

Cathay Life Insurance Co., Ltd.
Unaudited financial statements
Together with
Review report of independent auditors
As of September 30, 2004 and 2005

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

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INDEX TO UNAUDITED FINANCIAL STATEMENTS

	<u>Page</u>
Independent auditors' review report	3
Unaudited balance sheets as of September 30, 2004 and 2005	4-5
Unaudited statements of income for the nine months ended September 30, 2004 and 2005	6
Unaudited statements of changes in stockholders' equity for the nine months ended September 30, 2004 and 2005	7
Unaudited statements of cash flows for the nine months ended September 30, 2004 and 2005	8-9
Notes to unaudited financial statements	10-58

English Translation of Report Originally Issued in Chinese

Independent auditors' review report

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

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. as of September 30, 2004 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the nine months periods 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.

Base on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine months periods ended September 30, 2004 and 2005 for them to be in conformity with "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

Diwan, Ernst & Young
Taipei, Taiwan
The Republic of China
October 17, 2005

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Unaudited balance sheets

As of September 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	\$186,674,254	\$5,492,034	\$248,296,689	\$7,483,324
Short-term investments	2,5	366,133,359	10,771,796	326,140,488	9,829,430
Notes receivable		12,761,339	375,444	11,931,050	359,586
Accounts receivable-related parties	18	199,030	5,856	33,382	1,006
Interest receivable		8,589,610	252,710	8,978,347	270,595
Other accounts receivable		6,541,023	192,440	22,763,011	686,046
Other financial assets-current		-	-	3,000,000	90,416
Prepayments		161,227	4,743	95,390	2,875
Subtotal		<u>581,059,842</u>	<u>17,095,023</u>	<u>621,238,357</u>	<u>18,723,278</u>
Exchange bills negotiated, discounted and loans					
Policy loans	2,6	173,931,545	5,117,139	165,857,073	4,998,706
Short-term secured loans		119,271	3,509	264,824	7,981
Medium-term secured loans		8,506,875	250,276	12,135,238	365,740
Long-term secured loans		274,401,189	8,072,997	265,579,224	8,004,196
Subtotal		<u>456,958,880</u>	<u>13,443,921</u>	<u>443,836,359</u>	<u>13,376,623</u>
Funds, long-term investments, and receivable					
Long-term investments in stocks	2,7				
Under the equity method		2,170,170	63,847	3,822,634	115,209
Under the cost method		10,161,968	298,969	20,017,709	603,306
Allowance for valuation loss on long-term investments in stocks		(19,419)	(571)	(3,176)	(96)
Long-term investments in bonds	2,8	364,866,808	10,734,534	516,688,312	15,572,282
Investments in real estate	2,9	100,964,594	2,970,421	98,160,696	2,958,430
Other long-term investments		1,628,689	47,917	-	-
Less: Accumulated impairment - long-term investments	2,9	-	-	(197,253)	(5,945)
Subtotal		<u>479,772,810</u>	<u>14,115,117</u>	<u>638,488,922</u>	<u>19,243,186</u>
Property and equipment					
Land	2,10	5,139,513	151,207	4,867,393	146,697
Buildings and construction		11,319,265	333,017	10,594,620	319,307
Communication and transportation equipment		108,157	3,182	68,194	2,055
Other equipment		4,397,178	129,367	4,708,612	141,911
Subtotal		<u>20,964,113</u>	<u>616,773</u>	<u>20,238,819</u>	<u>609,970</u>
Less: Accumulated depreciation		(5,902,313)	(173,649)	(6,084,181)	(183,369)
Less: Accumulated impairment-property and equipment		-	-	(85,519)	(2,577)
Construction in progress and prepayment for equipment		209,573	6,166	-	-
Subtotal		<u>15,271,373</u>	<u>449,290</u>	<u>14,069,119</u>	<u>424,024</u>
Intangible assets					
Computer software cost	2	26,579	782	163,526	4,929
Subtotal		<u>26,579</u>	<u>782</u>	<u>163,526</u>	<u>4,929</u>
Other assets					
Guarantee deposits paid	2,19	4,264,723	125,470	1,997,812	60,211
Overdue receivables	2,11	2,472,000	72,727	611,801	18,439
Temporary payments and suspense accounts		984,470	28,963	1,433,744	43,211
Securities serving as deposits paid-bonds	2,8,19	7,936,557	233,497	8,061,479	242,962
Deferred income tax assets	2,16	313,067	9,211	437,335	13,181
Investment-linked products assets	2	32,180,780	946,772	75,685,648	2,281,062
Subtotal		<u>48,151,597</u>	<u>1,416,640</u>	<u>88,227,819</u>	<u>2,659,066</u>
Total assets		<u>\$1,581,241,081</u>	<u>\$46,520,773</u>	<u>\$1,806,024,102</u>	<u>\$54,431,106</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 Life Insurance Co., Ltd.
Unaudited balance sheets - (continued)
As of September 30, 2004 and 2005
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Notes payable		\$1,682	\$50	\$1,459	\$44
Accounts payable-related parties	18	72,619	2,136	340,548	10,263
Collections for others		170,067	5,003	186,531	5,622
Accrued expenses		2,562,904	75,402	2,710,895	81,703
Taxes payable		699,910	20,592	785,826	23,684
Commissions payable		827,330	24,340	991,746	29,890
Dividends payable		4,818,800	141,771	30,083	907
Life insurance proceeds payable		2,393	70	5,016	151
Other payable		4,317,829	127,032	22,103,256	666,162
Deferred income tax liabilities- current	2,16	716,811	21,089	894,513	26,959
Accounts collected in advance		164,257	4,833	481,890	14,523
Subtotal		14,354,602	422,318	28,531,763	859,908
Long-term liabilities					
Reserve for land revaluation increment tax		3,726	110	3,726	112
Accrued pension liability	2,23	1,248,869	36,742	1,592,091	47,984
Subtotal		1,252,595	36,852	1,595,817	48,096
Other liabilities					
Reserve for operations and liabilities	2				
Unearned premium reserve		8,749,894	257,426	9,559,554	288,112
Reserve for life insurance		1,414,630,379	41,619,017	1,566,344,065	47,207,476
Special reserve		16,596,338	488,271	16,940,638	510,568
Claims reserve		328,136	9,654	358,043	10,791
Miscellaneous liabilities					
Guarantee deposits received		1,446,017	42,542	1,610,004	48,523
Temporary receipts and suspense accounts		2,633,597	77,481	8,117,235	244,643
Investment-linked products liabilities	2	32,180,780	946,772	75,685,648	2,281,062
Subtotal		1,476,565,141	43,441,163	1,678,615,187	50,591,175
Total liabilities		1,492,172,338	43,900,333	1,708,742,767	51,499,179
Stockholders' equity					
Capital stock					
Common stock	12	50,686,158	1,491,208	50,686,158	1,527,612
Capital surplus		12,591	371	13,153	396
Retained earnings					
Legal reserve	13,16	16,330,948	480,463	17,891,897	539,238
Special reserve		8,016,080	235,836	11,082,320	334,006
Unappropriated retained earnings		14,038,160	413,009	17,606,428	530,634
Equity adjustment					
Unrealized valuation losses on long-term equity investment	2,7	(19,419)	(571)	(3,176)	(96)
Cumulative conversion adjustments	2,13	4,225	124	4,555	137
Total stockholders' equity		89,068,743	2,620,440	97,281,335	2,931,927
Total liabilities and stockholders' equity		\$1,581,241,081	\$46,520,773	\$1,806,024,102	\$54,431,106

(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 Life Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 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		\$200,126,960	\$5,887,819	\$190,267,254	\$5,734,396
Reinsurance commission earned		112,515	3,310	187,004	5,636
Claims recovered from reinsures		198,835	5,850	187,040	5,637
Recovered premiums reserve		97,741,631	2,875,600	78,842,486	2,376,205
Recovered special reserve		283,757	8,348	684,748	20,637
Recovered claims reserve		1,715	50	-	-
Handling fees earned		716,962	21,093	1,239,865	37,368
Interest income		39,374,096	1,158,402	40,009,205	1,205,823
Gain on disposal of investments		16,227,377	477,416	14,181,062	427,398
Gain on long-term equity investments		96,223	2,831	45,948	1,385
Gain on investments-real estate		3,363,058	98,943	12,730,114	383,668
Investment-linked products revenues	2	20,105,521	591,513	46,267,706	1,394,446
Subtotal		<u>378,348,650</u>	<u>11,131,175</u>	<u>384,642,432</u>	<u>11,592,599</u>
Operating costs	2				
Insurance expenses		(399,482)	(11,753)	(452,937)	(13,651)
Brokerage expenses		(18,663,309)	(549,082)	(19,269,285)	(580,750)
Commissions expenses		(423,932)	(12,472)	(337,316)	(10,166)
Insurance claims payment		(118,179,866)	(3,476,901)	(101,738,973)	(3,066,274)
Provision for premiums reserve		(191,592,689)	(5,636,737)	(188,557,234)	(5,682,858)
Provision for special reserve		(3,500,104)	(102,975)	(893,268)	(26,922)
Contribution to the stabilization funds		(200,012)	(5,884)	(190,119)	(5,730)
Provision for claims reserve		-	-	(10,009)	(302)
Handling fees paid		(453,825)	(13,352)	(471,050)	(14,197)
Interest expenses		(44,374)	(1,306)	(30,011)	(904)
Other operating cost		(2,921,134)	(85,941)	(5,850,594)	(176,329)
Investment-linked products expenses	2	(20,105,521)	(591,513)	(46,267,706)	(1,394,446)
Subtotal		<u>(356,484,248)</u>	<u>(10,487,916)</u>	<u>(364,068,502)</u>	<u>(10,972,529)</u>
Operating gross profit		<u>21,864,402</u>	<u>643,259</u>	<u>20,573,930</u>	<u>620,070</u>
Operating expenses	2				
Marketing expenses		(1,920,679)	(56,507)	(1,748,010)	(52,682)
Administrative and general expenses		(5,979,027)	(175,905)	(5,828,203)	(175,654)
Operating income		<u>13,964,696</u>	<u>410,847</u>	<u>12,997,717</u>	<u>391,734</u>
Non-operating revenues & gains					
Gains on disposal of property and equipment		2,605	77	7,907	238
Miscellaneous income		1,533,986	45,131	2,109,517	63,578
Subtotal		<u>1,536,591</u>	<u>45,208</u>	<u>3,918,793</u>	<u>118,107</u>
Non-operating expenses & losses					
Losses on foreign exchange		(1,643,065)	(48,340)	-	-
Losses on disposal of property and equipment		(1,035)	(30)	(1,811)	(55)
Impairment loss		-	-	(282,772)	(8,522)
Miscellaneous expenses		(4,332)	(128)	(4,681)	(141)
Subtotal		<u>(1,648,432)</u>	<u>(48,498)</u>	<u>(289,264)</u>	<u>(8,718)</u>
Income from continuing operations before income taxes		13,852,855	407,557	16,627,246	501,123
Income taxes benefit	2,16	194,623	5,726	979,182	29,511
Net income		<u>\$14,047,478</u>	<u>\$413,283</u>	<u>\$17,606,428</u>	<u>\$530,634</u>
Earnings per share (In dollars)	17				
Income before income tax		<u>\$2.74</u>	<u>\$0.08</u>	<u>\$3.28</u>	<u>\$0.10</u>
Net income		<u>\$2.78</u>	<u>\$0.08</u>	<u>\$3.47</u>	<u>\$0.10</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 Life Insurance Co., Ltd.
Unaudited statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the nine months ended September 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	\$1,491,208	\$5,200	\$153	\$14,552,065	\$428,128	\$6,249,135	\$183,852	\$17,788,827	\$523,354	\$(19,419)	\$(571)	\$4,341	\$128	\$(3,032,966)	\$(89,231)	\$86,233,341	\$2,537,021
Appropriations and Distributions for 2003																		
Legal reserve	-	-	-	-	1,778,883	52,335	-	-	(1,778,883)	(52,335)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,766,945	51,984	(1,766,945)	(51,984)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(14,010,243)	(412,188)	-	-	-	-	-	-	(14,010,243)	(412,188)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(239)	-	-	-	-	-	-	(8,100)	(239)
Bonus paid to employees	-	-	-	-	-	-	-	-	(224,656)	(6,608)	-	-	-	-	-	-	(224,656)	(6,608)
Capital surplus-long-term equity investment	-	-	7,391	218	-	-	-	-	-	-	-	-	-	-	-	-	7,391	218
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(116)	(4)	-	-	(116)	(4)
Disposal of treasury stock	-	-	-	-	-	-	-	-	(9,318)	(274)	-	-	-	-	3,032,966	89,231	3,023,648	88,957
Net income after tax for the nine months ended September 30, 2004	-	-	-	-	-	-	-	-	14,047,478	413,283	-	-	-	-	-	-	14,047,478	413,283
Balance on September 30, 2004	\$50,686,158	\$1,491,208	\$12,591	\$371	\$16,330,948	\$480,463	\$8,016,080	\$235,836	\$14,038,160	\$413,009	\$(19,419)	\$(571)	\$4,225	\$124	\$-	\$-	\$89,068,743	\$2,620,440
Balance on January 1, 2005	\$50,686,158	\$1,527,612	\$12,591	\$379	\$16,330,948	\$492,193	\$8,016,080	\$241,594	\$15,609,488	\$470,449	\$-	\$-	\$(83,445)	\$(2,515)	\$-	\$-	\$90,571,820	\$2,729,712
Appropriations and Distributions for 2004																		
Legal reserve	-	-	-	-	1,560,949	47,045	-	-	(1,560,949)	(47,045)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,066,240	92,412	(3,066,240)	(92,412)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,906,612)	(328,711)	-	-	-	-	-	-	(10,906,612)	(328,711)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(244)	-	-	-	-	-	-	(8,100)	(244)
Bonus paid to employees	-	-	-	-	-	-	-	-	(67,587)	(2,037)	-	-	-	-	-	-	(67,587)	(2,037)
Capital surplus-long-term equity investment	-	-	562	17	-	-	-	-	-	-	-	-	-	-	-	-	562	17
Unrealized valuation losses on long-term equity investment	-	-	-	-	-	-	-	-	-	-	(3,176)	(96)	-	-	-	-	(3,176)	(96)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	88,000	2,652	-	-	88,000	2,652
Net income after tax for the nine months ended September 30, 2005	-	-	-	-	-	-	-	-	17,606,428	530,634	-	-	-	-	-	-	17,606,428	530,634
Balance on September 30, 2005	\$50,686,158	\$1,527,612	\$13,153	\$396	\$17,891,897	\$539,238	\$11,082,320	\$334,006	\$17,606,428	\$530,634	\$(3,176)	\$(96)	\$4,555	\$137	\$-	\$-	\$97,281,335	\$2,931,927

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

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

Cathay Life Insurance Co., Ltd.
Unaudited statements of cash flows
(Expressed in thousands of dollars)
For the nine months ended September 30, 2004 and 2005

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the period	\$14,047,478	\$413,283	\$17,606,428	\$530,634
Adjustments:				
Recovered bad debt	(521,013)	(15,328)	(1,233,795)	(37,185)
Depreciation	1,414,547	41,616	1,663,828	50,145
Amortization	2,533	75	26,295	792
Miscellaneous expenses	75	2	-	-
Impairment loss	-	-	282,772	8,522
Provision or recovered for each reserve	97,065,691	2,855,713	109,933,277	3,313,239
Gain on disposal of property and equipment	(1,570)	(46)	(6,096)	(184)
Loss(gain) on disposal of investments	906	26	(331,005)	(9,976)
Gain on disposal of real estate	(97)	(3)	(8,609,326)	(259,473)
Realized loss on long-term investments	-	-	872,986	26,311
Amortization of long-term investments in bonds	44,228	1,301	181,593	5,473
Unrealized gain on long-term investments	(29,082)	(856)	(340)	(10)
Effects of exchange rate changes	38	1	(10,687)	(322)
Increase in short-term investments	(23,377,862)	(687,786)	(108,632,167)	(3,274,026)
Decrease in notes receivable	2,494,923	73,402	429,610	12,948
(Increase)decrease in notes and accounts receivable-related parties	(151,329)	(4,452)	46,191	1,392
Increase in prepayments	(130,805)	(3,848)	(71,517)	(2,155)
Decrease(increase) in other current assets	2,587,220	76,117	(3,737,839)	(112,653)
Increase in temporary payments and suspense accounts	(740,347)	(21,781)	(372,428)	(11,224)
Decrease in other assets-other	-	-	42,958	1,295
Increase in deferred income tax assets	(53,343)	(1,569)	(80,407)	(2,423)
Increase(decrease) in notes payable	80	2	(490)	(15)
(Decrease)increase in accounts payable-related parties	(137,122)	(4,034)	255,247	7,693
Decrease in accrued expenses	(601,076)	(17,684)	(460,233)	(13,871)
Increase in other payable	251,984	7,413	19,727,903	594,572
(Decrease)increase in accounts collected in advance	(370,820)	(10,910)	326,088	9,828
Increase in other current liabilities	27,370	805	39,827	1,200
Increase in accrued pension liability	516,378	15,192	164,381	4,954
Increase in temporary receipts and suspense accounts	2,031,140	59,757	5,906,778	178,022
(Decrease)increase in deferred income tax liabilities-current	(408,433)	(12,016)	451,713	13,614
Net cash provided by operating activities	93,961,692	2,764,392	34,411,545	1,037,117
Cash flows from investing activities				
Decrease in policy loans	9,789,854	288,022	3,472,995	104,671
Decrease in secured loans	11,747,966	345,630	5,220,177	157,329
Acquisition of long-term investments	(42,544,124)	(1,251,666)	(21,165,462)	(637,898)
Proceeds from disposal of long-term investments	17,153,647	504,667	6,933,794	208,975
Recovered proceeds of long-term investments	-	-	83,461	2,516
Disposal of investments in real estate	1,493,592	43,942	13,878,616	418,283
Acquisition of investments in real estate	(7,893,776)	(232,238)	(2,568,638)	(77,415)
Disposal of property and equipment	17,404	512	78,311	2,360
Acquisition of property and equipment	(353,622)	(10,404)	(446,354)	(13,453)
Acquisition of intangible assets	(29,112)	(856)	(120,900)	(3,644)
Decrease in non-operating assets	1,588,989	46,749	-	-
Increase in guarantee deposits paid	(3,087,896)	(90,847)	(776,049)	(23,389)
Decrease in overdue receivables	372,987	10,973	894,628	26,963
Net cash (used in)provided by investing activities	(11,744,091)	(345,516)	5,484,579	165,298

(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.

Cathay life insurance Co., Ltd.
Unaudited statements of cash flows-(continued)
(Expressed in thousands of dollars)
For the nine months ended September 30, 2004 and 2005

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Decrease(increase) in guarantee deposits received	118,633	3,490	(37,428)	(1,128)
Remuneration paid to directors and supervisors	(8,100)	(239)	(8,100)	(244)
Bonus paid to employees	-	-	(67,587)	(2,037)
Cash dividends	(9,510,000)	(279,788)	(10,906,612)	(328,711)
Disposal of treasury stock	3,023,648	88,957	-	-
Net cash used in financing activities	(6,375,819)	(187,580)	(11,019,727)	(332,120)
Effects of exchange rate changes	(38)	(1)	10,687	322
Increase in cash and cash equivalents	75,841,744	2,231,295	28,887,084	870,617
Cash and cash equivalents at the beginning of period	110,832,510	3,260,739	219,409,605	6,612,707
Cash and cash equivalents at the end of period	<u>\$186,674,254</u>	<u>\$5,492,034</u>	<u>\$248,296,689</u>	<u>\$7,483,324</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$44,041	\$1,296	\$13,440	\$405
Interest paid (excluding capitalized interest)	\$44,041	\$1,296	\$13,440	\$405
Income tax paid	<u>\$515,643</u>	<u>\$15,170</u>	<u>\$736,144</u>	<u>\$22,186</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 Life Insurance Co., Ltd.
Notes to unaudited financial statements
(Expressed in thousands of dollars except for share
and per share data and unless otherwise stated)
As of 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 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 September 30, 2004 and 2005, the total number of employees was 26,855 and 26,263, respectively.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.” The summary of significant accounting policies is as follows:

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 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 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

(4) Allowance for bad and doubtful debts

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

(5) Long-term investments

A. Long-term investments in stocks

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

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company has significant operational influence.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 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 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

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 September 30, 2005, an aggregate of NT\$2,477,029 (US\$74,654) was appropriated to this fund.

(10) Impairment of assets

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 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\$334,006) from the “Special Reserve for the Loss Movement” as of September 30, 2005.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 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 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

(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 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

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 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

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

C. Cross-currency swap (CCS)

The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contract date. Interest rates are determined according to the applicable interest rate within the agreed period. The difference is credited or charged to the current income.

D. Interest rate swap agreements (IRS)

The interest rate swap agreements are used for the purpose of hedging risks against interest rate fluctuations and are adjusted for interest revenue or expenses based on the interest difference as of the agreed date of settlement.

E. Options

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

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 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

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 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 to US\$1.00 and NT\$33.18 to US\$1.00 effective at 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 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 September 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\$197,253 (US\$5,945) and NT85,519 (US\$2,577) as of September 30,2005, respectively, and decreased the Company’s net income by NT\$282,772 (US\$8,522) for the nine months ended September 30,2005. The Company considers such an effect was insignificance.

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\$54,152 (US\$1,632) as of September 30,2005, cumulative conversion adjustments increased by NT\$347 (US\$10), unrealized valuation losses on long-term equity investments decrease by NT\$27,230 (US \$821) and net income increased by NT\$26,575 (US\$801) for the nine months ended September 30,2005, respectively. The Company considers such an effect was insignificance.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

4. Cash and cash equivalents

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$409,596	\$12,050	\$255,790	\$7,709
Cash in banks	2,855,147	83,999	2,267,815	68,349
Time deposits	122,002,987	3,589,379	185,891,826	5,602,526
Cash equivalents	61,406,524	1,806,606	59,881,258	1,804,740
Total	<u>\$186,674,254</u>	<u>\$5,492,034</u>	<u>\$248,296,689</u>	<u>\$7,483,324</u>

5. Short-term investments

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Common stock and beneficiary certificates	\$119,604,784	\$3,518,823	\$133,132,474	\$4,012,432
Overseas investments	156,086,476	4,592,129	110,148,950	3,319,739
Designated purpose trust fund	43,239,556	1,272,126	25,149,668	757,977
Corporate bonds	8,283,861	243,715	7,728,551	232,928
Government bonds	11,285,849	332,034	12,683,468	382,262
Financial debentures	18,721,176	550,785	37,297,377	1,124,092
Short-term notes	70,318,181	2,068,790	59,881,258	1,804,740
Sub-total	427,539,883	12,578,402	386,021,746	11,634,170
Less: Cash equivalents	(61,406,524)	(1,806,606)	(59,881,258)	(1,804,740)
Allowance for valuation loss of short-term investment	-	-	-	-
Total	<u>\$366,133,359</u>	<u>\$10,771,796</u>	<u>\$326,140,488</u>	<u>\$9,829,430</u>

6. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$120,039	\$3,532	\$264,824	\$7,981
Less: Allowance for bad debts	(768)	(23)	-	-
Sub-total	119,271	3,509	264,824	7,981
Medium-term secured loans	8,562,743	251,919	12,135,238	365,740
Less: Allowance for bad debts	(55,868)	(1,643)	-	-
Sub-total	8,506,875	250,276	12,135,238	365,740
Long-term secured loans	276,223,624	8,126,614	265,732,487	8,008,815
Less: Allowance for bad debts	(1,822,435)	(53,617)	(153,263)	(4,619)
Sub-total	274,401,189	8,072,997	265,579,224	8,004,196
Total	\$283,027,335	\$8,326,782	\$277,979,286	\$8,377,917

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

Short-term: within one year

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

Long-term: over seven years

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 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>	September 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	\$11,051	\$361,485	\$10,895
Vista Technology Venture Capital Corp.	49,126	1,445	44,748	1,349
Omnitek Venture Capital Corp.	152,081	4,474	172,721	5,206
Wa Tech Venture Capital Co., Ltd.	178,895	5,263	151,074	4,553
IBT Venture Capital Corp.	575,239	16,924	513,926	15,489
Cathay Insurance (Bermuda) Co., Ltd.	60,760	1,788	64,207	1,935
Symphox Information Co., Ltd.	263,412	7,750	259,851	7,831
Cathay Securities Investment Trust Co., Ltd.	215,002	6,325	232,260	7,000
Cathay Venture Capital Crop.	225,519	6,635	380,074	11,455
Lin Yuan Property Management Co., Ltd.	31,825	936	46,802	1,410
Cathay Securities Investment Co., Ltd.	23,265	685	31,829	959
Cathay Life Insurance Ltd. (Shanghai)	-	-	1,560,481	47,031
Sub-total	2,150,751	63,276	3,819,458	115,113

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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

WK Technology Fund Co., Ltd.	100,000	2,942	79,400	2,393
Taiwan Aerospace Company	110,500	3,251	110,500	3,330
Concord Venture Capital Co., Ltd.	89,280	2,627	89,280	2,691
Taipei Financial Center Corp.	1,441,591	42,412	1,000,561	30,155
InveStar Dayspring V.C. Inc.	200,000	5,884	200,000	6,028
FAT Venture Capital Co., Ltd.	50,000	1,471	40,000	1,205
Concord Venture Capital Co., Ltd.	50,000	1,471	50,000	1,507
WK Technology Fund Co., Ltd.	150,000	4,413	150,000	4,521
WK Technology Fund Co., Ltd.	127,200	3,742	105,200	3,171
Century Venture Capital Co., Ltd.	100,000	2,942	100,000	3,014
China Power Venture Capital Co., Ltd.	190,000	5,590	190,000	5,726
Super Tech Venture Capital Corp.	100,000	2,942	100,000	3,014
CDIB & Partners Investment Holding Corp.	500,000	14,710	500,000	15,069
Alex-Tech Machinery Industrial Co., Ltd.	7,008	206	7,008	211
R.O.C. Venture Capital Co., Ltd.	151,970	4,471	151,970	4,580
National Venture Capital Co., Ltd.	100,000	2,942	100,000	3,014

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

WK Technology Fund Co., Ltd.	200,000	5,884	200,000	6,028
Capital Venture Fund Corp.	50,000	1,471	50,000	1,507
Fu Yu Venture Capital Investment Corp.	200,000	5,884	200,000	6,028
Concord Venture Capital Co., Ltd.	100,000	2,942	100,000	3,014
New Century InfoComm Tech Co., Ltd.	1,268,000	37,305	1,061,848	32,003
Srsuntour Co., Ltd.	62,000	1,824	62,000	1,869
Titan Venture Capital Co., Ltd.	150,000	4,413	150,000	4,521
Harbinger Venture Capital Corp.	200,000	5,884	200,000	6,028
Prosperity Venture Capital Corp.	100,000	2,942	100,000	3,014
KGEx.com Co., Ltd.	175,000	5,149	84,000	2,532
United Venture Corp.	50,000	1,471	50,000	1,507
BioCare Corp.	12,000	353	3,720	112
Megic Corp.	18,000	530	18,000	542
WK Technology Fund Co., Ltd.	200,000	5,884	200,000	6,028
Hua Chih Venture Capital Corp.	60,000	1,765	60,000	1,808
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,354	80,000	2,411
Win Semiconductors Corp.	16,364	481	16,364	493
Kinik Precision Grinding Co., Ltd.	6,000	177	-	-
Vita Genomics Inc.	87,500	2,574	87,500	2,637
Tong Hsing Electronic Inc. Co., Ltd.	27,144	799	27,144	818
China Technology Venture Capital Corp.	50,000	1,471	50,000	1,507

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

Daiwa Securities				
SMBC-Cathay Co., Ltd.	259,200	7,626	259,200	7,812
Applied Vacuum Coating				
Technologies Co., Ltd.	6,661	196	-	-
TaiGen Biotechnology Co., Ltd.	42,000	1,236	19,060	574
Cdid BioScience venture				
Inc.	285,000	8,385	285,000	8,589
Maxima Venture , Inc,				
Taiwan	221,130	6,506	315,630	9,513
Parawin Venture Capital Co.,				
Ltd.	50,000	1,471	50,000	1,507
Darly 3 Venture Co., Ltd.	20,000	588	10,200	307
Top Taiwan Venture				
Capital Co., Ltd.	50,000	1,471	50,000	1,507
Cash Box Audio and Video Co.,				
Ltd.	200,000	5,884	200,000	6,028
Zeng Hsing Industrial				
Co., Ltd	-	-	28,824	869
Hua Venture Capital Corp.	50,000	1,471	50,000	1,507
Shin Sheng Venture Capital				
Investment Corp.	50,000	1,471	50,000	1,507
Centillion Venture Capital				
Corp.	50,000	1,471	50,000	1,507
Harbinger Venture Capital				
Corp.	100,000	2,942	100,000	3,014
Unitive Semiconductor Taiwan				
Corp.	24,000	706	24,000	723
Taiwan High Speed Rail Co. –				
Preferred Stock	1,000,000	29,420	1,000,000	30,139
Enermax Technology Co.	47,600	1,400	-	-
Creative Sensor Inc.	11,820	348	-	-
Tong Lung metal Industry Co.,				
Ltd.-preferred stock	300,000	8,826	300,000	9,042

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

Hsin Tao Power Co., Ltd.	765,000	22,507	765,000	23,056
CTBI Venture Capital Co., Ltd.	50,000	1,471	50,000	1,507
Ip Fund Two Co., Ltd.	-	-	54,000	1,627
Global Top Partner Venture Capital Co.,Ltd	-	-	300,000	9,041
Chi Mei Corporation. - preferred stock	-	-	10,000,000	301,386
Super Alloy Industrial Co., Ltd.	-	-	10,000	301
Hui Yang Private Equity Fund Co. Ltd	-	-	100,000	3,014
Nan Ya PCB Corporation	-	-	72,300	2,179
Toppoly Optoelectronics Corporation	-	-	100,000	3,014
Sub-total	<u>10,161,968</u>	<u>298,969</u>	<u>20,017,709</u>	<u>603,306</u>
Total	<u>\$12,312,719</u>	<u>\$362,245</u>	<u>\$23,837,167</u>	<u>\$718,419</u>

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

	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$2,114,394	\$62,206	\$3,602,793	\$108,583
Add: Equity investment gains	96,223	2,831	45,948	1,385
Capital surplus- long-term equity investment	7,391	218	562	17
Additional investment	-	-	155,000	4,672
Cumulative conversion adjustments	(116)	(4)	88,000	2,652
Less: Unrealized valuation losses on long-term equity investment	-	-	(3,176)	(96)
Cash dividends	(67,141)	(1,975)	(45,608)	(1,375)
Recovered proceeds of long-term investments	-	-	(24,061)	(725)
Balance as of September 30	<u>\$2,150,751</u>	<u>\$63,276</u>	<u>\$3,819,458</u>	<u>\$115,113</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

- (3) The recognized equity investment gains (losses) 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\$
WK Technology Fund Co., Ltd.	\$5,436	\$160	\$(10,250)	\$(309)
Vista Technology Venture Capital Corp.	(26,309)	(774)	(9,722)	(293)
Omnitek Venture Capital Corp.	15,039	443	21,225	640
Wa Tech Venture Capital Co., Ltd.	13,793	406	(3,760)	(113)
IBT Venture Capital Corp	30,601	900	27,682	834
Cathay Insurance (Bermuda) Co., Ltd.	3,786	111	2,102	63
Symphox Information Co., Ltd.	4,788	141	(5,971)	(180)
Cathay Securities Investment Trust Co., Ltd.	20,342	599	32,814	989
Cathay Venture Capital Corp.	4,263	125	20,734	625
Lin Yuan Property Management Co., Ltd.	16,696	491	20,779	626
Cathay Securities Investment Co., Ltd.	7,788	229	6,168	186
Cathay Life Insurance Ltd. (Shanghai)	-	-	(55,853)	(1,683)
Total	\$96,223	\$2,831	\$45,948	\$1,385

- (4) The equity investment gains (losses) were recognized based on their unreviewed financial statements for the nine months ended September 30, 2005, except for Symphox Information Co., Ltd., Cathay Venture Capital Corp., Lin Yuan Property Management Co., Ltd. and Cathay Life Insurance Ltd. (Shanghai) were recognized based on their respective reviewed financial statement.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

- (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 nine months ended September 30, 2004.

The investment gains (losses) were based on their respective unreviewed financial statements for the nine months ended September 30, 2004 are Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Lin Yuan Property Management Co., Ltd., Cathay Securities Investment Co., Ltd., Cathay Venture Capital Corp., and Cathay Securities Investment Trust Co., Ltd.

- (6) The investing loss amount to NT\$869,401 (US\$26,203) were recognized due to there are evidenced that the value of the Company's investment in KGEx.com Co., Ltd., TaiGen Biotechnology Co., Ltd., BioCare Corp., Taipei Financial Center Corp. and New Century Infocomm Tech Co., Ltd., which are accounted under cost method, had been impaired and they are unlikely that the stock price will recover in the future. The new costs of these investments are the carrying amount after recognized the loss.

8. Long-term investments in bonds

Long-term investments in bonds consist mainly of government bonds as of September 30, 2004 and 2005. Government Bonds were deposited with the Central Bank of China as capital guarantee deposits. As of September 30, 2004 and 2005, the capital guarantee deposits amounted to NT\$7,936,557 (US\$233,497) and NT\$ 8,061,479 (US\$242,962), respectively, and were categorized under "securities serving as deposits paid-bond". Please see Note 19, "pledged assets" for details.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

One of the long-term investments in bonds, Global structured notes, amounted to NT\$27,182,828 (US\$799,730) and NT\$ 60,111,969 (US\$1,811,693) as of September 30, 2004 and 2005, respectively.

9. Investments in real estate

Item	September 30,2004								
	Cost		Revaluation surplus		Accumulated depreciation		Net value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Investments in									
real estate	\$104,585,379	\$3,076,946	\$4,565	\$134	\$(12,669,585)	\$(372,744)	\$91,920,359	\$2,704,336	
Construction	9,044,235	266,085	-	-	-	-	9,044,235	266,085	
Total	\$113,629,614	\$3,343,031	\$4,565	\$134	\$(12,669,585)	\$(372,744)	\$100,964,594	\$2,970,421	

Item	September 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	\$109,233,813	\$3,292,158	\$4,563	\$138	\$(12,603,872)	\$(379,863)	\$(197,253)	\$(5,945)	\$96,437,251	\$2,906,488
Construction	1,526,192	45,997	-	-	-	-	-	-	1,526,192	45,997
Total	\$110,760,005	\$3,338,155	\$4,563	\$138	\$(12,603,872)	\$(379,863)	\$(197,253)	\$(5,945)	\$97,963,443	\$2,952,485

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral. Investments in real estate were fully insured.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

10. Property and equipment

Item	September 30, 2004							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,137,304	\$151,142	\$2,209	\$65	\$-	\$-	\$5,139,513	\$151,207
Buildings and construction	11,319,265	333,017	-	-	(3,246,175)	(95,504)	8,073,090	237,513
Communication and transportation equipment	108,157	3,182	-	-	(57,496)	(1,692)	50,661	1,490
Other equipment	4,397,178	129,367	-	-	(2,598,642)	(76,453)	1,798,536	52,914
Sub-total	20,961,904	616,708	2,209	65	(5,902,313)	(173,649)	15,061,800	443,124
Construction in progress	147,115	4,328	-	-	-	-	147,115	4,328
Prepayment for equipment	62,458	1,838	-	-	-	-	62,458	1,838
Total	\$21,171,477	\$622,874	\$2,209	\$65	\$(5,902,313)	\$(173,649)	\$15,271,373	\$449,290

Item	September 30, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,865,181	\$146,630	\$2,212	\$67	\$-	\$-	\$(51,331)	\$(1,547)	\$4,816,062	\$145,150
Buildings and construction	10,594,620	319,307	-	-	(3,120,091)	(94,035)	(34,188)	(1,030)	7,440,341	224,242
Communication and transportation equipment	68,194	2,055	-	-	(42,638)	(1,285)	-	-	25,556	770
Other equipment	4,708,612	141,911	-	-	(2,921,452)	(88,049)	-	-	1,787,160	53,862
Total	\$20,236,607	\$609,904	\$2,212	\$67	\$(6,084,181)	\$(183,369)	\$(85,519)	\$(2,577)	\$14,069,119	\$424,024

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

11. Overdue receivables

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$3,451,999	\$101,559	\$1,888,119	\$56,905
Allowance for bad and doubtful debts	(979,999)	(28,832)	(1,276,318)	(38,466)
Total	<u>\$2,472,000</u>	<u>\$72,727</u>	<u>\$611,801</u>	<u>\$18,439</u>

12. Capital stock

As of September 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 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

- 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 nine-month on September 30, 2004 are as follows:

(Unit: thousand shares)

Reason for transfer	January 1, 2004	Increase	Decrease	September 30, 2004
Transferred it to employees	51,551	-	51,511	-

- (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\$221,033).
- (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 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

15. Personnel, depreciation, depletion and amortizations

Item	For the nine months ended September 30,2004 NT\$			For the nine months ended September 30,2004 US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
	Personnel expenses					
Salary and wages	\$16,311,334	\$2,141,821	\$18,453,155	\$479,886	\$63,014	\$542,900
Labor & health insurance expenses	861,574	157,433	1,019,007	25,348	4,632	29,980
Pension expenses	628,717	114,884	743,601	18,497	3,380	21,877
Other expenses	794,153	167,558	961,711	23,364	4,930	28,294
Depreciation	-	1,414,547	1,414,547	-	41,616	41,616
Depletion	-	-	-	-	-	-
Amortizations	-	2,533	2,533	-	75	75

Item	For the nine months ended September 30,2005 NT\$			For the nine months ended September 30,2005 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel expenses					
Salary and wages	\$17,307,077	\$1,825,622	\$19,132,699	\$521,611	\$55,022	\$576,633
Labor & health insurance expenses	782,838	136,606	919,444	23,594	4,117	27,711
Pension expenses	390,920	68,216	459,136	11,782	2,056	13,838
Other expenses	719,181	190,542	909,723	21,675	5,743	27,418
Depreciation	-	1,663,828	1,663,828	-	50,145	50,145
Depletion	-	-	-	-	-	-
Amortizations	-	26,295	26,295	-	792	792

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

16. Estimated income taxes

(1) Income tax expenses include the following:

	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$13,852,855	\$407,557	\$16,627,246	\$501,123
Adjustments				
Gain on disposal of Land	(388,766)	(11,438)	(8,377,560)	(252,488)
Interest income of tax on a separate basis	(855,729)	(25,176)	(1,694,968)	(51,084)
Gain on disposal of investments	(8,283,287)	(243,698)	(6,351,004)	(191,411)
Loss of long-term investment under the cost method	-	-	869,401	26,203
Unrealized exchange loss (gain)	1,643,103	48,341	(1,790,682)	(53,969)
Cash dividend	(5,085,691)	(149,623)	(6,212,939)	(187,249)
Impairment loss	-	-	282,772	8,522
Bad debt recovery	(296,484)	(8,722)	-	-
Pension expense not actually contributed	516,378	15,192	164,381	4,954
Others	(124,527)	(3,664)	(91,865)	(2,769)
Taxable income	977,852	28,769	(6,575,218)	(198,168)
Times: taxes rate	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	335,222	9,862	297,688	8,972
Less: tax effects under integrated income tax systems	(335,222)	(9,862)	(297,688)	(8,972)
Sub-total	244,463	7,192	(1,643,804)	(49,542)
Add: Tax on a separate basis	169,315	4,981	336,653	10,147
Beginning deferred income tax assets	270,265	7,951	364,579	10,988
Ending deferred income tax liabilities	725,009	21,330	898,122	27,068
Less: Income tax credit	(146,625)	(4,313)	(43,336)	(1,306)
Beginning deferred income tax liabilities	(1,135,785)	(33,415)	(450,452)	(13,576)
Ending deferred income tax assets	(321,265)	(9,452)	(440,944)	(13,290)
Total income taxes benefit	<u>\$(194,623)</u>	<u>\$(5,726)</u>	<u>\$(979,182)</u>	<u>\$(29,511)</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Total deferred tax liabilities	\$725,009	\$21,330	\$898,122	\$27,068
Total deferred tax assets	\$321,265	\$9,452	\$440,944	\$13,290
Temporary differences:				
Employee benefits	\$16,375	\$483	\$2,697	\$81
Pension expense	1,248,868	36,742	1,592,091	47,983
Unrealized exchange gains	(2,900,037)	(85,321)	(3,592,489)	(108,273)
Impairment loss	-	-	157,248	4,739
Other	19,818	583	11,739	354
Deferred tax assets-current	\$8,198	\$241	\$3,609	\$109
Deferred tax liabilities-current	(725,009)	(21,330)	(898,122)	(27,068)
Net offset balance of deferred liabilities-current	<u>\$(716,811)</u>	<u>\$(21,089)</u>	<u>\$(894,513)</u>	<u>\$(26,959)</u>
Deferred tax assets-noncurrent	\$313,067	\$9,211	\$437,335	\$13,181
Deferred tax liabilities-noncurrent	-	-	-	-
Net balance of deferred tax assets-noncurrent	<u>\$313,067</u>	<u>\$9,211</u>	<u>\$437,335</u>	<u>\$13,181</u>

(4) Information related to imputation

	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$98,422</u>	<u>\$2,896</u>	<u>\$824,278</u>	<u>\$24,843</u>

For the nine months ended
September 30,

	2004	2005
Imputation credit account ratio-actual (May 17, 2004)	8.34%	-
Imputation credit account ratio-actual (May 2, 2005)	-	9.52%

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

(5) Related information on undistributed earnings

Year	September 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	\$25,189	\$759	

17. Earnings per share

	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	\$13,852,855	\$407,557	\$16,627,246	\$501,123
Net income (b)	\$14,047,478	\$413,283	\$17,606,428	\$530,634
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)	5,054,368,942	5,054,368,942	5,068,615,765	5,068,615,765
Earnings per share before income taxes (a) / (c) (dollars)	\$2.74	\$0.08	\$3.28	\$0.10
Earnings per share after income taxes (b) / (c) (dollars)	\$2.78	\$0.08	\$3.47	\$0.10

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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

(Shares)	For the nine months ended September 30,	
	2004	2005
Shares at the beginning of period	5,068,615,765	5,068,615,765
Less: Treasury stock	(14,246,823)	-
Total	5,054,368,942	5,068,615,765

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
Cathay Lin Yuan Security 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 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

(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 nine months ended September 30, 2004 and 2005 are listed below:

Name	For the nine months ended September 30, 2004		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jungcheng	\$6,931	\$204
	Hsinyi District Base-D	20,338	598
	Cathay Information Building	11,567	340
	Ban Ciao Building	208,610	6,138
	Sheraton Taipei Hotel	40,340	1,187
	Siangyang Building	18,362	540
	Xi-Men Bldg.	16,490	485
	Tucheng Office Building	84,728	2,493
	Cathay Golden & Sliver Bldg.	19,105	562
	Li-Yuan Bldg.	40,045	1,178
Other	41,959	1,235	
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,572	46
	Other	448	13
Symphox Information Co., Ltd.	Hsinyi District Base-E	27,000	794
	Total	<u>\$537,495</u>	<u>\$15,813</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

Name	Item	For the nine months ended September 30,2005	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tainmu Jung Cheng-A	\$2,769	\$84
	Cathay Golden & Slivr	3,791	114
	Ban Ciao Building	266,182	8,022
	Sheraton Taipei Building	44,046	1,328
	Sainyang Bulding	4,222	127
	Cathay Land Mark	3,000	91
	Financial Center Hsing-E	281	8
	Other	2,583	78
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	2,062	62
	Cathay Land Mark	1,000	30
Lin Yuan Property Management Co., Ltd.	Cathay Building	699	21
	Total	<u>\$330,635</u>	<u>\$9,965</u>

The total amount of contracted projects for real estate as of September 30, 2004 and 2005 between the Company and San Ching Engineering Co., Ltd. was NT\$9,708,892 (US\$285,640) and NT\$1,620,227 (US\$48,831), respectively.

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

Name	Item	For the nine months ended September 30,2004			
		Sales	Sales	Loss on	Loss on
		amount	amount	disposal	disposal
		NT\$	US\$	of assets	of assets
		NT\$	US\$	NT\$	US\$
Cathay General Hospital	No.678 Sec.2 Chung-Hwa Rd. Hsinchu	<u>\$1,520,000</u>	<u>\$44,719</u>	<u>\$(8,390)</u>	<u>\$(247)</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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

Name	Rental income			
	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$5,862	\$173	\$6,701	\$202
Cathay Real Estate Development Co., Ltd.	17,004	500	11,925	359
Cathay United Bank	185,592	5,460	202,903	6,115
Cathay Century Insurance Co., Ltd.	39,979	1,176	41,997	1,266
Cathay General Hospital	103,002	3,030	99,020	2,984
San Ching Engineering Co., Ltd.	10,770	317	5,677	171
Symphox Information Co., Ltd.	18,406	542	19,238	580
Cathay Securities Investment Trust Co., Ltd.	6,454	190	8,694	262
Taiwan Asset Management Corporation	-	-	10,756	324
Cathay Securities Co., Ltd.	2,433	72	11,168	337
Cathay Securities Investment Co., Ltd.	3,175	93	2,717	82
Cathay Capital Management Corporation	-	-	1,442	44
Other	404	12	1,493	45
Total	<u>\$393,081</u>	<u>\$11,565</u>	<u>\$423,731</u>	<u>\$12,771</u>

Name	Guarantee deposits received			
	September 30, 2004		September 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$5,796	\$171	\$4,286	\$129
Cathay United Bank	71,532	2,104	75,102	2,263
Cathay Century Insurance Co., Ltd.	13,278	391	13,957	421
Cathay General Hospital	2,354	69	4,509	136
San Ching Engineering Co., Ltd.	6,779	199	2,009	61
Symphox Information Co., Ltd.	1,394	41	2,718	82
Cathay Securities Investment Trust Co., Ltd.	2,144	63	2,738	82
Cathay Securities Co., Ltd.	3,323	98	3,647	110
Taiwan Asset Management Corporation	-	-	3,477	105
Other	77	2	1,868	56
Total	<u>\$106,677</u>	<u>\$3,138</u>	<u>\$114,311</u>	<u>\$3,445</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 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 nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$22,200	\$653	\$22,190	\$669
Lin Yuan Investment Co., Ltd.	5,006	147	2,875	87
Yi Ru Corporation	3,057	90	3,062	92
Total	<u>\$30,263</u>	<u>\$890</u>	<u>\$28,127</u>	<u>\$848</u>

Name	Guarantee deposits paid			
	September 30, 2004		September 30, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,157	\$269	\$9,031	\$272
Yi Ru Corporation	1,190	35	1,190	36
Other	1,650	49	628	19
Total	<u>\$11,997</u>	<u>\$353</u>	<u>\$10,849</u>	<u>\$327</u>

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 nine months ended September 30, 2004		
		Interest Income		Ending balance
		NT\$	Rate	NT\$
Cathay United Bank	Time deposit	\$206,329	0.10%~2.00%	\$29,945,650
	Cash in bank	2,348	0.00%~0.60%	5,561,865
Total		<u>\$208,677</u>		<u>\$35,507,515</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

		For the nine months ended September 30,2004		
Name	Item	Interest Income		Ending balance
		US\$	Rate	US\$
Cathay United	Time deposit	\$6,070	0.10%~2.00%	\$881,014
Bank	Cash in bank	69	0.00%~0.60%	163,632
Total		<u>\$6,139</u>		<u>\$1,044,646</u>

		For the nine months ended September 30,2005		
Name	Item	Interest Income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$166,913	0.90%~2.25%	\$3,416,250
Bank	Cash in bank	2,670	0.00%~1.45%	4,022,644
Total		<u>\$169,583</u>		<u>\$7,438,894</u>

		For the nine months ended September 30,2005		
Name	Item	Interest	Rate	Ending balance
		Income US\$		US\$
Cathay United	Time deposit	\$5,031	0.90%~2.25%	\$102,961
Bank	Cash in bank	80	0.00%~1.45%	121,237
Total		<u>\$5,111</u>		<u>\$224,198</u>

C. Secured loans

		For the nine months ended September 30,2004		
Name	Maximum	Interest	Rate	Ending
	amount	income		balance
	NT\$	NT\$		NT\$
Cathay General				
Hospital	<u>\$2,192,866</u>	<u>\$36,544</u>	2.60%~3.50%	<u>\$2,192,609</u>

		For the nine months ended September 30,2004		
Name	Maximum	Interest	Rate	Ending
	amount	income		balance
	US\$	US\$		US\$
Cathay General				
Hospital	<u>\$64,515</u>	<u>\$1,075</u>	2.60%~3.50%	<u>\$64,507</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

Name	For the nine months ended September 30,2005			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$2,321,146	\$47,480	2.60%~2.84%	\$2,320,813

Name	For the nine months ended September 30,2005			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$69,956	\$1,431	2.60%~2.84%	\$69,946

D. Beneficiary certificates:

Name		September 30,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Cost	\$4,866,000	\$143,160	\$4,914,740	\$148,124
Investment Trust Co., Ltd.	Market value	4,803,457	141,320	5,217,312	157,243

E. Accounts receivable – related parties

Name	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$46,771	\$1,376	\$-	\$-
Cathay General Hospital	148,558	4,371	29,415	887
Cathay Insurance (Bermuda) Co., Ltd.	2,867	84	3,798	114
Other	834	25	169	5
Total	\$199,030	\$5,856	\$33,382	\$1,006

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

F. Other receivable-tax refund receivable

Name	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$187,737	\$5,523	\$2,086,204	\$62,875

G. Guarantee deposit paid

Name	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$-	\$-	\$431,664	\$13,010

H. Accounts payable-related parties

Name	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$4,516	\$133	\$6,938	\$209
Symphox Information Co., Ltd.	20,477	602	28,097	847
Lin Yuan Property Management Co., Ltd.	45,826	1,348	51,513	1,552
Cathay United Bank	-	-	96,000	2,893
Cathay Securities Co., Ltd.	-	-	158,000	4,762
Other	1,800	53	-	-
	\$72,619	\$2,136	\$340,548	\$10,263

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

I. Accounts collected in advance

Name	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,383	\$70	\$2,315	\$70
Other	538	16	541	16
Total	<u>\$2,921</u>	<u>\$86</u>	<u>\$2,856</u>	<u>\$86</u>

J. Prepayment

Name	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$7,779</u>	<u>\$229</u>	<u>\$3,886</u>	<u>\$117</u>

K. Insurance income

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$222,071	\$6,533	\$227,118	\$6,845
Cathay General Hospital.	-	-	17,805	537
Cathay Century Insurance Co., Ltd.	-	-	5,198	157
Cathay Futures Co., Ltd.	-	-	1,711	51
Other	373	11	5,431	164
Total	<u>\$222,444</u>	<u>\$6,544</u>	<u>\$257,263</u>	<u>\$7,754</u>

L. Insurance expense

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$157,244</u>	<u>\$4,626</u>	<u>\$130,218</u>	<u>\$3,925</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

M. Indemnity income

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$14,880	\$438	\$8,616	\$260

N. Reinsurance income

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$57,830	\$1,701	\$78,686	\$2,371

O. Reinsurance claims payment

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$8,397	\$247	\$55,834	\$1,683

P. Reinsurance commission expense

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$10,681	\$314	\$10,882	\$328

Q. Reinsurance handling fee expense

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$5,530	\$163	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

R. Reinsurance handling fee income

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$7,601	\$229

S. Cost of disposal real estate

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$-	\$-	\$158,000	\$4,762
Cathay United Bank	-	-	96,000	2,893
Total	\$-	\$-	\$254,000	\$7,655

T. Miscellaneous income

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$371,325	\$10,924	\$416,656	\$12,558
Cathay United Bank	171,900	5,057	97,361	2,934
Cathay Securities Investment Trust Co., Ltd.	4,985	147	7,102	214
Symphox Information Co., Ltd.	-	-	1,989	60
Other	199	6	196	6
Total	\$548,409	\$16,134	\$523,304	\$15,772

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 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

U. Commissions expense

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$207,334	\$6,100	\$146,102	\$4,403

V. Marketing expense

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$195,903	\$5,764	\$173,310	\$5,223

W. Administrative and general expense

Name	For the nine months ended September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$552,676	\$16,260	\$593,104	\$17,875
Cathay Securities Investment Co., Ltd.	39,375	1,159	39,375	1,187
San Ching Engineering Co., Ltd.	4,500	132	4,607	139
Cathay Real Estate Development Co., Ltd.	6,058	178	4,844	146
Cathay Securities Co., Ltd.	-	-	54,594	1,645
Cathay Futures Co., Ltd.	-	-	5,112	154
Cathay Capital Management Corporation	-	-	10,383	313
Seaward Leasing Co., Ltd.	-	-	3,340	101
Seaward Card Co., Ltd.	-	-	1,090	33
Other	-	-	625	19
Total	\$602,609	\$17,729	\$717,074	\$21,612

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Notes to unaudited financial statements – continued
(Expressed in thousands of dollars except for share
and per share data and unless otherwise stated)
As of September 30, 2004 and 2005

X.Other

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

Item	September 30,	
	2004	2005
Forward foreign exchange contracts	-	USD118,601
CCS contracts	USD650,000	USD748,000

19. Pledged assets

As of September 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	September 30,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Long-term investment in bonds	\$7,936,557	\$233,497	\$8,061,479	\$242,962
Time deposits	303,350	8,925	232,450	7,006
Total	<u>\$8,239,907</u>	<u>\$242,422</u>	<u>\$8,293,929</u>	<u>\$249,968</u>

Pledged assets are based on the carrying amount.

20. Other important matters and contingent liabilities

None.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

21. Serious damages

None.

22. Subsequent events

None.

23. Other important events

(1) Pension related information

For the nine-month period ended September 30,2004, the Company recognized net pension costs in the amount of NT\$743,601 (US\$21,877).

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\$372,006 (US\$11,212) for the nine-month period ended September 30,2005. And the Company has contributed NT\$207,625 (US\$6,258) to the pension fund for the nine month ended September 30,2005.

(2) Financial instruments related information

A. Derivative financial instruments related information

(A) Purpose

As of September 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

(B) Credit and market risks

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

(C) Cash flow and demand

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

(D) Product type and condition

a. Futures

September 30, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas stock futures	Selling out	3,086	\$7,812,121	\$229,836	\$98,019	\$2,884
Overseas bonds futures	Selling out	6,550	24,618,584	724,289	(135,787)	\$(3,995)

September 30, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	1,819	\$2,170,814	\$65,425	\$(46,547)	\$(1,403)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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 September 30, 2004 and 2005, the Company had forward foreign exchange contracts of approximately US\$13,780,800 and US\$13,395,300, respectively, in notional value.

The forward foreign exchange contracts as of September 30, 2004, were due between October 1, 2004 and October 25, 2005. In addition, the forward exchange contracts as of September 30, 2005, were due between October 3, 2005 and June 22, 2006.

Item	Contract amount	September 30, 2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward					
& CCS	USD14,830,800	\$503,479,509	\$14,812,577	\$500,548,772	\$14,726,354

Item	Contract amount	September 30, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward					
& CCS	USD15,560,300	\$511,889,492	\$15,427,652	\$496,235,930	\$14,955,875

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

Net assets	September 30,	
	2004	2005
Short-term and long-term investment	USD14,830,800	USD15,560,300

Losses on the forward foreign exchange and currency swap contracts were NT\$1,150,870 (US\$33,859) and NT\$1,336,143 (US\$40,270), for the nine months ended September 30, 2004 and 2005.

c. Interest rate swap agreement (IRS)

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

Category	Currency	Period	Amount
IRS	NTD	91.09.13~104.04.12	NT\$33,254,212 US\$1,002,237

d. Option

Item	Transaction type	Lot	September 30, 2004			
			Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Call Option	35,129	\$157,803	\$4,643	\$(77,538)	\$(2,281)

Item	Transaction type	Lot	September 30, 2005			
			Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	33,470	\$9,822,985	\$296,051	\$(39,724)	\$(1,197)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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	\$186,674,254	\$186,674,254	\$5,492,034	\$5,492,034
Receivables	12,960,369	12,960,369	381,300	381,300
Short-term investments	366,133,359	372,592,573	10,771,796	10,961,829
Long-term investments in stocks	12,312,719	12,312,719	362,245	362,245
Guarantee deposits paid	4,264,723	4,264,723	125,470	125,470
Securities serving as deposits paid-bonds	7,936,557	7,936,557	233,497	233,497
<u>Liabilities</u>				
Payables	74,301	74,301	2,186	2,186
Guarantee deposits received	1,446,017	1,446,017	42,542	42,542
Item	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$248,296,689	\$248,296,689	\$7,483,324	\$7,483,324
Receivables	11,964,432	11,964,432	360,592	360,592
Short-term investments	326,140,488	337,163,115	9,829,430	10,161,637
Long-term investments in stocks	23,837,167	23,837,167	718,419	718,419
Guarantee deposits paid	1,997,812	1,997,812	60,211	60,211
Securities serving as deposits paid-bonds	8,061,479	8,061,479	242,962	242,962
<u>Liabilities</u>				
Payables	342,007	342,007	10,307	10,307
Guarantee deposits received	1,610,004	1,610,004	48,523	48,523

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

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.

(3) Discretionary account management

Item	September 30, 2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,039,631	\$60,007	\$2,055,522	\$60,474
Repurchase bonds	2,253,090	66,287	2,253,613	66,302
Convertible bonds	737,656	21,702	713,528	20,992
Bonds	5,375,992	158,164	5,381,432	158,324
Cash in bank	439,620	12,934	439,620	12,934
Net other assets less liabilities	(22,009)	(648)	(22,009)	(647)
Total	<u>\$10,823,980</u>	<u>\$318,446</u>	<u>\$10,821,706</u>	<u>\$318,379</u>

Item	September 30, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,030,828	\$91,345	\$3,210,091	\$96,748
Repurchase bonds	3,977,017	119,862	3,977,937	119,890
Convertible bonds	33,867	1,021	34,776	1,048
Bonds	4,893,829	147,493	4,907,530	147,906
Cash in banks	153,436	4,624	153,468	4,625
Total	<u>\$12,088,977</u>	<u>\$364,345</u>	<u>\$12,283,802</u>	<u>\$370,217</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Notes to unaudited financial statements – continued

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

As of September 30, 2004 and 2005

As of September 30, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$10,050,000 (US\$295,675), and NT\$10,950,000 (US\$330,018), respectively.

(4) Material contract:

None

(5) Presentation of financial statements:

Certain accounts in the 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.

(6) Other:

None

23. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2004, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$27,150 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2004, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30,2005, the Company's remittances to this new company totaled approximately US\$48,330.

24. Segment Information

None