

Cathay Century Insurance Co., Ltd.
Financial statements
Together with
Review report
As of September 30, 2004 and 2005

Name of the company: Cathay Century Insurance Co., Ltd.
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English Translation of Review Report Originally Issued in Chinese

Review report of independent accountants

Board of Directors

Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) as of September 30, 2004 and 2005, and the related statements of income, changes in stockholders’ equity, and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month period ended September 30, 2004 and 2005 in order for them to be in conformity with “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and generally accepted accounting principles in the Republic of China.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
Republic of China
October 12, 2005

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets

As of September 30, 2004 and 2005

(Expressed in thousands of dollars)

Assets	Notes	September 30, 2004		September 30, 2005	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$3,663,098	\$107,770	\$2,951,595	\$88,957
Short-term investments	2,5	1,995,735	58,715	2,582,177	77,823
Notes receivable	2	135,227	3,978	131,249	3,956
Interests receivable		31,456	926	29,412	887
Premiums receivable	2,6	817,769	24,059	893,745	26,936
Claims recoverable from reinsurers		277,624	8,168	239,265	7,211
Due from reinsurers and ceding companies		59,462	1,749	218,843	6,596
Other accounts receivable	2	54,401	1,601	31,121	938
Deferred income tax assets - current	2,15	50,766	1,494	37,606	1,133
Prepayments		2,901	85	2,952	89
Subtotal		<u>7,088,439</u>	<u>208,545</u>	<u>7,117,965</u>	<u>214,526</u>
Exchange bills negotiated, discounted and loans					
Short-term secured loans	2,7	-	-	29,214	881
Medium-term secured loans		435,068	12,800	802,703	24,192
Long-term secured loans		388,149	11,420	525,617	15,841
Subtotal		<u>823,217</u>	<u>24,220</u>	<u>1,357,534</u>	<u>40,914</u>
Funds, long-term investments and receivable					
Long-term investments in stocks	2,8				
Under the equity method		235,344	6,924	389,024	11,724
Under the cost method		83,796	2,465	36,000	1,085
Long-term investments in bonds		2,420,578	71,215	3,039,783	91,615
Subtotal		<u>2,739,718</u>	<u>80,604</u>	<u>3,464,807</u>	<u>104,424</u>
Property and equipment					
Communication and transportation equipment	2,9	20,950	616	17,430	525
Other equipment		159,532	4,693	175,705	5,296
Subtotal		<u>180,482</u>	<u>5,309</u>	<u>193,135</u>	<u>5,821</u>
Less: Accumulated depreciation		(125,831)	(3,702)	(142,268)	(4,288)
Prepayments for equipment		977	29	2,520	76
Subtotal		<u>55,628</u>	<u>1,636</u>	<u>53,387</u>	<u>1,609</u>
Intangible assets					
Computer software cost	2	10,111	297	11,940	360
Subtotal		<u>10,111</u>	<u>297</u>	<u>11,940</u>	<u>360</u>
Other assets					
Guarantee deposits paid		16,801	494	21,924	661
Overdue receivables	2	76,504	2,251	174,846	5,270
Temporary payments and suspense accounts		12,042	354	15,039	453
Securities serving as deposits paid-bonds	10,18	356,594	10,491	357,784	10,783
Funds held by ceding companies		8	-	8	-
Deferred pension cost	2,22	6,059	178	6,302	190
Deferred income tax assets- noncurrent	2,15	14	1	-	-
Subtotal		<u>468,022</u>	<u>13,769</u>	<u>575,903</u>	<u>17,357</u>
Total assets		<u><u>\$11,185,135</u></u>	<u><u>\$329,071</u></u>	<u><u>\$12,581,536</u></u>	<u><u>\$379,190</u></u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Unaudited balance sheets-(Continued)
As of September 30, 2004 and 2005
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	September 30, 2004		September 30, 2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Collections for others		\$5,663	\$167	\$6,110	\$184
Accrued expenses		221,467	6,516	187,031	5,637
Commissions payable		981	29	1,083	33
Dividends payable		7,887	232	4,580	138
Claims outstanding		1,496	44	466,616	14,063
Due to reinsurers and ceding companies		153,807	4,525	110,781	3,339
Other payables		524,845	15,441	718,865	21,665
Subtotal		916,146	26,954	1,495,066	45,059
Long-term liabilities					
Accrued pension liabilities	2,22	18,966	558	10,648	321
Subtotal		18,966	558	10,648	321
Other liabilities					
Unearned premiums reserve	2,11	3,950,656	116,230	4,347,925	131,040
Special reserve	2,11	2,534,370	74,562	2,665,237	80,327
Claims reserve	2,11	570,474	16,784	936,914	28,237
Temporary receipts and suspense accounts		55,249	1,625	94,897	2,860
Funds held for reinsurers		184	5	185	6
Subtotal		7,110,933	209,206	8,045,158	242,470
Total liabilities		8,046,045	236,718	9,550,872	287,850
Stockholders' equity					
Capital stock					
Common stock	12	2,317,006	68,167	2,317,006	69,831
Capital surplus		1,909	56	2,021	61
Retained earnings					
Legal reserve	13	220,741	6,494	284,803	8,584
Unappropriated retained earnings		598,174	17,599	426,299	12,848
Equity adjustment					
Cumulative conversion adjustments		1,260	37	535	16
Total stockholders' equity		3,139,090	92,353	3,030,664	91,340
Total liabilities and stockholders' equity		\$11,185,135	\$329,071	\$12,581,536	\$379,190

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2004 and 2005

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

Items	Notes	January 1-September 30, 2004		January 1-September 30, 2005	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$6,034,783	\$177,546	\$6,416,751	\$193,392
Reinsurance commission earned		262,474	7,722	302,371	9,113
Claims recovered from reinsurers		820,056	24,126	2,264,427	68,247
Recovered unearned premiums reserve		3,601,016	105,943	4,031,204	121,495
Recovered special claim reserve		60,462	1,779	331,412	9,988
Recovered claims reserve		32,103	944	38,783	1,169
Handling fee earned		40	1	38	1
Interest income		167,742	4,935	193,568	5,834
Gain on trading bills and securities		129,743	3,817	-	-
Gain on long-term equity investment		-	-	18,790	566
Subtotal		<u>11,108,419</u>	<u>326,813</u>	<u>13,597,344</u>	<u>409,805</u>
Operating costs	2				
Reinsurance premiums ceded		(2,088,116)	(61,433)	(2,058,196)	(62,031)
Commissions expenses		(98,447)	(2,896)	(124,372)	(3,748)
Insurance claims payment		(2,509,323)	(73,825)	(4,576,571)	(137,932)
Provision for unearned premiums reserve		(3,950,656)	(116,230)	(4,347,925)	(131,040)
Provision for special claim reserve		(332,064)	(9,769)	(426,195)	(12,845)
Contribution to the stabilization funds		(11,284)	(332)	(11,969)	(361)
Provision for claims reserve		(38,783)	(1,141)	(44,284)	(1,335)
Handling fee paid		(174,666)	(5,139)	(159,181)	(4,797)
Interest expenses		(92)	(3)	-	-
Loss on trading bills and securities		-	-	(267)	(8)
Loss on long-term equity investment		(999)	(29)	-	-
Agent expenses		(3,134)	(92)	(5,906)	(178)
Subtotal		<u>(9,207,564)</u>	<u>(270,889)</u>	<u>(11,754,866)</u>	<u>(354,275)</u>
Operating gross profit		<u>1,900,855</u>	<u>55,924</u>	<u>1,842,478</u>	<u>55,530</u>
Operating expenses	2				
Marketing expenses		(959,231)	(28,221)	(1,064,957)	(32,097)
Administrative and general expenses		(194,705)	(5,728)	(184,456)	(5,559)
Operating income		<u>746,919</u>	<u>21,975</u>	<u>593,065</u>	<u>17,874</u>
Non-operating revenues					
Gain on foreign exchange		1,208	36	3,956	119
Gain on disposal of property and equipment		194	6	564	17
Miscellaneous income		27,009	795	6,005	181
Subtotal		<u>28,411</u>	<u>837</u>	<u>10,525</u>	<u>317</u>
Non-operating expenses					
Loss on foreign exchange		(17,559)	(517)	(42,279)	(1,274)
Loss on disposal of property and equipment		(17)	(1)	(5)	-
Miscellaneous expenses		-	-	(14)	-
Subtotal		<u>(17,576)</u>	<u>(518)</u>	<u>(42,298)</u>	<u>(1,274)</u>
Income from continuing operations before income taxes		757,754	22,294	561,292	16,917
Income taxes	2,15	(159,580)	(4,695)	(134,993)	(4,069)
Net income		<u>\$598,174</u>	<u>\$17,599</u>	<u>\$426,299</u>	<u>\$12,848</u>
Earning per share (In dollars)					
Income before income taxes	16	<u>\$3.27</u>	<u>\$0.10</u>	<u>\$2.42</u>	<u>\$0.07</u>
Net income	16	<u>\$2.58</u>	<u>\$0.08</u>	<u>\$1.84</u>	<u>\$0.06</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2004 and 2005

(Expressed in thousands of dollars)

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative		Total	
	Common stock				Legal reserve		Unappropriated		conversion adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2004	\$2,317,006	\$68,167	\$430	\$13	\$161,475	\$4,751	\$592,660	\$17,436	\$1,287	\$38	\$3,072,858	\$90,405
Appropriations and distributions for 2003												
Legal reserve					59,266	1,743	(59,266)	(1,743)			-	-
Cash dividends							(525,506)	(15,461)			(525,506)	(15,461)
Bonus paid to employees							(7,888)	(232)			(7,888)	(232)
Capital surplus- long-term equity investment			1,479	43							1,479	43
Cumulative conversion adjustments									(27)	(1)	(27)	(1)
Net Income for the nine months ended September 30, 2004							598,174	17,599			598,174	17,599
Balance on September 30, 2004	\$2,317,006	\$68,167	\$1,909	\$56	\$220,741	\$6,494	\$598,174	\$17,599	\$1,260	\$37	\$3,139,090	\$92,353
Balance on January 1, 2005	\$2,317,006	\$69,831	\$1,909	\$58	\$220,741	\$6,653	\$640,617	\$19,307	\$(148)	\$(4)	\$3,180,125	\$95,845
Appropriations and distributions for 2004												
Legal reserve					64,062	1,931	(64,062)	(1,931)			-	-
Cash dividends							(571,975)	(17,238)			(571,975)	(17,238)
Bonus paid to employees							(4,580)	(138)			(4,580)	(138)
Capital surplus- long-term equity investment			112	3							112	3
Cumulative conversion adjustments									683	20	683	20
Net Income for the nine months ended September 30, 2005							426,299	12,848			426,299	12,848
Balance on September 30, 2005	\$2,317,006	\$69,831	\$2,021	\$61	\$284,803	\$8,584	\$426,299	\$12,848	\$535	\$16	\$3,030,664	\$91,340

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows

For the nine months ended September 30, 2004 and 2005

(Expressed in thousands of dollars)

Items	Notes	September 30, 2004		September 30, 2005	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$598,174	\$17,599	\$426,299	\$12,848
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		3,599	106	5,443	164
Depreciation		15,170	446	17,936	541
Provision for reserve for operations		4,321,503	127,140	4,818,404	145,220
Recovered unearned premiums reserve		(3,601,016)	(105,943)	(4,031,204)	(121,495)
Recovered special claim reserve		(60,462)	(1,779)	(331,412)	(9,988)
Recovered claims reserve		(32,103)	(944)	(38,783)	(1,169)
Loss on disposal of property and equipment		17	1	5	0
Gain on disposal of property and equipment		(194)	(6)	(564)	(17)
Unrealized loss (gain) on long-term investments		999	29	(18,790)	(566)
Effects of exchange rate changes		16,351	481	38,323	1,155
Decrease (increase) in short-term investments		151,352	4,453	(133,800)	(4,033)
Decrease (increase) in notes receivable		53,201	1,565	9,732	293
Decrease in interests receivable		(5,158)	(152)	(8,849)	(267)
Decrease (increase) in premiums receivable		(294,720)	(8,671)	44,758	1,349
Decrease (increase) in claims recoverable from reinsurers		(68,488)	(2,015)	13,705	413
Decrease (increase) in due from reinsurers and ceding companies		112,731	3,316	(327,734)	(9,877)
Decrease (increase) in other accounts receivable		(30,971)	(911)	49,731	1,499
Decrease (increase) in prepayments		(338)	(10)	(136)	(4)
Decrease (increase) in deferred income tax assets-current		893	26	2,167	65
Decrease (increase) in overdue receivables		(107,151)	(3,152)	(91,421)	(2,755)
Decrease (increase) in temporary payments and suspense accounts		2,876	84	(8,001)	(241)
(Decrease) increase in collections for others		772	23	(47)	(1)
(Decrease) increase in accrued expenses		(13,579)	(399)	(81,879)	(2,468)
Decrease in commissions payable		(2,954)	(87)	(754)	(23)
(Decrease) increase in claims outstanding		(3,241)	(95)	465,984	14,044
Increase in other payables		98,900	2,910	40,282	1,214
Increase in accrued pension liabilities		10,382	305	1,438	43
(Decrease) increase in temporary receipts and suspense accounts		38,415	1,130	62,862	1,895
(Decrease) increase in claims reserve		(21,514)	(633)	297,240	8,958
Net cash provided by (used in) operating activities		1,183,446	34,817	1,220,935	36,797

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows-(Continued)

For the nine months ended September 30, 2004 and 2005

(Expressed in thousands of dollars)

Items	Notes	September 30, 2004		September 30, 2005	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Decrease in short-term secured loans		-	-	(32,000)	(964)
Decrease in medium-term secured loans		(76)	(2)	(410,832)	(12,382)
Decrease (increase) in long-term secured loans		1,827	54	(116,116)	(3,500)
Acquisition of long-term investment in stocks		-	-	(151,000)	(4,551)
Realized loss long-term investments		-	-	39,000	1,175
Disposal of long-term investments in stocks		33,600	989	8,796	265
Increase in long-term investments in bonds		(584,300)	(17,190)	(762,241)	(22,973)
Disposal of property and equipment		1,130	33	2,245	68
Acquisition of property and equipment		(16,245)	(478)	(8,007)	(241)
Acquisition of intangible assets		(6,449)	(190)	(2,363)	(71)
Decrease (increase) in guarantee deposits paid		21	1	(4,033)	(122)
Decrease in securities serving as deposits paid-bonds		3,690	108	2,152	65
Decrease in funds held by ceding companies		99	3	-	-
Net cash provided by (used in) investing activities		(566,703)	(16,672)	(1,434,399)	(43,231)
Cash flows from financing activities					
Decrease in funds held for reinsurers		(98)	(3)	-	-
Bonus to employees		(1,441)	(42)	(7,888)	(238)
Cash dividends		(525,506)	(15,461)	(571,975)	(17,239)
Net cash provided by (used in) financing activities		(527,045)	(15,506)	(579,863)	(17,477)
Effects of exchange rate changes		(16,351)	(481)	(38,323)	(1,155)
(Decrease) increase in cash and cash equivalents		73,347	2,158	(831,650)	(25,065)
Cash and cash equivalents at the beginning of period		3,589,751	105,612	3,783,245	114,022
Cash and cash equivalents at the end of period		<u>\$3,663,098</u>	<u>\$107,770</u>	<u>\$2,951,595</u>	<u>\$88,957</u>
Supplemental disclosure of cash flows information					
Interest paid during period		\$92	\$3	\$0	\$0
Interest paid excluding capitalized interest		\$92	\$3	\$0	\$0
Income tax paid		\$118,186	\$3,477	\$130,177	\$3,923

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2004 and 2005 were NT\$33.99 and NT\$33.18 to US\$1.00)

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

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

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

1. Organization and business scope

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

As of September 30, 2004 and 2005, the total numbers of employees were 882 and 869, respectively.

2. Summary of significant accounting policies

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

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

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

(2) Cash and cash equivalents

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

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

(3) Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income, but treated as an increase in the number of shares not as investment income. The cost of marketable equity securities sold is determined by the weighted-average method.

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

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

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

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

(4) Allowance for bad and doubtful debts

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

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

(5) Long – term investments

A. Long-term investments in stocks

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

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

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

B. Long-term investments in bonds

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

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(6) Property and equipment

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

(7) Intangible assets

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

(8) Accounting for Asset Impairment

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

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

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

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

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods. Impairment loss (reversal) is classified as non-operating losses/(income).

(9) Reserve for operations

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

(10) Premiums income

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

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

(11) Contribution to the stabilization funds

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

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(12) Pension plan

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

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

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

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

(13) Securities serving as deposits paid-bonds

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

(14) Foreign currency transactions

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

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(15) Income Taxes

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

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

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

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

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

(16) Capital expenditure expenses

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

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(17) Derivative financial products transaction

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

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

(18) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the September 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\$33.99 and NT\$33.18 to US\$1.00 effective on September 30, 2004 and 2005, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects

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

The adoption of ROC SFAS No.5 did not effect the financial statement under the equity method and investment gain or loss for the nine-month period ended September 30, 2005.

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4. Cash and cash equivalents

Item	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$9,827	\$289	\$14,567	\$439
Cash in banks	234,721	6,906	227,355	6,852
Time deposits	3,159,217	92,945	2,357,523	71,053
Cash equivalents	259,333	7,630	352,150	10,613
Total	<u>\$3,663,098</u>	<u>\$107,770</u>	<u>\$2,951,595</u>	<u>\$88,957</u>
Interest rate of time deposits	<u>0.80%~1.50%</u>	<u>0.80%~1.50%</u>	<u>1.35%~1.845%</u>	<u>1.35%~1.845%</u>
Interest rate of cash equivalents	<u>0.975%~1.025%</u>	<u>0.975%~1.025%</u>	<u>1.285%~1.300%</u>	<u>1.285%~1.300%</u>

5. Short – term investments

Item	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,586	\$6,725	\$-	\$-
Less: Allowance for valuation loss	(15,700)	(462)	-	-
Subtotal	<u>212,886</u>	<u>6,263</u>	<u>-</u>	<u>-</u>
Common stock and beneficiary certificates	1,180,434	34,729	1,391,194	41,929
Designated purpose pecuniary trust funds	27,667	814	28,132	848
Financial debentures	202,588	5,960	964,561	29,070
Corporate bonds	372,160	10,949	242,810	7,318
Short-term notes	259,333	7,630	633,103	19,081
Subtotal	<u>2,042,182</u>	<u>60,082</u>	<u>3,259,800</u>	<u>98,246</u>
Less: Allowance for valuation loss	-	-	(44,520)	(1,342)
Cash Equivalents	<u>(259,333)</u>	<u>(7,630)</u>	<u>(633,103)</u>	<u>(19,081)</u>
Subtotal	<u>1,782,849</u>	<u>52,452</u>	<u>2,582,177</u>	<u>77,823</u>
Total	<u>\$1,995,735</u>	<u>\$58,715</u>	<u>\$2,582,177</u>	<u>\$77,823</u>

6. Premiums receivable

Item	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$823,251	\$24,220	\$902,773	\$27,208
Less: Allowance for bad debts	(5,482)	(161)	(9,028)	(272)
Net	<u>\$817,769</u>	<u>\$24,059</u>	<u>\$893,745</u>	<u>\$26,936</u>

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7. Secured loans

Item	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$-	\$-	\$32,000	\$965
Less: Allowance for bad debts	-	-	(2,786)	(84)
Subtotal	-	-	29,214	881
Medium-term secured loans	507,727	14,938	879,243	26,499
Less: Allowance for bad debts	(72,659)	(2,138)	(76,540)	(2,307)
Subtotal	435,068	12,800	802,703	24,192
Long-term secured loans	452,972	13,327	575,736	17,352
Less: Allowance for bad debts	(64,823)	(1,907)	(50,119)	(1,511)
Subtotal	388,149	11,420	525,617	15,841
Total	<u>\$823,217</u>	<u>\$24,220</u>	<u>\$1,357,534</u>	<u>\$40,914</u>
Interest rate	<u>2.30%~4.50%</u>	<u>2.30%~4.50%</u>	<u>1.86%~4.50%</u>	<u>1.86%~4.50%</u>

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

8. Long –term investments

A. Long-term investments in stocks:

Investee	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$225,519	\$6,635	\$380,074	\$11,455
Vista Technology Venture Capital Corp.	9,825	289	8,950	269
Subtotal	<u>\$235,344</u>	<u>\$6,924</u>	<u>\$389,024</u>	<u>\$11,724</u>
b. Under the cost method:				
Taiwan Cement Corp.	8,796	259	-	-
KGEX. Com Co., Ltd.	75,000	2,206	36,000	1,085
Subtotal	<u>83,796</u>	<u>2,465</u>	<u>36,000</u>	<u>1,085</u>
Total	<u>\$319,140</u>	<u>\$9,389</u>	<u>\$425,024</u>	<u>\$12,809</u>

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

	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$234,891	\$6,911	\$218,439	\$6,583
Additional investment	-	-	151,000	4,551
Investment income (loss) by equity method recognized	(999)	(29)	18,790	566
Cumulative conversion adjustments by equity method recognized	(27)	(1)	683	21
Capital surplus by equity method recognized	1,479	43	112	3
Balance on September 30	<u>\$235,344</u>	<u>\$6,924</u>	<u>\$389,024</u>	<u>\$11,724</u>

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

Investee	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$4,263	\$126	\$20,735	\$625
Vista Technology Venture Capital Corp.	(5,262)	(155)	(1,945)	(59)
Total	<u>\$(999)</u>	<u>\$(29)</u>	<u>\$18,790</u>	<u>\$566</u>

e. In accordance with the ROC SFAS No.5, “Long-Term Investments in Equity Securities” revised on December 9, 2004, and ROC SFAS No.23, “Interim Financial Reporting and Disclosures”, the Company is required to obtain the investee Company’s financial statements under the equity method for the same period exclude first and third quarter. The accounting treatment of - Investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investment loss of Vista Technology Venture Capital Corp. for the nine-month period ended September 30, 2004 was recognized by the equity method based on audited financial statements of 2003 and for the nine-month ended September 30, 2005 was recognized by the equity method based on unaudited financial statements in the same period.

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- f. The investment gains of Cathay Venture Capital Corp. for the nine-month period ended September 30, 2004 was recognized by the equity method based on unaudited financial statements and for the nine-month period ended September 30, 2005 was recognized by the equity method based on reviewed financial statement.
- g. An investing loss amounted to \$39,000(US\$1,175) was recognized due to there is evidenced suggests that the value of the Company's investment in KGEX.Com Co., Ltd, which is accounted under cost method, had been impaired and it is unlikely that the stock price will recover in the future. The new cost of this investment is the carrying amount after recognized the loss.

B. Long-term investments in bonds

Investee	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$2,420,578	\$71,215	\$3,039,783	\$91,615
Interest rate	4.00%~6.00%	4.00%~6.00%	4.00%~6.30%	4.00%~6.30%

9. Property and equipment

Item	September 30, 2004					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$20,950	\$616	\$9,263	\$273	\$11,687	\$343
Other equipment	159,532	4,693	116,568	3,429	42,964	1,264
Subtotal	180,482	5,309	125,831	3,702	54,651	1,607
Prepayments for equipment	977	29	-	-	977	29
Total	\$181,459	\$5,338	\$125,831	\$3,702	\$55,628	\$1,636

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Item	September 30, 2005					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$17,430	\$525	\$10,239	\$308	\$7,191	\$217
Other equipment	175,705	5,296	132,029	3,980	43,676	1,316
Subtotal	193,135	5,821	142,268	4,288	50,867	1,533
Prepayments for equipment	2,520	76	-	-	2,520	76
Total	\$195,655	\$5,897	\$142,268	\$4,288	\$53,387	\$1,609

The insurance of insured property and equipment were NT\$120,808 (US\$3,554) and NT\$121,092 (US\$3,650) as of September 30, 2004 and 2005, respectively.

As of September 30, 2004 and 2005, the Company didn't provide collateral or guarantee on property and equipment.

10. Securities serving as deposits paid-bonds

Item	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	\$356,594	\$10,491	\$375,784	\$10,783
Interest rate	6.25%~7.75%	6.25%~7.75%	3.00%~6.90%	3.00%~6.90%

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

11. Reserve for operations and liabilities

	January 1, 2004		Provision		Recovered		September 30, 2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$3,601,016	\$105,943	\$3,950,656	\$116,230	\$3,601,016	\$105,943	\$3,950,656	\$116,230
Special claim reserve	2,262,768	66,572	332,064	9,769	60,462	1,779	2,534,370	74,562
Claims reserve	585,308	17,220	558,024	16,418	572,858	16,854	570,474	16,784
Total	\$6,449,092	\$189,735	\$4,840,744	\$142,417	\$4,234,336	\$124,576	\$7,055,500	\$207,576

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	January 1, 2005		Provision		Recovered		September 30, 2005	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,031,204	\$121,495	\$4,347,925	\$131,040	\$4,031,204	\$121,495	\$4,347,925	\$131,040
Special reserve	2,570,454	77,470	426,195	12,845	331,412	9,988	2,665,237	80,327
Claims reserve	634,173	19,113	923,756	27,841	621,015	18,717	936,914	28,237
Total	<u>\$7,235,831</u>	<u>\$218,078</u>	<u>\$5,697,876</u>	<u>\$171,726</u>	<u>\$4,983,631</u>	<u>\$150,200</u>	<u>\$7,950,076</u>	<u>\$239,604</u>

12. Capital stock and capital increment

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

13. Retained Earnings

(1) Legal reserve

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

(2) Unappropriated retained earnings

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

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

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

14. Personnel, depreciation, depletion and amortization

Item	For the nine months ended September 30, 2004			For the nine months ended September 30, 2005		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$354,884	\$354,884	\$-	\$411,790	\$411,790
Labor & health insurance expenses	-	23,330	23,330	-	28,069	28,069
Pension expenses	-	36,165	36,165	-	28,330	28,330
Other expenses	-	159,895	159,895	-	154,453	154,453
Depreciation	-	15,170	15,170	-	17,936	17,936
Depletion	-	-	-	-	-	-
Amortization	-	3,599	3,599	-	5,443	5,443

Item	For the nine months ended September 30, 2004			For the nine months ended September 30, 2005		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$10,441	\$10,441	\$-	\$12,411	\$12,411
Labor & health insurance expenses	-	686	686	-	846	846
Pension expenses	-	1,064	1,064	-	854	854
Other expenses	-	4,704	4,704	-	4,655	4,655
Depreciation	-	446	446	-	541	541
Depletion	-	-	-	-	-	-
Amortization	-	106	106	-	164	164

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15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$757,754	\$22,294	\$561,292	\$16,917
Adjustments				
Interest income of tax on a separate basis	(5,328)	(157)	(3,673)	(111)
Losses (gains) on market price loss (recovery) of short-term investments	(36,911)	(1,086)	44,520	1,342
Realized valuation losses on securities	27,171	799	39,000	1,175
Bad debts exceeding legal limit (recovery)	(3,469)	(102)	(5,959)	(179)
Investment losses (gains) recognized by equity method	999	29	(18,790)	(566)
Losses (gains) on trading securities	(120,061)	(3,532)	(83,253)	(2,509)
Realized losses on foreign exchanges	-	-	(2,707)	(82)
Others	54	2	115	3
Taxable Income	620,209	18,247	530,545	15,990
Time; taxes rate less: progressive difference	25%-10	-	25%-10	-
Subtotal	155,042	4,562	132,626	3,997
Extra 10% income tax on unappropriated retained earnings	2,826	83	-	-
Tax effects under integrated income tax systems	(2,816)	(83)	10	-
Income tax credit	(769)	(23)	(1,182)	(35)
Subtotal	154,283	4,539	131,454	3,962
Tax on a separate basis	1,066	32	735	22
Adjustment of prior year's income tax	3,338	98	638	19
Deferred income tax expenses (benefits)	893	26	2,166	66
Total income tax expenses	\$159,580	\$4,695	\$134,993	\$4,069

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

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$50,780	\$1,495	\$37,606	\$1,133
Total deferred income tax liabilities	\$-	\$-	\$-	\$-
B. Temporary differences:				
Employee benefits	\$33	\$1	\$-	\$-
Bad debts exceeding legal limitation	203,030	5,973	150,970	4,550
Others	57	2	(544)	(16)
Total	\$203,120	\$5,976	\$150,426	\$4,534
C. Deferred income tax assets-current	\$50,766	\$1,494	\$37,606	\$1,133
D. Deferred income tax assets - non-current	\$14	\$1	\$-	\$

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$1,182(US\$36)	\$-	2009

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

(5) Information related to imputation:

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$8,799	\$259	\$7,548	\$227
Imputation credit account ratio	September 30, 2004 (Actual) 29.73%		September 30, 2005 (Actual) 1.83%	

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(6) Information relating of unappropriated earnings:

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

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

16. Earnings per share

	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$757,754	\$22,294	\$561,292	\$16,917
Net income after taxes (B)	\$598,174	\$17,599	\$426,299	\$12,848
Outstanding number of thousand shares at year-end	231,701	231,701	231,701	231,701
Adjusted weighted average outstanding number of thousand shares(C)	231,701	231,701	231,701	231,701
Earnings per share before income taxes (A)/(C) (dollars)	\$3.27	\$0.10	\$2.42	\$0.07
Earnings per share after income taxes (B)/(C) (dollars)	\$2.58	\$0.08	\$1.84	\$0.06

17. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate

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Lucky bank Taiwan Inc.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Cathay Futures Corp	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Cathay Securities Corp.	Affiliate
Cathay Capital Management Inc.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	Affiliate
Vista Technology Venture Capital Corp.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Cathay Bank Property Agency of Association	Affiliate
Wu Ming-Yang	Senior manager

(2) Transactions with related parties

A. Premiums income and premiums receivable

Name	For the nine months ended September 30, 2004			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$157,244	\$4,626	\$4,516	\$133
Cathay United Bank	87,433	2,572	842	25
Cathay General Hospital	4,606	136	2,370	70
Seaward Leasing Ltd.	2,131	62	1,014	30
Others	2,064	61	220	6
Total	\$253,478	\$7,457	\$8,962	\$264

Name	For the nine months ended September 30, 2005			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$130,218	\$3,924	\$6,938	\$209
Cathay United Bank	121,401	3,659	11,791	355
Cathay General Hospital	5,415	163	2,535	77
Seaward Leasing Ltd.	4,868	147	739	22
Others	7,358	222	431	13
Total	\$269,260	\$8,115	\$22,434	\$676

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B. Insurance claims payment

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$14,880	\$438	\$8,616	\$260
Cathay United Bank	60,687	1,785	208,318	6,278
Total	\$75,567	\$2,223	\$216,934	\$6,538

C. Rental expense, guarantee deposits paid and prepaid rents

(a) Buildings

Name	For the nine months ended September 30, 2004					
	Rental expenses		Guarantee deposits paid		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$41,887	\$1,232	\$13,278	\$391	\$2,383	\$70

Name	For the nine months ended September 30, 2005					
	Rental expenses		Guarantee deposits paid		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$43,926	\$1,324	\$13,957	\$421	\$2,431	\$73

(b) Transportations

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Seaward Leasing Ltd.	\$-	\$-	\$160	\$5

D. Cash in banks

Name	Type	September 30, 2004		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$239,293	0.10%	\$106
	Time deposits	\$283,300	1.46%	\$2,075

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		September 30, 2004		
Name	Type	Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$7,040	0.10%	\$3
	Time deposits	\$8,335	1.46%	\$61

		September 30, 2005		
Name	Type	Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$208,427	0.10%	\$77
	Time deposits	\$327,450	1.36%-1.75%	\$4,152

		September 30, 2005		
Name	Type	Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$6,282	0.10%	\$2
	Time deposits	\$9,869	1.36%-1.75%	\$125

E. Secured loans

For the nine months ended September 30, 2004				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$2,374	\$1,680	2.48%	\$38

For the nine months ended September 30, 2004				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$70	\$49	2.48%	\$1

For the nine months ended September 30, 2005				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$1,651	\$1,564	2.66%-2.76%	\$32

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Name	For the nine months ended September 30, 2005			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$50	\$47	2.66%-2.76%	\$1

F. Short-term investments-beneficiary certificates

Name		September 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Book value	\$321,590	\$9,461	\$105,410	\$3,177
Investment Trust Co., Ltd.	Fair value	\$336,057	\$9,887	\$122,862	\$3,703

G. Commissions expenses

Name		For the nine months ended September 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Bank Property Agency of		\$15,991	\$470	\$24,659	\$743
Association					

H. Handling fee paid

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$3,767	\$111	\$3,420	\$103

I. Marketing expense and accrued expense

Name	For the nine months ended September 30, 2004			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$380,591	\$11,197	\$46,771	\$1,376

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Name	For the nine months ended September 30, 2005			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$408,018	\$12,297	\$38,068	\$1,147

J. Party premium expenses

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$4,085	\$120	\$4,495	\$135

K. Other expenses

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$3,931	\$116	\$5,549	\$167

18. Pledged assets

Item	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	\$356,594	\$10,491	\$357,784	\$10,783

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

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

19. Other important matters and contingent liabilities

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in years 2001、2002 and 1999 tax returns, amounting to NT\$2,474 (US\$75)、NT\$1,658 (US\$50) and NT\$2,796 (US\$84), respectively, were rejected by the Tax Authority as being able to offset income tax payable. The Company disputed the above tax assessments and had filed for reinvestigation.

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B. By the date September 30, 2005, the Company had signed some significant rental contracts, and base, which we estimate that the rents for the following 5 years are, as follows:

Period	Amount (NT\$)	Amount (US\$)
October 01, 2005 ~ September 30, 2006	\$59,230	\$1,785
October 01, 2006 ~ September 30, 2007	60,074	1,811
October 01, 2007 ~ September 30, 2008	61,832	1,864
October 01, 2008 ~ September 30, 2009	63,642	1,918
October 01, 2009 ~ September 30, 2010	65,506	1,974
Total	\$310,284	\$9,352

20. Serious damages

None

21. Subsequent events

None

22. Other important events

(1) Pension related information

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

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(2) Financial instruments related information

A. Derivative financial instruments related information :

a. Purpose

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

b. Credit and market risks

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

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

c. Cash flow and demand

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

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d. Forward foreign exchange contracts

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

Item	September 30, 2004		September 30, 2005	
	NT\$	US\$	NT\$	US\$
Forward exchange contracts				
receivable	\$2,384,052	\$70,140	\$2,946,545	\$88,805
Discount on forward				
exchange contracts	4,783	141	23,487	708
Payables on forward				
exchange purchased	(2,412,864)	(70,988)	(3,030,064)	(91,322)
Net-other receivable				
(Payable)	<u>\$(24,029)</u>	<u>\$(707)</u>	<u>\$(60,032)</u>	<u>\$(1,809)</u>

- (b) As of September 30, 2004 and 2005, the Company has forward exchange contracts of approximately US\$71,000 and US\$91,300, respectively, in notional value. The forward foreign exchange contracts as of September 30, 2004 were due between October 18, 2004 and May 26, 2005. In addition, the forward contracts as of September 30, 2005 were due between October 12, 2005 and August 31, 2006.

Item	Contract amount	September 30, 2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>USD\$71,000</u>	<u>\$2,412,864</u>	<u>\$70,988</u>	<u>\$2,384,052</u>	<u>\$70,140</u>

Item	Contract amount	September 30, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>\$91,300</u>	<u>\$3,030,064</u>	<u>\$91,322</u>	<u>\$2,946,545</u>	<u>\$88,805</u>

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

Futures Contract:

- a. The Company recognizes NT\$88 (US\$3) offsets before September 30, 2005, as futures trading loss.
- b. The Company recognizes NT\$58 (US\$2) offsets before September 30, 2004, as futures trading loss.

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

B. Non-derivative financial instruments related information :

Item	September 30, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$3,663,098	\$3,663,098	\$107,770	\$107,770
Short-term investments	1,995,735	2,028,381	58,715	59,676
Receivables	984,452	984,452	28,963	28,963
Claims recoverable from reinsurers	277,624	277,624	8,168	8,168
Due from reinsurers and ceding companies	59,462	59,462	1,749	1,749
Secured loans	823,217	823,217	24,220	24,220
Long-term investment in stocks	319,140	321,216	9,389	9,450
Guarantee deposits paid	16,801	16,801	494	494
Securities serving as deposits paid-bonds	356,594	356,594	10,491	10,491
<u>Liabilities</u>				
Claims outstanding	1,496	1,496	44	44
Due to reinsurers and ceding companies	153,807	153,807	4,525	4,525
Reserve for operations and liabilities	7,055,500	7,055,500	207,576	207,576

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Item	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$2,951,595	\$2,951,595	\$88,957	\$88,957
Short-term investments	2,582,177	2,582,177	77,823	77,823
Receivables	1,054,406	1,054,406	31,779	31,779
Claims recoverable from reinsurers	239,265	239,265	7,211	7,211
Due from reinsurers and ceding companies	218,843	218,843	6,596	6,596
Secured loans	1,357,534	1,357,534	40,914	40,914
Long-term investment in stocks	425,024	425,024	12,809	12,809
Guarantee deposits paid	21,924	21,924	661	661
Securities serving as deposits paid-bonds	357,784	357,784	10,783	10,783
Liabilities				
Claims outstanding	466,616	466,616	14,063	14,063
Due to reinsurers and ceding companies	110,781	110,781	3,339	3,339
Reserve for operations and liabilities	7,950,076	7,950,076	239,604	239,604

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

- ① Short-term financial instruments estimate their fair value are stated at carrying amount on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents, receivables, claims recoverable from reinsurers, due from/to reinsurers and ceding companies, secured loans, claims outstanding and reserve for operations and liabilities.
- ② The amounts are expected to receive guarantee deposits paid and securities serving as deposits paid-bonds are closed to the fair value; accordingly their fair value is equal to their carrying amount.
- ③ If short-term investments and long-term investment in stocks have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on other financial information or their carrying amount on the balance sheet date.

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(3) Discretionary account management

Item	September 30, 2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$84,513	\$2,486	\$85,423	\$2,513
Short-term notes	-	-	-	-
Cash in banks	56,483	1,662	56,483	1,662
Net other assets less liabilities	8,298	244	8,298	244
Total	<u>\$149,294</u>	<u>\$4,392</u>	<u>\$150,204</u>	<u>\$4,419</u>

Item	September 30, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$88,131	\$2,656	\$89,113	\$2,686
Short-term notes	8,054	242	8,054	242
Cash in banks	18,242	550	18,242	550
Net other assets less liabilities	(2,265)	(68)	(2,265)	(68)
Total	<u>\$112,162</u>	<u>\$3,380</u>	<u>\$113,144</u>	<u>\$3,410</u>

As of September 30, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$150,000(US\$4,413) and NT\$100,000(US\$3,014), respectively.

(4) Material Contract

None

(5) Presentation of Financial Statements:

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

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23. Information for investment in Mainland China

None

24. Segment information

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