total	\$115,725,114	\$3,657,557	\$4,563	\$144	\$(14,088,344)	\$(445,270)	\$(199,599)	\$(6,308)	\$101,441,734	\$3,206,123

- (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 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

10. Property and equipment

Item	June 30, 2004							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,138,553	\$152,661	\$2,093	\$62	\$-	\$-	\$5,140,646	\$152,723
Buildings and construction	11,363,335	337,592	-	-	(3,211,182)	(95,401)	8,152,153	242,191
Communication and transportation equipment	117,680	3,496	-	-	(59,364)	(1,763)	58,316	1,733
Other equipment	4,307,361	127,966	-	-	(2,505,116)	(74,424)	1,802,245	53,542
Sub-total	20,926,929	621,715	2,093	62	(5,775,662)	(171,588)	15,153,360	450,189
Construction in progress	127,434	3,786	-	-	-	-	127,434	3,786
Prepayment for equipment	55,207	1,640	-	-	-	-	55,207	1,640
Total	\$21,109,570	\$627,141	\$2,093	\$62	\$(5,775,662)	\$(171,588)	\$15,336,001	\$455,615

Item	June 30, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,098,236	\$161,133	\$2,212	\$70	\$-	\$-	\$(51,331)	\$(1,622)	\$5,049,117	\$159,581
Buildings and construction	10,874,798	343,704	-	-	(3,140,839)	(99,268)	(34,188)	(1,081)	7,699,771	243,355
Communication and transportation equipment	75,254	2,378	-	-	(44,200)	(1,397)	-	-	31,054	981
Other equipment	4,591,232	145,109	-	-	(2,834,255)	(89,578)	-	-	1,756,977	55,531
Sub-total	20,639,520	652,324	2,212	70	(6,019,294)	(190,243)	(85,519)	(2,703)	14,536,919	459,448
Construction in progress	17,412	550	-	-	-	-	-	-	17,412	550
Total	\$20,656,932	\$652,874	\$2,212	\$70	\$(6,019,294)	\$(190,243)	\$(85,519)	\$(2,703)	\$14,554,331	\$459,998

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 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

11. Overdue receivables

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,202,268	\$65,427	\$1,365,184	\$43,147
Allowance for bad and doubtful debts	(1,101,134)	(32,714)	(662,312)	(20,932)
Total	<u>\$1,101,134</u>	<u>\$32,713</u>	<u>\$702,872</u>	<u>\$22,215</u>

12. Capital stock

As of June 30, 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 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

- 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. Treasury stock

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

(Unit: thousand shares)

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

- (2) Pursuant to the ROC Securities and Exchange Law, the outstanding issued shares, which a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 30, 2001 the Company has acquired 156,927,000 shares of treasury stock for NT\$7,333,863 (US\$217,881).
- (3) Treasury stock of the Company was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. As a result of this conversion, Cathay Financial Holding owns 100% of the Company's shares.
- (4) The Company had been transferred 51,551,000 shares to its employees at transferred price of NT58.83 dollars/share (US 1.78 dollars/share) and was approved by the SFC on March 13, 2004. After the transfer transaction, the treasury stock holdings of the Company has been reduced to 0 share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

15. Personnel, depreciation, depletion and amortizations

Item	For the six months ended June 30, 2004			For the six months ended June 30, 2004		
	NT\$			US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	\$9,567,045	\$1,740,581	\$11,307,626	\$284,226	\$51,711	\$335,937
Labor & health insurance expenses	583,559	102,836	686,395	17,337	3,055	20,392
Pension expenses	421,463	74,271	495,734	12,521	2,207	14,728
Other expenses	501,783	105,688	607,471	14,907	3,140	18,047
Depreciation	-	933,425	933,425	-	27,731	27,731
Depletion	-	-	-	-	-	-
Amortizations	-	1,083	1,083	-	32	32

Item	For the six months ended June 30, 2005			For the six months ended June 30, 2005		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$10,139,323	\$1,458,016	\$11,597,339	\$320,459	\$46,081	\$366,540
Labor & health insurance expenses	521,536	95,017	616,553	16,483	3,003	19,486
Pension expenses	233,067	42,462	275,529	7,366	1,342	8,708
Other expenses	475,022	122,766	597,788	15,013	3,880	18,893
Depreciation	-	1,102,045	1,102,045	-	34,831	34,831
Depletion	-	-	-	-	-	-
Amortizations	-	14,743	14,743	-	466	466

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

16. Estimated income taxes

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$9,849,005	\$292,603	\$3,264,446	\$103,175
Adjustments				
Interest income of tax on a separate basis	(538,467)	(15,997)	(1,035,772)	(32,736)
Gain on disposal of investments	(8,416,612)	(250,048)	(6,217,171)	(196,497)
Unrealized exchange loss	1,513,681	44,969	903,012	28,540
Cash dividend	(248,953)	(7,396)	(343,635)	(10,861)
Impairment loss	-	-	285,118	9,011
Bad debt exceeding legal limit	(295,619)	(8,783)	-	-
Pension expense not actually contributed	350,661	10,418	136,750	4,322
Others	(476,939)	(14,169)	(85,107)	(2,690)
Taxable income	1,736,757	51,597	(3,092,359)	(97,736)
Times: taxes rate	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	335,222	9,959	297,688	9,409
Less: tax effects under integrated income tax systems	(335,222)	(9,959)	(297,688)	(9,409)
Sub-total	434,189	12,899	(733,090)	(24,434)
Add: Tax on a separate basis	106,792	3,173	205,720	6,502
Beginning deferred income tax assets	270,265	8,029	364,579	11,523
Ending deferred income tax liabilities	757,365	22,500	224,698	7,102
Less: Income tax credit	(15,774)	(468)	(3,873)	(122)
Beginning deferred income tax liabilities	(1,135,785)	(33,743)	(450,452)	(14,237)
Ending deferred income tax assets	(281,449)	(8,361)	(435,098)	(13,752)
Dissimilitude on estimate tax after time	(68,128)	(2,024)	(18,147)	(574)
Total income tax expense (benefit)	\$67,475	\$2,005	\$(885,663)	\$(27,992)

(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 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

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

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Total deferred tax liabilities	\$757,365	\$22,500	\$224,698	\$7,102
Total deferred tax assets	\$281,449	\$8,361	\$435,098	\$13,751
Temporary differences:				
Employee benefits	\$21,964	\$653	\$5,393	\$170
Pension expense	1,083,151	32,179	1,564,460	49,446
Unrealized exchange gains	(3,029,460)	(90,002)	(898,795)	(28,407)
Impairment loss	-	-	158,799	5,019
Other	20,682	614	11,739	371
Income tax credit				
Deferred tax assets-current	\$8,198	\$243	\$4,283	\$135
Deferred tax liabilities-current	(757,365)	(22,500)	(224,698)	(7,102)
Net offset balance of deferred tax liabilities-current	<u>\$(749,167)</u>	<u>\$(22,257)</u>	<u>\$(220,415)</u>	<u>\$(6,967)</u>
Deferred tax assets-noncurrent	\$273,251	\$8,118	\$430,815	\$13,616
Deferred tax liabilities-noncurrent	-	-	-	-
Net balance of deferred tax assets -noncurrent	<u>\$273,251</u>	<u>\$8,118</u>	<u>\$430,815</u>	<u>\$13,616</u>

(4) Information related to imputation

	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$50,961</u>	<u>\$1,514</u>	<u>\$63,265</u>	<u>\$2,000</u>

	For the six months ended June 30,	
	2004	2005
	Imputation credit account ratio-actual (May 17, 2004)	8.34%
Imputation credit account ratio-actual (May 2, 2005)	<u>-</u>	<u>9.52%</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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) Related information on undistributed earnings

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

(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	\$3,873	\$122	

17. Earnings per share

	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	\$9,849,005	\$292,603	\$3,264,446	\$103,175
Net income (b)	\$9,781,530	\$290,598	\$4,150,109	\$131,167
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)	5,047,088,973	5,047,088,973	5,068,615,765	5,068,615,765
Earnings per share before income taxes (a) / (c) (dollars)	\$1.95	\$0.06	\$0.64	\$0.02
Earnings per share after income taxes (b) / (c) (dollars)	\$1.94	\$0.06	\$0.82	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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

(Shares)	For the six months ended June30,	
	2004	2005
Shares at the beginning of period	5,068,615,765	5,068,615,765
Less: Treasury stock	(21,526,792)	-
Total	<u>\$5,047,088,973</u>	<u>5,068,615,765</u>

18. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Lin Yuan Property Management Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Ltd. (Shanghai)	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
Seaward Card Co., Ltd.	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Yi Ru Corporation	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 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

(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 six months ended June 30, 2004 and 2005 are listed below:

Name	Item	For the six months ended June 30, 2004	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$5,775	\$172
	Hsinyi District Base-D	20,338	604
	Cathay Information Building	10,569	314
	Ban Ciao Building	113,237	3,364
	Sheraton Taipei Hotel	20,332	604
	Cathay General Hospital	7,120	211
	Siangyang Building	18,362	546
	Huanyu Building	5,984	178
	Xi-Men Bldg.	15,882	472
	Tucheng Dffice Building	50,749	1,508
	Jhunan Building	10,740	319
	Cathay Golden & Sliver Bldg.	3,878	115
	Tian-Mu Shopping Center (B)	4,757	141
	Taipei Financial Center Building	3,883	115
	Li-Yuan Bldg.	3,934	117
	Ji-Long Bldg (II)	2,080	62
Cathay Life Insurance Building	1,757	52	
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	332	10
	Tucheng Office Building	116	3
	Ban Ciao Building	1,310	39
	Total	\$301,135	\$8,946

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Name	For the six months ended June 30, 2005		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$2,659	\$84
	Cathay Golden & Slivr	3,791	120
	Ban Ciao Building	181,599	5,739
	Sheraton Taipei Building	32,576	1,030
	Sainyang Bulding	4,222	133
	Cathay Land Mark	1,500	47
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,474	47
	Total	\$228,102	\$7,209

The total amount of contracted projects for real estate as of June 30, 2004 and 2005 between the Company and San Ching Engineering Co., Ltd. was NT\$9,142,446 (US\$271,612) and NT\$7,412,460 (US\$234,275), respectively.

(B) The Company sold real estate to a related parties for the six months ended June 30, 2004 and 2005 as follows:

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

The Company did not sell any real estate to its related parties for the six months ended June 30, 2005.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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

Name	Rental income			
	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$3,908	\$116	\$4,467	\$141
Cathay Real Estate Development Co., Ltd.	11,365	337	8,028	254
Cathay United Bank	122,421	3,637	134,250	4,243
Cathay Century Insurance Co., Ltd.	26,555	789	27,940	883
Cathay General Hospital	70,758	2,102	65,240	2,062
San Ching Engineering Co., Ltd.	7,196	214	3,784	120
Symphox Information Co., Ltd.	12,421	369	12,474	394
Cathay Securities Investment Trust Co., Ltd.	4,311	128	5,804	184
Taiwan Asset Management Corporation	-	-	7,171	227
Cathay Securities Co., Ltd.	-	-	7,339	232
Cathay Futures Co., Ltd.	-	-	142	4
Cathay Securities Investment Co., Ltd.	2,110	63	1,813	57
Lin Yuan Property Management Co., Ltd.	224	7	130	4
Cathay Capital Management Corporation	-	-	962	30
Seaward Leasing Co., Ltd.	-	-	665	21
Other	61	2	57	2
Total	<u>\$261,330</u>	<u>\$7,764</u>	<u>\$280,266</u>	<u>\$8,858</u>

Name	Guarantee deposits received			
	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$172	\$4,286	\$135
Cathay United Bank	71,262	2,117	75,907	2,399
Cathay Century Insurance Co., Ltd.	13,278	395	13,764	435
Cathay General Hospital	2,354	70	4,509	143
San Ching Engineering Co., Ltd.	7,079	210	2,009	63
Symphox Information Co., Ltd.	1,394	41	1,901	60
Cathay Securities Investment Trust Co., Ltd.	2,144	64	2,738	87
Cathay Securities Co., Ltd.	-	-	3,647	115
Taiwan Asset Management Corporation	-	-	3,477	110
Cathay Securities Investment Co., Ltd.	-	-	877	28
Cathay Capital Management Inc.	-	-	479	15
Seaward Leasing Co., Ltd.	-	-	346	11
Cathay Futures Co., Ltd.	-	-	138	4
Other	77	2	28	1
Total	<u>\$103,384</u>	<u>\$3,071</u>	<u>\$114,106</u>	<u>\$3,606</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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 six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$14,818	\$440	\$14,794	\$468
Lin Yuan Investment Co., Ltd.	3,340	99	2,275	72
Yi Ru Corporation	2,038	61	2,041	64
Total	\$20,196	\$600	\$19,110	\$604

Name	Guarantee deposits paid			
	June 30, 2004		June 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,157	\$272	\$9,031	\$285
Lin Yuan Investment Co., Ltd.	1,650	49	628	20
Yi Ru Corporation	1,190	35	1,190	38
Total	\$11,997	\$356	\$10,849	\$343

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

B. Cash in banks

Name	Item	For the six months ended June 30, 2004		
		Interest Income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$70,846	0.75%~1.90%	\$4,433,650
	Cash in bank	1,143	0.00%~0.20%	6,372,984
Total		\$71,989		\$10,806,634

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

		For the six months ended June 30, 2004		
Name	Item	Interest Income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$2,105	0.75%~1.90%	\$131,719
Bank	Cash in bank	34	0.00%~0.20%	189,334
Total		<u>\$2,139</u>		<u>\$321,053</u>

		For the six months ended June 30, 2005		
Name	Item	Interest Income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$130,225	0.00%~1.69%	\$17,166,250
Bank	Cash in bank	2,047	0.00%~1.05%	3,310,954
Total		<u>\$132,272</u>		<u>\$20,477,204</u>

		For the six months ended June 30, 2005		
Name	Item	Interest		Ending balance
		Income NT\$	Rate	NT\$
Cathay United	Time deposit	\$4,116	0.00%~1.69%	\$542,549
Bank	Cash in bank	65	0.00%~1.05%	104,645
Total		<u>\$4,181</u>		<u>\$647,194</u>

C. Other financial assets-current

		For the six months ended June 30, 2005		
Name	Item	Interest		Ending
		income	Rate	balance
		NT\$		NT\$
Cathay United				
Bank		<u>\$14,703</u>	0.12%~3.03%	<u>\$2,000,000</u>

		For the six months ended June 30, 2005		
Name	Item	Interest		Ending
		income	Rate	balance
		US\$		US\$
Cathay United				
Bank		<u>\$465</u>	0.12%~3.03%	<u>\$63,211</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

The Company did not buy any other financial assets from its related parties for the six months ended June 30, 2004.

D.Secured loans

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

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

Name	For the six months ended June 30, 2005			
	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay General Hospital	<u>\$2,321,146</u>	<u>\$30,809</u>	2.60%~2.84%	<u>\$2,321,013</u>

Name	For the six months ended June 30, 2005			
	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay General Hospital	<u>\$73,361</u>	<u>\$974</u>	2.60%~2.84%	<u>\$73,357</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

E. Beneficiary certificates:

Name		June 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Cost	\$4,436,000	\$131,788	\$4,624,740	\$146,168
Investment Trust Co., Ltd.	Market value	4,452,521	132,279	4,818,376	152,287

F. Accounts receivable – related parties

Name		June 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.		\$31,898	\$948	\$71,030	\$2,245
Cathay General Hospital		120,000	3,565	-	-
Cathay Security Investment Co., Ltd		67	2	60	2
Symphox Information Co., Ltd.		761	22	505	16
Cathay Insurance (Bermuda) Co., Ltd.		10,973	326	13,290	420
Total		\$163,699	\$4,863	\$84,885	\$2,683

G. Other receivable-tax refund receivable

Name		June 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.		\$17,720	\$526	\$1,077,234	\$34,047

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

H. Guarantee deposit paid

Name	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$-	\$-	\$784,167	\$24,784

I. Accounts payable-related parties

Name	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$13,176	\$392	\$14,859	\$470
Symphox Information Co., Ltd.	27,472	816	31,984	1,011
Lin Yuan Property Management Co., Ltd.	14,247	423	40,315	1,274
Cathay Financial Holding Co., Ltd.	299,782	8,906	-	-
Other	7,698	229	-	-

J. Accounts collected in advance

Name	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,406	\$71	\$2,302	\$73
Cathay United Bank	180	6	180	5
Other	113	3	92	3
Total	\$2,699	\$80	\$2,574	\$81

K. Prepayment

Name	June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$5,367	\$159	\$4,872	\$154

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

L. Insurance income

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$104,793	\$3,113	\$153,999	\$4,867
Cathay Financial Holding Co., Ltd.	250	7	362	12
Cathay General Hospital	11,501	342	11,854	375
Cathay Real Estate Development Co., Ltd.	1,037	31	660	21
San Ching Engineering Co., Ltd.	1,142	34	577	18
Cathay Century Insurance Co., Ltd.	3,340	99	3,348	106
Cathay Securities Investment Trust Co., Ltd.	456	14	393	13
Cathay Securities Co., Ltd.	-	-	549	17
Cathay Securities Investment Co., Ltd.	117	3	125	4
Cathay Futures Co., Ltd.	1,496	44	1,134	36
Lin Yuan Investment Co., Ltd.	115	3	139	4
Symphox Information Co., Ltd.	397	12	478	15
Other	84	3	134	4
Total	<u>\$124,728</u>	<u>\$3,705</u>	<u>\$173,752</u>	<u>\$5,492</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

M. Insurance expense

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$141,669	\$4,209	\$116,580	\$3,685

N. Indemnity income

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$8,215	\$244	\$2,479	\$78

O. Reinsurance income

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$51,955	\$1,544	\$47,482	\$1,501

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 six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,565	\$225	\$33,268	\$1,051

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Q. Reinsurance commission expense

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$9,500	\$282	\$5,977	\$189

R. Reinsurance handling fee expense

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$3,795	\$113	\$-	\$-

S. Reinsurance handling fee income

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$6,553	\$207

T. Miscellaneous income

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$255,452	\$7,589	\$251,300	\$7,942
Cathay United Bank	148,163	4,402	66,975	2,117
Cathay Securities Investment Trust Co., Ltd.	3,487	104	3,368	106
Cathay Futures Co., Ltd.	39	1	117	4
Symphox Information Co., Ltd.	-	-	1,391	44
Total	\$407,141	\$12,096	\$323,151	\$10,213

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

U. Commissions expense

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$132,353	\$3,932	\$101,839	\$3,219

V. Marketing expense

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$137,859	\$4,096	\$121,500	\$3,840

W. Administrative and general expense

Name	For the six months ended June 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$361,750	\$10,747	\$382,919	\$12,102
Cathay Securities Investment Co., Ltd.	26,250	779	26,250	830
San Ching Engineering Co., Ltd.	4,500	134	3,594	113
Cathay Real Estate Development Co., Ltd.	4,500	134	3,027	96
Cathay Securities Co., Ltd.	-	-	40,169	1,269
Cathay Futures Co., Ltd.	-	-	3,409	108
Cathay Capital Management Corporation	-	-	5,000	158
Seaward Leasing Co., Ltd.	-	-	1,733	55
Seaward Card Co., Ltd.	-	-	504	16
Cathay General Hospital	-	-	212	7
Total	\$397,000	\$11,794	\$466,817	\$14,754

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Y. Other

As of June 30, 2004 and 2005, the notional amount of the derivative financial instruments transactions with Cathy United Bank are listed below:

Item	June 30,	
	2004	2005
Forward foreign exchange contracts	US\$40,000	US\$106,570
CCS contracts	US\$420,000	US\$765,000
IRS agreements	-	TW\$500,000 (US\$15,803)

19.Pledged assets

As of June 30, 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	\$7,914,509	\$235,131	\$8,075,676	\$255,236
Time deposits	290,550	8,632	232,550	7,350
Total	<u>\$8,205,059</u>	<u>\$243,763</u>	<u>\$8,308,226</u>	<u>\$262,586</u>

20.Other important matters and contingent liabilities

None.

21.Serious damages

None.

22.Subsequent events

None.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

23. Other important events

(1) Pension related information

For the six-month period ended June 30, 2004, the Company recognized net pension costs in the amount of NT\$495,735 (US\$14,728).

As discussed in Note 2, the pension plan of the Company has changed significantly as a result of the enforcement of the Act. The Company has re-estimated its pension costs, based on an updated actuarial report, and recognized a net pension cost of NT\$275,529 (US\$8,708) for the six-month period ended June 30, 2005. And the Company has contributed NT\$138,779 (US\$4,386) to the pension fund for the six month ended June 30, 2005.

(2) Financial instruments related information

A. Derivative financial instruments related information

(A) Purpose

As of June 30, 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(C) Cash flow and demand

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

(D) Product type and condition

a. Futures

		June 30, 2004				
		Contract amount			Net income of fair value estimated	
Item	Transaction type	Lot	(NT\$)	(US\$)	(NT\$)	(US\$)
Bonds futures	Selling out	1,950	\$7,111,443	\$211,273	\$46,852	\$1,392

		June 30, 2005				
		Contract amount			Net loss(income) of fair value estimated	
Item	Transaction type	Lot	(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	488	\$569,034	\$17,985	\$(25,545)	\$(807)
Bonds futures	Selling out	2,684	9,329,184	294,854	10,264	324

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 June 30, 2004 and 2005, the Company had forward foreign exchange contracts of approximately US\$12,914,800 and US\$13,449,800, respectively, in notional value.

The forward foreign exchange contracts as of June 30, 2004, were due between July 1, 2004 and April 8, 2005. In addition, the forward exchange contracts as of June 30, 2005, were due between July 5, 2005 and May 22, 2006.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Item	Contract amount	June 30, 2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	US\$14,418,000	\$487,068,057	\$14,470,233	\$483,843,886	\$14,374,447

Item	Contract amount	June 30, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	US\$15,794,800	\$499,652,303	\$15,791,792	\$497,569,346	\$15,725,959

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	June 30,	
	2004	2005
Short-term and long-term investment	USD 14,418,800	USD 15,794,800

Losses on the forward foreign exchange and currency swap contracts were NT\$349,142 (US\$10,373) and NT\$768,346 (US\$24,284), for the six months ended June 30, 2005.

c. Interest rate swap agreement (IRS)

The IRS agreements of the Company as of June 30, 2005 are set forth below:

Category	Currency	Period	Amount
IRS	NTD	2002.09.13~2015.04.12	NT\$37,234,212 US\$1,176,808

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

d. Option

No option transactions were outstanding on June 30, 2004.

		June 30, 2005				
		Contract amount			Net loss of fair value estimated	
Item	Transaction type	Lot	NT\$	US\$	NT\$	US\$
TXO	Buy in	33,144	\$9,657,535	\$305,232	\$(82,442)	\$(2,606)
TXO	Selling out	16,810	5,211,815	164,722	(42,407)	(1,340)

B. Non-derivative financial instruments related information:

		June 30, 2004			
		NT\$		US\$	
Item		Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>					
Cash and cash equivalents		\$132,008,318	\$132,008,318	\$3,921,816	\$3,921,816
Receivables		12,725,759	12,725,759	378,068	378,068
Short-term investments		371,443,785	372,382,931	11,035,169	11,063,070
Long-term investments in stocks		45,866,644	52,744,116	1,362,645	1,566,967
Guarantee deposits paid		4,603,108	4,603,108	136,753	136,753
Securities serving as deposits paid-bonds		7,914,509	7,914,509	235,131	235,131
<u>Liabilities</u>					
Payables		64,008	64,008	1,902	1,902
Guarantee deposits received		1,418,522	1,418,522	42,143	42,143

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Item	June 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$211,949,462	\$211,949,462	\$6,698,782	\$6,698,782
Receivables	10,362,977	10,362,977	327,528	327,528
Short-term investments	367,401,851	378,349,363	11,611,942	11,957,944
Long-term investments in stocks	24,632,591	24,632,591	778,527	778,527
Guarantee deposits paid	3,755,312	3,755,312	118,689	118,689
Securities serving as deposits paid-bonds	8,075,676	8,075,676	255,236	255,236
<u>Liabilities</u>				
Payables	89,303	89,303	2,822	2,822
Guarantee deposits revived	1,634,584	1,634,584	51,662	51,662

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 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

(3) Discretionary account management

Item	June 30, 2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,173,490	\$64,572	\$2,036,759	\$60,510
Repurchase bonds	5,171,268	153,632	5,171,826	153,649
Short-term securities				
bonds	99,677	2,961	99,787	2,964
Convertible bonds	1,465,847	43,549	1,406,805	41,794
Bonds	4,238,832	125,931	4,225,596	125,538
Cash in bank	890,499	26,456	890,528	26,457
Net other assets less				
liabilities	(23,117)	(687)	(23,117)	(687)
Total	<u>\$14,016,496</u>	<u>\$416,414</u>	<u>\$13,808,184</u>	<u>\$410,225</u>
Item	June 30, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,318,513	\$73,278	\$2,328,332	\$73,588
Repurchase bonds	6,858,783	216,776	6,587,219	208,193
Convertible bonds	33,867	1,070	34,119	1,078
Bonds	3,653,657	115,476	3,665,091	115,837
Cash in banks	56,342	1,781	56,342	1,781
Net other assets less				
liabilities	(88,246)	(2,789)	(88,246)	(2,789)
Total	<u>\$12,832,916</u>	<u>\$405,592</u>	<u>\$12,582,857</u>	<u>\$397,688</u>

As of June 30, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$10,800,000 (US\$320,856), and NT\$11,550,000 (US\$365,044), respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(4) Material contract:

None

(5) Presentation of financial statements:

Certain accounts in the financial statements for the year ended June 30, 2004 have been reclassified in order to be comparable with those in the financial statements for the year ended June 30, 2005.

(6) Other:

None

24. 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\$22,850 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 June 30, 2005, the Company's remittances to this new company totaled approximately US\$48,330.

25. Segment Information

None