

**CATHAY LIFE INSURANCE CO., LTD.
FINANCIAL STATEMENTS
TOGETHER WITH
REVIEW REPORT
AS OF SEPTEMBER 30, 2002 AND 2001**

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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, 2001 and 2002, and related statements of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our review.

Except as explained in the following paragraph, we conducted our reviews in accordance with generally accepted auditing standards in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries to persons responsible for financial and accounting matters. It is substantially less in scope than an audit 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.

As disclosed in Note 8 to the financial statements, we did not review the financial statements of the investee companies. The related amount (thousands of dollars) of long-term investments under the equity method were NT\$337,177(US\$9,756) and NT\$689,358(US\$19,740) as of September 30, 2001 and 2002. The cumulative translation adjustments were NT\$3,789(US\$110) and NT\$6,535(US\$187) as of September 30 2001 and 2002. The related investment loss were NT\$3,836(US\$111) and NT\$5,656(US\$162) for the period ended September 30 2001 and 2002.

Base on our review, with the exception of the matters described in the third paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

BDO TAIWAN UNION & CO.
Taipei, Taiwan
The Republic of China

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.

CATHAY LIFE INSURANCE CO., LTD.
BALANCE SHEETS
(Expressed in thousands of dollars)
As of September 30, 2002 and 2001

	2002			2001		
	NTS	US\$	%	NTS	US\$	%
Assets						
Current Assets						
Cash and cash equivalents (Notes 2, 4)	\$136,497,301	\$3,908,857	11.03	\$202,263,797	\$5,852,540	18.40
Short-term investments (Notes 2, 5)	300,759,701	8,612,821	24.31	207,518,676	6,004,591	18.88
Notes receivable	16,720,130	478,812	1.35	19,023,086	550,437	1.73
Notes receivable-related parties (Note 18)	51,003	1,461	0.00	10,139	293	0.00
Tax refund receivable	15,029	430	0.00	606,250	17,542	0.05
Interest receivable	11,086,134	317,472	0.90	11,406,587	330,052	1.04
Other accounts receivable	2,387,936	68,383	0.19	2,369,087	68,550	0.21
Prepayments	350,128	10,027	0.03	1,160,468	33,578	0.11
Premiums paid for others (Note 6)	13,497,203	386,518	1.09	12,503,491	361,791	1.14
Sub-total	<u>481,364,565</u>	<u>13,784,781</u>	<u>38.90</u>	<u>456,861,581</u>	<u>13,219,374</u>	<u>41.56</u>
Exchange Bills Negotiated, Discounted and Loans (Notes 2, 7)						
Policy loans for life insurers	171,994,765	4,925,394	13.90	172,243,132	4,983,887	15.67
Short-term secured loans	121,871	3,490	0.01	173,250	5,013	0.02
Medium-term secured loans	11,313,578	323,986	0.92	12,058,525	348,916	1.10
Long-term secured loans	308,740,753	8,841,373	24.95	296,642,714	8,583,412	26.98
Sub-total	<u>492,170,967</u>	<u>14,094,243</u>	<u>39.78</u>	<u>481,117,621</u>	<u>13,921,228</u>	<u>43.77</u>
Funds, Long-Term Investments, and Receivable						
Long-term investments in stocks (Notes 2, 8)	23,163,344	663,326	1.87	10,571,759	305,896	0.96
Long-term investments in bonds (Notes 2, 9)	123,683,808	3,541,919	10.00	41,765,076	1,208,480	3.80
Investments in real estate (Notes 2, 10)	92,709,750	2,654,918	7.49	85,938,549	2,486,648	7.82
Sub-total	<u>239,556,902</u>	<u>6,860,163</u>	<u>19.36</u>	<u>138,275,384</u>	<u>4,001,024</u>	<u>12.58</u>
Property and Equipment (Notes 2, 11)						
Land	5,514,507	157,918	0.45	4,996,142	144,564	0.46
Buildings and structures	10,723,741	307,095	0.87	9,900,331	286,468	0.90
Communication and transportation equipment	141,734	4,059	0.01	144,209	4,173	0.01
Other equipment	3,771,090	107,992	0.30	3,120,526	90,293	0.28
Sub-total	<u>20,151,072</u>	<u>577,064</u>	<u>1.63</u>	<u>18,161,208</u>	<u>525,498</u>	<u>1.65</u>
Less: Accumulated depreciation	(4,843,064)	(138,690)	(0.39)	(4,235,786)	(122,563)	(0.39)
Construction in progress and prepayment for equipment	415,305	11,893	0.03	212,418	6,146	0.02
Sub-total	<u>15,723,313</u>	<u>450,267</u>	<u>1.27</u>	<u>14,137,840</u>	<u>409,081</u>	<u>1.28</u>
Other Assets						
Non-operating assets (Notes 2, 23)	4,060,013	116,266	0.33	2,827,495	81,814	0.26
Guarantee deposits paid (Notes 2, 19)	217,058	6,216	0.02	1,353,226	39,156	0.12
Overdue receivables (Notes 2, 12)	3,781,313	108,285	0.30	4,398,043	127,258	0.40
Temporary payments and suspense accounts	176,765	5,062	0.01	114,142	3,303	0.01
Deferred income tax assets (Notes 2, 16)	340,209	9,743	0.03	183,981	5,323	0.02
Sub-total	<u>8,575,358</u>	<u>245,572</u>	<u>0.69</u>	<u>8,876,887</u>	<u>256,854</u>	<u>0.81</u>
Total Assets	<u>\$1,237,391,105</u>	<u>\$35,435,026</u>	<u>100.00</u>	<u>\$1,099,269,313</u>	<u>\$31,807,561</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NTS\$34.92 and NTS\$34.56 to US\$1.00)

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

CATHAY LIFE INSURANCE CO., LTD.
BALANCE SHEETS - (Continued)
(Expressed in thousands of dollars)
As of September 30, 2002 and 2001

	2002			2001		
	NTS	US\$	%	NTS	US\$	%
Liabilities & Stockholders' Equity						
Current Liabilities						
Notes payable	\$1,656	\$47	0.00	\$1,703	\$49	0.00
Accounts payable-related parties (Note 18)	195,745	5,606	0.02	69,672	2,016	0.01
Collections for others	163,116	4,671	0.01	167,253	4,839	0.02
Accrued expenses	2,777,115	79,528	0.22	2,527,398	73,131	0.23
Income taxes payable	1,713,579	49,072	0.14	723,070	20,922	0.07
Commissions payable	800,403	22,921	0.07	490,571	14,195	0.04
Dividends payable	338,985	9,707	0.03	321,658	9,307	0.03
Life insurance proceeds payable	2,244	64	0.00	654	19	0.00
Other payable	2,877,866	82,413	0.23	474,937	13,743	0.04
Accounts collected in advance	1,370,364	39,243	0.11	1,353,158	39,154	0.12
Sub-total	<u>10,241,073</u>	<u>293,272</u>	<u>0.83</u>	<u>6,130,074</u>	<u>177,375</u>	<u>0.56</u>
Long-term Liabilities						
Reserve for land revaluation increment tax	3,726	107	0.00	3,726	108	0.00
Sub-total	<u>3,726</u>	<u>107</u>	<u>0.00</u>	<u>3,726</u>	<u>108</u>	<u>0.00</u>
Other Liabilities						
Unearned premium reserve (Note 2)	13,519,969	387,170	1.09	13,043,668	377,421	1.19
Reserve for life insurance (Note 2)	1,131,030,760	32,389,197	91.41	991,296,248	28,683,340	90.18
Special claim reserve (Note 2)	17,321,239	496,026	1.40	15,534,977	449,507	1.41
Claims reserve (Note 2)	272,374	7,800	0.02	261,328	7,562	0.02
Guarantee deposits received	1,275,011	36,512	0.10	1,381,387	39,971	0.12
Temporary receipts and suspense accounts	531,785	15,229	0.04	1,388,972	40,190	0.13
Sub-total	<u>1,163,951,138</u>	<u>33,331,934</u>	<u>94.06</u>	<u>1,022,906,580</u>	<u>29,597,991</u>	<u>93.05</u>
Total Liabilities	<u>1,174,195,937</u>	<u>33,625,313</u>	<u>94.89</u>	<u>1,029,040,380</u>	<u>29,775,474</u>	<u>93.61</u>
Stockholders' Equity						
Capital stock						
Common stock (Note 13)	50,686,158	1,451,494	4.10	58,986,158	1,706,775	5.37
Capital surplus	3,048	87	0.00	129,078	3,735	0.01
Retained earnings (Note 14)						
Legal reserve	13,254,705	379,573	1.07	12,195,156	352,869	1.11
Unappropriated retained earnings	6,587,437	188,644	0.53	487,175	14,096	0.04
Equity adjustment (Notes 2, 8)						
Unrealized valuation losses on long-term equity investment	(9,458)	(271)	0.00	0	0	0.00
Cumulative translation adjustments	7,141	205	0.00	3,789	110	0.00
Treasury stock (Notes 2, 15)	(7,333,863)	(210,019)	(0.59)	(1,572,423)	(45,498)	(0.14)
Total Stockholders' Equity	<u>63,195,168</u>	<u>1,809,713</u>	<u>5.11</u>	<u>70,228,933</u>	<u>2,032,087</u>	<u>6.39</u>
Total Liabilities and Stockholders' Equity	<u>\$1,237,391,105</u>	<u>\$35,435,026</u>	<u>100.00</u>	<u>\$1,099,269,313</u>	<u>\$31,807,561</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NTS\$34.92 and NTS\$34.66 to US\$1.00)

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF INCOME
(Expressed in thousands of dollars, except earning per share)
For the nine Months Ended September 30, 2002 and 2001

	2002			2001		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues(Note 2)						
Premiums income	\$204,394,883	\$5,853,233	64.82	\$161,159,265	\$4,663,173	60.50
Reinsurance commission earned	110,927	3,176	0.03	167,020	4,833	0.06
Claims recovered from reinsures	408,690	11,704	0.13	201,944	5,843	0.08
Recovered premiums reserve	70,947,178	2,031,706	22.50	63,635,696	1,841,311	23.89
Handling fee earned	7,420	212	0.00	7,481	217	0.00
Interest Income	32,879,657	941,571	10.43	35,316,460	1,021,888	13.26
Gain on disposal of investments	3,116,115	89,236	0.99	0	0	0.00
Gain on long-term investments	107,894	3,090	0.03	255,814	7,402	0.10
Gain on investments-real estate	3,319,148	95,050	1.05	3,845,713	111,276	1.44
Gain on foreign exchange	2,301	66	0.00	1,781,445	51,547	0.67
Other operating Income	54,062	1,548	0.02	0	0	0.00
Sub-total	315,348,275	9,030,592	100.00	266,370,838	7,707,490	100.00
Operating Costs(Note 2)						
Insurance expenses	(413,761)	(11,849)	(0.13)	(432,173)	(12,505)	(0.16)
Brokerage expenses	(15,564,299)	(445,713)	(4.94)	(17,985,723)	(520,420)	(6.75)
Commissions expenses	(230,229)	(6,593)	(0.07)	(32,859)	(951)	(0.01)
Insurance claims payment	(90,986,047)	(2,605,557)	(28.85)	(83,554,436)	(2,417,663)	(31.37)
Provision for premiums reserve	(184,180,797)	(5,274,364)	(58.41)	(137,596,269)	(3,981,374)	(51.66)
Provision for special claim reserve	(1,203,590)	(34,467)	(0.38)	(936,752)	(27,105)	(0.35)
Contribution to the stabilization funds	(204,256)	(5,849)	(0.06)	(161,049)	(4,660)	(0.06)
Provision for claims reserve	(6,053)	(173)	0.00	(31,523)	(912)	(0.01)
Handling fee paid	(1,561,561)	(44,718)	(0.50)	(1,081,396)	(31,290)	(0.41)
Interest expenses	(18,191)	(521)	(0.01)	(51,871)	(1,501)	(0.02)
Provision for securities trading losses reserve	0	0		(8,293,041)	(239,961)	(3.11)
Loss on disposal of investments	0	0	0.00	(2,291,344)	(66,300)	(0.86)
Provisions expenses	(2,389,920)	(68,440)	(0.76)	(1,452,547)	(42,030)	(0.55)
Sub-total	(296,758,704)	(8,498,244)	(94.11)	(253,900,983)	(7,346,672)	(95.32)
Operating Gross Profit	18,589,571	532,348	5.89	12,469,855	360,818	4.68
Operating Expenses (Note 2)						
Marketing expenses	(4,180,192)	(119,708)	(1.32)	(6,053,674)	(175,164)	(2.27)
Administrative and general expenses	(6,410,067)	(183,564)	(2.03)	(5,708,896)	(165,188)	(2.14)
Operating Income	7,999,312	229,076	2.54	707,285	20,466	0.27
Non-Operating Revenues						
Gain on disposal of property and equipment	2,727	78	0.00	3,412	99	0.00
Miscellaneous income	320,367	9,174	0.10	207,997	6,018	0.08
Sub-total	323,094	9,252	0.10	211,409	6,117	0.08
Non-Operating Expenses						
Loss on disposal of property and equipment	(5,906)	(169)	0.00	(1,568)	(45)	0.00
Miscellaneous expenses	(32,263)	(924)	(0.01)	(61,138)	(1,769)	(0.03)
Sub-total	(38,169)	(1,093)	(0.01)	(62,706)	(1,814)	(0.03)
Income from Continuing Operations before income taxes	8,284,237	237,235	2.63	855,988	24,769	0.32
Income Taxes (Notes 2, 16)	(1,824,246)	(52,241)	(0.58)	(2,872,925)	(83,129)	(1.08)
Net Income	\$6,459,991	\$184,994	2.05	(\$2,016,937)	(\$58,360)	(0.76)
Before income taxes Earnings Per Share (expressed in dollars) (Note 17)	\$1.49	\$0.04		\$0.14	\$0.00	
After income taxes Earnings Per Share (expressed in dollars) (Note 17)	\$1.17	\$0.03		(\$0.34)	(\$0.01)	

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$34.92 and NT\$34.56 to US\$1.00)

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)
(Expressed in thousands of dollars)
For the nine Months Ended September 30, 2002 and 2001

Summary	Capital Stock		Retained Earnings						Equity Adjustments				Treasury Stock		Total	
	Common Stock		Capital Surplus		Legal Reserve		Unappropriated Retained Earnings		Unrealized valuation losses on long-term equity investment		Cumulative translation adjustments		NT\$	US\$	NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2002	\$58,386,158	\$1,671,998	\$130,494	\$3,737	\$12,195,156	\$349,231	\$11,461,899	\$328,233	\$0	\$0	\$6,657	\$191	(\$7,333,863)	(\$210,019)	\$74,846,501	\$2,143,371
Appropriations and Distributions for 2001																
Legal reserve					1,059,549	30,342	(1,059,549)	(30,342)							0.00	0.00
Cash dividends							(10,254,383)	(293,654)							(10,254,383.00)	(293,654.00)
Remuneration paid to directors and supervisors							(8,100)	(232)							(8,100.00)	(232.00)
Bonus paid to employees							(139,867)	(4,005)							(139,867.00)	(4,005.00)
Capital decrease	(7,700,000)	(220,504)													(7,700,000.00)	(220,504.00)
Cumulative translation adjustments											484	14			484.00	14.00
Unrealized valuation losses on long-term equity investment									(9,458)	(271)					(9,458.00)	(271.00)
Net Income after tax for the nine months ended September 30, 2002							6,459,991	184,994							6,459,991.00	184,994.00
Capital surplus from disposal of property and equipment turn into retained earnings			(127,446)	(3,650)			127,446	3,650							0.00	0.00
Balance on September 30, 2002	\$50,686,158	\$1,451,494	\$3,048	\$87	\$13,254,705	\$379,573	\$6,587,437	\$188,644	(\$9,458)	(\$271)	\$7,141	\$205	(\$7,333,863)	(\$210,019)	\$63,195,168	\$1,809,713

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$34.92 and NT\$34.56 to US\$1.00)

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CASH FLOWS
(Expressed in thousands of dollars)
For the nine Months Ended September 30, 2002 and 2001

	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Period	\$6,459,991	\$184,994	(\$2,016,937)	(\$58,360)
Adjustments:				
Loss (gain) on bad debt	2,389,920	68,440	1,452,547	42,030
Depreciation	1,663,360	47,634	1,259,274	36,437
Provision for reserve for operations	185,390,440	5,309,005	138,564,544	4,009,391
Recovered unearned premium reserve	(7,673)	(220)	0	0
Recovered reserve for life insurance	(69,577,297)	(1,992,477)	(62,605,873)	(1,811,513)
Applicant terminates the insurance contract income	(1,362,208)	(39,009)	(1,029,823)	(29,798)
Provision loss (gain) on short-term investments	(54,062)	(1,548)	8,293,041	239,961
Loss (gain) on disposal of property and equipment	3,179	91	(1,843)	(53)
Loss (gain) on disposal of investments	(13,778)	(394)	(2,598)	(75)
Loss (gain) on disposal of real estate	15,786	452	1,401	41
Amortization long-term investments in bonds	25,424	728	25,316	733
Unrealized loss (gain) on long-term investments	27,679	793	(873)	(25)
Effects of exchange rate changes	(59)	(2)	(50,012)	(1,447)
Decrease (increase) in short-term investments	(96,572,139)	(2,765,525)	(24,790,729)	(717,324)
Decrease (increase) in notes receivable	2,615,623	74,903	3,375,325	97,666
Decrease (increase) in notes and accounts receivable-related parties	(27,396)	(785)	(9,921)	(287)
Decrease (increase) in prepayments	28,123	805	(945,505)	(27,358)
Decrease (increase) in prepaid pension	540,843	15,488	777,659	22,502
Decrease (increase) in other current assets	(1,095,583)	(31,374)	(3,620,496)	(104,760)
Decrease (increase) in temporary payments and suspense accounts	(51,330)	(1,470)	(4,502)	(130)
Decrease (increase) in deferred income tax assets	71,802	2,056	(183,981)	(5,325)
Increase (decrease) in notes payable	(18)	(1)	(54)	(2)
Increase (decrease) in accounts payable-related parties	163,748	4,689	(33,454)	(968)
Increase (decrease) in accrued expenses	1,208,619	34,611	(5,205,071)	(150,610)
Increase (decrease) in other accounts payable	(157,921)	(4,522)	275,056	7,959
Increase (decrease) in accounts collected in advance	(11,630)	(333)	(13,503)	(391)
Increase (decrease) in other current liabilities	2,034	58	(15,503)	(450)
Increase (decrease) in temporary receipts and suspense accounts	117,051	3,352	994,501	28,776
Increase (decrease) in deferred income tax liabilities	45,109	1,292	353,088	10,217
Net Cash Provided by (Used in) Operating Activities	31,837,637	911,731	54,841,074	1,586,837
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivable	0	0	(2,689)	(78)
Increase (decrease) in forward exchange payable	2,146,692	61,475		0
Decrease (increase) in policy loans for life insurers	1,457,071	41,726	(10,945,882)	(316,721)
Decrease (increase) in secured loans	(12,445,749)	(356,408)	(20,883,607)	(604,271)
Acquisition of long-term investments in stocks	(33,254,987)	(952,319)	(33,570,963)	(971,382)
Proceeds from disposal of long-term investments in stocks	117,830	3,374	54,598	1,580
Disposal of investments in real estate	31,857	912	13,771	398
Acquisition of investments in real estate	(6,910,046)	(197,882)	(6,039,590)	(174,757)
Disposal of property and equipment	18,329	525	17,053	494
Acquisition of property and equipment	(765,565)	(21,924)	(615,687)	(17,815)
Decrease (increase) in non-operating assets	(2,162,663)	(61,932)	(826,771)	(23,923)
Decrease (increase) in guarantee deposits paid	1,063,546	30,457	(215,135)	(6,225)
Decrease (increase) in overdue receivables	(17,912)	(513)	(2,357,344)	(68,210)
Net Cash Provided by (Used in) Investing Activities	(50,721,597)	(1,452,509)	(75,372,246)	(2,180,910)

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$34.92 and NT\$34.56 to US\$1.00)

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

CATHAY LIFE INSURANCE CO., LTD.
STATEMENTS OF CASH FLOWS-(Continued)
(Expressed in thousands of dollars)
For the nine Months Ended September 30, 2002 and 2001

	2002		2001	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	(7,086)	(203)	(19,465)	(563)
Remuneration paid to directors and supervisors	(8,100)	(232)	(8,100)	(234)
Bonus to employees	(139,867)	(4,005)	(154,258)	(4,464)
Cash dividends	(10,254,383)	(293,654)	(5,393,258)	(156,055)
Treasury stock acquired	0	0	(3,040,836)	(87,987)
Increase (decrease) in capital stock	(7,700,000)	(220,504)	0	0
Net Cash Provided by (Used in) Financing Activities	(18,109,436)	(518,598)	(8,615,917)	(249,303)
Effects of Exchange Rate Changes	59	2	50,012	1,447
Increase(decrease) in Cash and Cash Equivalents	(36,993,337)	(1,059,374)	(29,097,077)	(841,929)
Cash and Cash Equivalents at the Beginning of Period	173,490,638	4,968,231	231,360,874	6,694,469
Cash and Cash Equivalents at the End of Period	\$136,497,301	\$3,908,857	\$202,263,797	\$5,852,540
Supplemental Disclosure of Cash Flows Information				
Interest paid during the period	\$1,757	\$50	\$2,574	\$74
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$1,757	\$50	\$2,574	\$74
Income tax paid	\$861,232	\$24,663	\$6,599,398	\$190,955

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001 were NT\$34.92 and NT\$34.56 to US\$1.00)

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

1. Organization of 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 ("R.O.C."). The Company mainly engaged in life insurance. On December 31, 2001, the Company became the subsidiary of CATHAY FINANCIAL HOLDING CO., LTD. by adapting the stock conversion method under the "Financial Holding Company Law" and other pertinent laws of the R.O.C.

2. Summary of Significant Accounting Policies

(1) *Cash and Cash Equivalents*

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

(2) *Short-term Investments*

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are 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 cost method.

Short-term notes are recorded at cost when acquired and stated on the 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 the specific identification method.

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

(3) *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 of outstanding balances of such accounts and the past experience of the Company.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

(4) *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 stocks, and over which the Company lacks significant operational influence, are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's ownership interest accounted for less than 20% of the common stocks, 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 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.

If changes occur in the capital structure of the invested companies causing an increase or decrease of the value of the stock, and the Company can no longer maintain its original shares of interest, adjustments will be dealt with in the capital surplus and long-term equity investment accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

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

B. Long-Term Investments in Bonds

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

(5) *Investments in Real Estate*

Investments in real estate are stated at cost when acquired. The cost of investments in real estate and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. Gain or loss resulting from disposal of an investment in real estate is classified as an operating gain or loss.

Depreciation is calculated by the straight-line method based on the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the R.O.C. government (the “Government”).

(6) *Property and Equipment*

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenance are expensed immediately. Upon disposal of an item of property and equipment, the related cost and accumulated depreciation are removed from the accounts.

Depreciation on depreciable assets is recognized on a straight-line method, based on the useful lives prescribed by the Executive Yuan. When the economic useful lives have expired, property and equipment still in use are depreciated based on the residual value.

(7) *Deferred Charges*

According to the regulation set by the Ministry of Finance, the Company allocated a “Stabilization fund “ and an off-setting account “Stabilization fund reserve”. These two accounts should not be listed in the financial statements due to their offsetting nature.

From 1993 to September 30, 2002, the amount of \$1,669,192 has been appropriated to this fund.

(8) *Guaranteed Depository Insurance Payment*

According to Article 141 of the Insurance Law of the Republic of China, an amount equal to 15% of the Company’s capital stock should be deposited in the Central Bank of China as the “Guaranteed Depository Insurance”. The amount was deposited in the form of a bond.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

(9) Reserve for Operating:

A. Unearned Premium Reserve:

Unearned premium reserve fund contains the portion of the premium that has been paid in advance for insurance not yet provided.

B. Special Claim Reserve:

An insurance company should set up the special claim reserve to avoid the unexpected loss for each type of insurance business with a one-year term or less than one-year term. Ministry of Finance (MOF) regulates the specified calculation method.

C. Claims Reserve:

This reserve established to pay for claims of which the insurance company is aware of (claims incurred or future claims) which the insurance company has not yet settled. This reserve is critical since it is an accurate indication of a company's liabilities. This reserve does not take into account INCURRED BUT NOT REPORTED LOSSES (IBNR).

D. Reserve for Life Insurance:

Specified by MOF regarding (a) the minimum assumptions that must be used in reserve calculations as they pertain to the maximum interest rate that can be assumed; (b) the mortality table that can be used (the more conservative the table, the higher the death rates that will be shown which exceed the death rates actually expected); and (c) the reserve valuation that must be used.

(10) Insurance Premiums Income and Expenses

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

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

(11) Pension Plan

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

In compliance with R.O.C. SFC regulations, the Company followed the R.O.C. SFAS No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

(12) Foreign-currency Transactions

A. Translations of Foreign Currency Transactions

Foreign-currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Year-end foreign currency assets and liabilities are translated at year-end exchange rate, and resulting gains or losses are credited or charged to current income.

B. Translation of Foreign Subsidiaries' Statements

Financial statements of foreign subsidiaries accounted for by the equity method are translated into New Taiwan Dollars as follows: All assets and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are translated on the historical rate basis except for the beginning balance of retained earnings, which is posted directly from the balance of the last year. Statements of income items are translated by the weighted-average exchange rate for the year. Differences arising from above translations are reported as "Cumulative Translation Adjustments" under stockholders' equity as a separate item.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

When the financial statements of a foreign operation are translated into domestic currency, the foreign currency financial statements should be first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is recognized in the current period because it affects directly the cash flows of the foreign operation.

(13) Income Taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable (refund). Furthermore, it requires recognition of deferred income tax liabilities on future taxable temporary differences, and deferred income tax assets on future deductible temporary differences, prior year's loss carryforwards and investment tax credits. The realization of deferred income tax assets is further assessed and a valuation allowance, if needed, is provided accordingly. Adjustment of prior year's income tax expenses is recorded as current period income tax expenses in the year of adjustment.

Deferred income tax assets and liabilities are classified as current or noncurrent in accordance with the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or noncurrent based on the length of the expected realizable or reversible period.

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

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with the income tax credits. The income tax credits resulting from the expenditure on the purchase of equipment and technique, R&D, education training, and investment in equity shall be dealt by the flow-through method.

(14) Capital Expenditure Expenses

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

(15) Treasury Stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is debited for the cost of the shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus-treasury stock. If the disposal price is lower than cost, the difference is debited to capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus-treasury stock. If the capital surplus-treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus-treasury stock.

(16) Derivative Financial Products Transaction

1. Forward Exchange Contract for Hedging

The purpose of the forward exchange contracts held by the Company is hedging the risks that may result from changes in currency rates. Transactions on forward 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 in the balance sheet date are recognized to current income.

2. Currency Swap (CS)

The purpose of the CS held by the Company is hedging the risks that may result from changes in currency rates. Transactions on CS are recognized based on the spot rate at the contact 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 in the balance sheets date are recognized to current income. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

The net value of receivables and payables of the foreign currency options and forward exchange contracts is offset as an asset or a liability in the balance sheets.

3. Cross Currency Swap (CCS)

The purpose of the CCS held by the Company is hedging the risks that may result from changes in currency rates and interest rates. Transactions on CCS are recognized based on the spot rate at the contact date. Interests are calculated according to the agreed period, and interest rate. The difference is recognized to the current income.

4. Interest Rate Swap Agreements (IRS)

The Interest Rate Swap Agreements for the purpose of hedging risks are adjusted interest revenue or expenses based on the interest difference as agreed date of settlement.

(17) Convenience Translation Into US Dollars

The financial statements are stated in New Taiwan dollars. Translation of the September 30, 2002 and 2001 New Taiwan dollar amounts into US dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate provided by the Federal Reserve Bank of New York on September 30, 2002 and 2001, of NT\$34.92 and NT\$34.56 to US\$1.00. The convenience translation should not be construed as a representation that the New Taiwan dollars amounts have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Changes in Accounting and its Effects: None

4. Cash and Cash Equivalents

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

	September 30,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Cash on hand	\$491,588	\$14,078	\$558,715	\$16,166
Cash in banks	7,057,281	202,098	9,575,800	277,078
Time deposits	111,302,622	3,187,360	182,531,207	5,281,574
Cash equivalents	17,645,810	505,321	9,598,075	277,722
Total	\$136,497,301	\$3,908,857	\$202,263,797	\$5,852,540

5. Short-Term Investments

	September 30,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Parent stock	\$856,726	\$24,534	\$0	\$0
Less: Allowance for valuation loss	(446,158)	(12,776)	0	0
Sub-Total	410,568	11,758	0	0
Common stock and Beneficiary certificates	99,333,166	2,844,592	126,027,500	3,646,629
Oversea investments	90,673,394	2,596,604	44,451,388	1,286,209
Appoint purpose trust fund	59,383,075	1,700,546	45,537,400	1,317,633
Corporate bonds	14,357,643	411,158	13,501,185	390,659
Government bonds	14,482,730	414,740	3,685,164	106,631
Financial debentures	14,500,000	415,235	2,340,000	67,708
Short-term notes	31,771,196	909,828	12,544,543	362,979
Sub-Total	324,501,204	9,292,703	248,087,180	7,178,448
Less: Cash equivalents	(17,645,810)	(505,321)	(9,598,075)	(277,722)
Allowance for valuation loss	(6,506,261)	(186,319)	(30,970,429)	(896,135)
Sub-Total	300,349,133	8,601,063	207,518,676	6,004,591
Total	\$300,759,701	\$8,612,821	\$207,518,676	\$6,004,591

6. Premiums Paid for Others

If insurance applicants are unable to meet their insurance installments after their

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

second installment, the Ministry of Finance ruled that applicants can make written statements, requesting the Company to pay the premium and interests 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 written, instead of paying such installments.

7. Loans

(1) Policy Loans for Life Insurers

Loans secured by policies issued by Cathay Life Insurance Co., Ltd.

(2) Secured Loans

	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$123,102	\$3,525	\$175,000	\$5,064
Less: Allowance for bad debts	(1,231)	(35)	(1,750)	(51)
Sub-total	121,871	3,490	173,250	5,013
Medium-term secured loans	11,427,857	327,258	12,180,328	352,440
Less: Allowance for bad debts	(114,279)	(3,272)	(121,803)	(3,524)
Sub-total	11,313,578	323,986	12,058,525	348,916
Long-term secured loans	311,859,346	8,930,680	299,639,105	8,670,113
Less: Allowance for bad debts	(3,118,593)	(89,307)	(2,996,391)	(86,701)
Sub-total	308,740,753	8,841,373	296,642,714	8,583,412
Total	\$320,176,202	\$9,168,849	\$308,874,489	\$8,937,341

Secured loans are loans secured by government bonds, stocks, corporate bonds and real estate. Loans with terms less than one year are short-term loans; loans with terms more than one year but less than seven years are classified as medium-term loans ; loans with terms more than seven years are long-term loans.

8. Long-Term Investments

(A) Long -term Investments in Stocks

September 30,

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

<u>Investee</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>
A. Under the equity method:				
WK Technology Fund VI				
Co., Ltd	\$380,855	\$10,907	\$313,048	\$9,058
Cathay Insurance				
(Bermuda) Co., Ltd.	47,580	1,362	49,967	1,446
Cathay Venture Capital				
Corp.	149,704	4,287	147,969	4,282
Vista Technology Venture				
Capital Corp.	82,994	2,377	98,038	2,837
Omnitek Venture Capital				
Corp.	152,693	4,373	150,413	4,352
IBT Venture Capital Corp.	595,228	17,045	589,991	17,071
Wa Tech Venture Capital				
Co., Ltd.	183,877	5,266	184,098	5,327
Cathay Securities				
Investment Trust Co., Ltd.	194,556	5,571	78,723	2,278
Symphox Information Co.,				
Ltd.	265,944	7,616	287,210	8,310
Lin Yuan Property				
Management Co., Ltd.	31,574	904	0	0
United World Chinese				
Commercial Bank	12,731,634	364,594	0	0
Sub-total	<u>14,816,639</u>	<u>424,302</u>	<u>1,899,457</u>	<u>54,961</u>
B. Under the cost method:				
WK Technology Fund Co.,				
Ltd.	100,000	2,864	100,000	2,893
Taiwan Aerospace				
Company	260,000	7,446	260,000	7,523
Koo Group				
Telecommunications Co.,				
Ltd.	749,998	21,478	749,998	21,701
Concord III Venture				
Capital Co., Ltd.	89,280	2,557	89,280	2,583
Taipei Financial Center				
Corp.	1,441,590	41,283	1,441,590	41,713
Investar Dayspring V.C. Inc.	200,000	5,727	200,000	5,787
FAT Venture Capital Co.,				
Ltd.	50,000	1,432	50,000	1,447
Concord IV Venture				
Capital Co., Ltd.	50,000	1,432	50,000	1,447
WK Technology Fund V				
Co., Ltd.	150,000	4,295	100,000	2,893
WK Technology Fund IV				
Co., Ltd.	127,200	3,643	127,200	3,681

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

Century Venture Capital Co., Ltd.	100,000	2,864	100,000	2,893
Super Tech Venture Capital Corp.	100,000	2,864	100,000	2,893
CDIB & Partners Investment Holding Corp.	500,000	14,318	500,000	14,468
Alex-Tech Machinery Industrial Co., Ltd.	21,000	601	21,000	608
Quanta Display Inc.	0	0	813,281	23,533
R.O.C. Venture Capital Co., Ltd.	151,970	4,352	151,970	4,397
National Venture Capital Co., Ltd.	100,000	2,864	100,000	2,893
WK Technology Fund VII Co., Ltd.	200,000	5,727	200,000	5,787
Capital Venture Fund II Corp	50,000	1,432	50,000	1,447
Fu Yu Venture Capital Investment Corp.	200,000	5,727	200,000	5,787
Concord VII Venture Capital Co., Ltd.	100,000	2,864	100,000	2,893
Allied Material Technology Corp.	98,400	2,818	98,400	2,847
New Century InfoComm Tech Co., Ltd.	1,268,000	36,312	1,268,000	36,690
Deltamac (Taiwan) Co., Ltd.	0	0	15,200	440
Srsuntour Co., Ltd.	62,000	1,775	62,000	1,794
Titan I Venture Capital Co., Ltd.	150,000	4,295	150,000	4,340
Harbinger Venture Capital Corp.	200,000	5,727	200,000	5,787
Prosperity Venture Capital Corp.	100,000	2,864	100,000	2,893
Taiwan ultra capacity Corp.	0	0	250	7
KGEx.com Co., Ltd.	175,000	5,011	175,000	5,064
United Venture Corp.	50,000	1,432	50,000	1,447
Atech Technology Co., Ltd.	0	0	0	0
BioCare Corp.	12,000	344	12,000	347
Megic Corp.	18,000	515	18,000	521
WK Technology Fund VII Co., Ltd.	200,000	5,727	200,000	5,787
Hua Chih Venture Capital Corp.	60,000	1,718	60,000	1,736
Jih Sun Venture Capital Investment Co.Ltd.	80,000	2,291	80,000	2,315
Formosa Epitaxy Inc.	20,500	587	20,500	593
Win Semiconductors Corp.	50,949	1,459	47,600	1,377

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

Sintek Photronic Corp.	0	0	75,000	2,170
National Aerospace Fasteners Corp.	0	0	38,000	1,100
Kinik Precision Grinding Co., Ltd.	6,000	172	6,000	174
Vita Genomics Inc.	87,500	2,506	87,500	2,532
TurboComm Tech. Inc	0	0	50,000	1,447
Tong Hsing Electronic Inc. Co., Ltd.	27,144	777	27,144	786
China Technology Venture Capital Corp.	50,000	1,432	50,000	1,447
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,423	259,200	7,500
Applied Vacuum Coating Technologies Co., Ltd.	6,661	191	6,150	178
TaiGen Biotechnology Co., Ltd.	16,500	472	8,250	239
Darly 3 Venture Co., Ltd.	20,000	573	0	0
Cdid BioScience venture I Inc.	285,000	8,161	0	0
Maxima Venture I, Inc, Taiwan	126,630	3,626	0	0
Parawin Venture Capital Co., Ltd.	50,000	1,432	0	0
Top Taiwan IV Venture Capital Co., Ltd.	50,000	1,432	0	0
Cash Box Audio and Video Co., Ltd.	50,000	1,432	0	0
Richtech Technology Co., Ltd.	28,500	816	0	0
Sub-total	8,349,022	239,090	8,668,513	250,825
Add: Cumulative translation adjustments	7,141	205	3,789	110
Less: Unrealized valuation Losses on long-term Equity investment	(9,458)	(271)	0	0
Total	\$23,163,344	\$663,326	\$10,571,759	\$305,896

1. Changes in long-term investments in stocks under the equity method are summarized in the following:

September 30,			
2002	2002	2001	2001

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of September 30, 2002 and 2001

	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
Balance at January 1	\$2,003,602	\$57,376	\$1,285,763	\$37,204
Add: Investment gains				
(losses) by equity method recognized	(11,295)	(323)	873	25
Transfer short-term investment to long-term investment	12,705,384	363,843	0	0
Increment of investments	135,332	3,875	612,821	17,732
Less: Cash dividends	(16,384)	(469)	0	0
Balance of September 30,	<u>\$14,816,639</u>	<u>\$424,302</u>	<u>\$1,899,457</u>	<u>54,961</u>

2. The investment gains (losses) recognized by the equity method for the nine months ended September 30, 2002 and 2001 are listed below:

<u>Investee</u>	<u>For the six months ended September 30,</u>			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
WK Technology Fund VI Co., Ltd.	\$1,807	\$52	\$8,298	\$240
Cathay Insurance (Bermuda) Co., Ltd.	(1,286)	(37)	8,954	259
Symphox Information Co., Ltd.	(15,587)	(446)	(12,790)	(370)
Cathay Venture Capital Corp.	990	28	(2,031)	(59)
Visa Technology Venture Capital Corp.	(15,044)	(430)	(1,962)	(57)
Omnitek Venture Capital Corp.	2,280	65	413	12
IBT Venture Capital Corp	5,237	150	(9)	0
Wa Tech Venture Capital Corp.	7,163	205	—	—
Cathay Securities Investment Trust Co., Ltd.	5,653	162	—	—
United World Chinese Commercial Bank	(7,082)	(203)	—	—
Lin Yuan Property Management Co., Ltd.	4,574	131	—	—
Total	<u>(\$11,295)</u>	<u>(\$ 323)</u>	<u>\$873</u>	<u>\$25</u>

(1). 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

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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 of the following investees: The WK Technology Fund VI Co., Ltd. Visa Technology Venture Capital Corp. Omnitek Venture Capital Corp. Wa Tech Venture Capital Corp. and IBT Venture Capital Corp for the nine months ended September 30, 2002 and 2001. Moreover, the Cathay Venture Capital Corp. for the nine months ended September 30, 2001.

- (2). The investment gains (losses of investee companies) for the nine months ended September 30, 2002 were recognized based on unreviewed financial statements. Those investee companies are Cathay Venture Capital Corp. Cathay Securities Investments Trust Co., Ltd. Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. and Lin Yuan Property Management Co., Ltd.

The investment gains (losses) of investee companies for the nine months ended September 30, 2001 were recognized based unreviewed financial statements. Those investee companies are Cathay Insurance (Bermuda) Co., Ltd. and Symphox Information Co., Ltd.

- (3) The Company has invested in United World Chinese Commercial Bank (UWCCB) with owns of 14.49%. However, since as of September 26, 2002, the Company and its parent company own the investment of more than 20% interest of UWCCB, the transfer of short-term investment to long-term investment is estimated under the equity method. The investment gains and losses are recognized based on year 2002 auditor's review report of the first three quarters.

- (4) We did not audit the financial statements for the nine months ended September 30, 2002 of UWCCB, UWCCB reviewed by other CPAs with qualified opinions due to the potential adjustments, except for the long-term investments in the amount of NT\$6,260,563(US\$179,283) under the equity method, and investment losses

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in the amount of 146,383(US\$4,192) which were in accordance with unreviewed report of its investee companies. However, as the Company evaluated there is no significant influence on the potential adjustments, it recognized its income/ loss on investments in accordance with the financial statements of UWCCB previously reviewed by CPAs.

9. Long-Term Investments in Bonds

Long-term investments in bonds consist mainly of government bonds and corporate bonds as of September 30, 2002 and 2001. Partitive Bonds are deposited in The Central Bank of China as Capital Guarantee Deposits.

10. Investments in Real Estate

Item	September 30, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$86,161,173	\$2,467,387	\$5,132	\$147	(\$10,339,364)	(\$296,087)	\$75,826,941	\$2,171,447
Construction	16,878,691	483,353	0	0	0	0	16,878,691	483,353
Prepayments for buildings and land	4,118	118					4,118	118
Total	\$103,043,982	\$2,950,858	\$5,132	\$147	(\$10,339,364)	(\$296,087)	\$92,709,750	\$2,654,918

Item	September 30, 2001							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$80,161,243	\$2,319,481	\$5,264	\$152	(\$9,034,466)	(\$261,414)	\$71,132,041	\$2,058,219
Construction	14,806,508	428,429	0	0	0	0	14,806,508	428,429
Total	\$94,967,751	\$2,747,910	\$5,264	\$152	(\$9,034,466)	(\$261,414)	\$85,938,549	\$2,486,648

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) As of September 30, 2002 and 2001, investments in real estate were pledged. Please see note 19, "Pledged Assets" for details.

11. Property and Equipment

Item	September 30, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$

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	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,512,864	\$157,871	\$1,643	\$47	\$0	\$0	\$5,514,507	\$157,918
Buildings and structures	10,723,741	307,095	0	0	(2,838,528)	(81,287)	7,885,213	225,808
Communication and transportation equipment	141,734	4,059	0	0	(50,057)	(1,433)	91,677	2,626
Other equipment	3,771,090	107,992	0	0	(1,954,479)	(55,970)	1,816,611	52,022
Sub-total	20,149,429	577,017	1,643	47	(4,843,064)	(138,690)	15,308,008	438,374
Construction in progress	332,617	9,525	0	0	0	0	332,617	9,525
Prepayment for equipment	82,688	2,368	0	0	0	0	82,688	2,368
Total	\$20,564,734	\$588,910	\$1,643	\$47	(\$4,843,064)	(\$138,690)	\$15,723,313	\$450,267

September 30, 2001

Item	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,994,632	\$144,520	\$1,510	\$44	\$0	\$0	\$4,996,142	\$144,564
Buildings and structures	9,900,331	286,468	0	0	(2,567,123)	(74,280)	7,333,208	212,188
Communication and transportation equipment	144,209	4,173	0	0	(51,105)	(1,479)	93,104	2,694
Other equipment	3,120,526	90,293	0	0	(1,617,558)	(46,804)	1,502,968	43,489
Sub-total	18,159,698	525,454	1,510	44	(4,235,786)	(122,563)	13,925,422	402,935
Construction in progress	212,418	6,146	0	0	0	0	212,418	6,146
Total	\$18,372,116	\$531,600	\$1,510	\$44	(\$4,235,786)	(\$122,563)	\$14,137,840	\$409,081

No property and equipment was pledged as collateral. The insurance coverage on property and equipment and real estate investments are stated at book value.

12. Overdue Receivables

September 30,			
2002	2002	2001	2001

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	NT\$	US\$	NT\$	US\$
Overdue receivables	\$5,411,152	\$154,959	\$6,194,427	\$179,237
Less: Allowance for bad and doubtful debts	(1,629,839)	(46,674)	(1,796,384)	(51,979)
Total	<u>\$3,781,313</u>	<u>\$108,285</u>	<u>\$4,398,043</u>	<u>\$127,258</u>

13. Capital Stock and Capital Increment

- (1) As of September 30, 2002 and 2001, the total authorized shares were 5,068,615,765, 5,898,615,765, respectively, with par value of 10 dollars each.
- (2) On May 22, 2001, the Company declared a \$5,393,258 stock dividend. Consequently, the R.O.C SFC approved the appropriation and issuance of shares on July 11, 2001.
- (3) The Company reported to repurchase 39,344,000 shares of common stocks as treasury stocks for employee stock options. However, on August 8, 2001, Company's Board of Directors decided to write off the 39,344,000 shares of treasury stocks
- (4) On July 26, 2002, the Board of Directors' Meeting resolved to decrease its capital in the amount of NT\$ 7,700,000 thousand dollars. Its basis date is on August 13, 2002. The paid-in capital after decreasing capital amounted to NT\$ 50,686,158 thousand dollars.

14. Retained Earnings

(1) Legal Reserve

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits and not for cash dividends distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by it's the board of directors.

(2) Unappropriated Retained Earnings

A. According to the Company Law of the Republic of China and the Company's Articles of Incorporations, 10 % of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be distributed as legal reserve. In addition to distributing stock interest and 2% as bonus for employees, the remainder

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shall be allocated in accordance with the resolution in the directors' meeting.

B. According to related regulations if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its 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; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

- (3) According to the revised tax law of 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer standing.

15. TREASURY STOCK

	Jan. 1, 2002	Increase	Decrease	Sep. 30, 2002
Reason for transfer				(Unit: thousand shares)
Transferred it to employees	156,927	0	0	156,927
Total	<u>156,927</u>	<u>0</u>	<u>0</u>	<u>156,927</u>

- (1) Pursuant to the Securities and Exchange Law of the R.O.C., 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 September 30 2002, the Company had acquired 156,927,000 shares of treasury stock for \$7,333,863(USD210,019).

- (2) Treasury stock of the Company was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. Meanwhile, the status of the Company was going unlisted company, and Cathay Financial Holding Co., Ltd. became the parent company with 100% shareholding on the basis of MOF.

16. Estimated Income Taxes

- (1) *Income tax expenses include the following:*

	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Income before Taxes	\$8,284,237	\$237,235	\$855,988	\$24,769

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Adjustments				
Interest income of tax on a separate basis	(673,153)	(19,277)	(3,776,017)	(109,260)
Loss (gain) on disposal of investments	36,473	1,044	4,900,286	141,790
Loss (gain) on disposal of land	(7,140)	(205)	(2,043)	(59)
Loss (gain) on market price loss (recovery) of short-term investments	0	0	8,293,041	239,961
Loss (gain) on market price loss (recovery) of short-term investments	(54,062)	(1,548)	0	0
Bad debts exceeding legal limit	(775,970)	(22,221)	267,270	7,734
Unrealized exchange loss (gain)	(2,242)	(64)	(1,731,432)	(50,099)
Cash Dividend	(1,127,991)	(32,302)	(1,505,654)	(43,567)
Decrease in payment pension expense	540,843	15,488	777,660	22,501
Others	1,372	39	19,548	566
Taxable Income	6,222,367	178,189	8,098,647	234,336
Times; Taxes Rate; Less:				
Progressive difference	25% – 10	25%	25% – 10	25%
Add: Extra 10% Income Tax on Undistributed Retained Earnings	136,605	3,912	0	0
Sub-Total	1,692,187	48,459	2,024,652	58,584
Add: Tax on a separate basis	134,630	3,855	755,328	21,856
Beginning deferred income tax assets	892,355	25,554	614,840	17,791
Ending deferred income tax liabilities	1,377,147	39,437	1,590,635	46,025
Underestimation (overestimation) of prior year income tax	0	0	2,320	67
Less: Income tax credit	(119,482)	(3,421)	(78,482)	(2,271)
Beginning deferred income tax liabilities	(1,599,375)	(45,801)	(1,370,945)	(39,669)
Ending deferred income tax assets	(553,216)	(15,842)	(665,423)	(19,254)
Total Income Tax expenses	<u>\$1,824,246</u>	<u>\$52,241</u>	<u>\$2,872,925</u>	<u>\$83,129</u>

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

	September 30,			
	<u>2002</u> NT\$	<u>2002</u> US\$	<u>2001</u> NT\$	<u>2001</u> US\$
A. Total deferred tax liabilities	\$1,377,147	\$39,437	\$1,590,635	\$46,025
Total deferred tax assets	\$553,216	\$15,842	\$665,423	19,254
B. Temporary differences:				

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Employee benefits	\$80,296	\$2,299	\$131,475	\$3,804
Unrealized exchange gains				
(Losses)	(4,543,270)	(130,105)	(4,506,069)	(130,384)
Bad debts exceeding limit	1,408,016	40,321	1,734,440	50,186
Taxable temporary difference from recognition of pension expense	(256,764)	(7,353)	(1,078,811)	(31,216)
Other	16,001	458	18,116	524
C. Deferred tax assets-current	\$13,605	\$389	\$17,324	\$502
Deferred tax liabilities-current	<u>(1,177,745)</u>	<u>(33,727)</u>	<u>(1,126,517)</u>	<u>(32,596)</u>
Net offset balance of deferred tax assets (liabilities)-current	<u>(\$1,164,140)</u>	<u>(\$33,337)</u>	<u>(\$1,109,193)</u>	<u>(\$32,095)</u>
D. Deferred tax assets-noncurrent	\$539,611	\$15,453	\$648,099	\$18,752
Deferred tax Liabilities-noncurrent	<u>(199,402)</u>	<u>(5,710)</u>	<u>(464,118)</u>	<u>(13,429)</u>
Net offset balance of deferred income tax assets (liabilities) - noncurrent	<u>\$340,209</u>	<u>\$9,743</u>	<u>\$183,981</u>	<u>\$5,323</u>

(3) The Company's income tax returns, up until 2000, have been reviewed and approved by the Tax Authorities.

(4) Information related to tax imputation

	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$3,465,270</u>	<u>\$99,235</u>	<u>\$4,806,638</u>	<u>\$139,081</u>

	September 30,	
	<u>2002</u>	<u>2001</u>
Imputation credit account ratio (stock dividends) - Actual June 13, 2001	<u>--</u>	<u>34.56%</u>
Imputation credit account ratio	<u>--</u>	<u>36.44%</u>

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(stock dividends) - Actual		
September 3, 2001		
Imputation credit account ratio		
(stock dividends) - Actual		
February 4, 2002	33.33%	--

(5) Related Information on Undistributed Earnings

Year	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$105,651	\$3,026	\$3,899,127	\$112,822
After 1998	21,795	624	0	0
Total	\$127,446	\$3,650	\$3,899,127	\$112,822

Net income after tax for the nine months ended September 30, 2002 and 2001 were not induced in unappropriated earnings computation since 1998.

(6) The details of the tax credit for the Company meets the requirements of “Statute for Upgrading Industries”, are as follows:

Law of income tax deduction	The deductible items	The amount of deductible income tax	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	NT\$12,303(US\$352)	\$0	2006

17. Earning Per Share

	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Income from	\$8,284,237	\$237,235	\$855,988	\$24,769

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continuing operations before income taxes (a)				
Net income (b)	\$6,459,991	\$184,994	(\$2,016,937)	(\$58,360)
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,898,615,765	5,898,615,765
Weighted average outstanding number of shares (c)	5,543,483,637	5,543,483,637	5,910,141,143	5,910,141,143
Adjusted weighted average outstanding number of shares (d)	5,543,483,637	5,543,483,637	5,910,141,143	5,910,141,143
Before income taxes				
Earnings per share (a) / (c) (dollars)	\$1.49	\$0.04	\$0.14	\$0.00
After income taxes				
Earnings per share (b) / (c) (dollars)	\$1.17	\$0.03	(\$0.34)	(\$0.01)
Before income taxes				
Adjusted earnings per share (a) / (d) (dollars)	\$1.49	\$0.04	\$0.14	\$0.00
After income taxes				
Adjusted earnings per share (b) / (d) (dollars)	\$1.17	\$0.03	(\$0.34)	(\$0.01)

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

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(Shares)	For the nine months ended September 30,	
	2002	2001
Shares at the beginning of year	5,838,615,765	5,398,633,969
Stock Dividends, 2001	0	539,325,796
Less: The treasury stock in 10/25, 2000 ~ 11/16, 2000	0	(5,376,000)
The treasury stock in 6/14, 2001 ~ 9/28, 2001	0	(22,442,622)
Treasury stock	(156,927,000)	0
Capital decrease	(138,205,128)	0
Total	5,543,483,637	5,910,141,143

For details related to the increase and decrease of capital, please refer to note 13.

18. Related Party Transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Subsidiary of the company
Lin Yuan Investment Co., Ltd.	Their chairman is an second immediate family member of the Company's chairman
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an second immediate family member of the Company's chairman
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the company
Symphox Information Co., Ltd.	Subsidiary of the company
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Cathay Life Insurance Agent Co., Ltd.	Affiliate
United World Chinese Commercial Bank	The investee is accounted for using equity method since as of September 26,2002.
Seaward Insurance agent Corp.	The investee of United World Chinese Commercial Bank
Grand Pacific Peprochemical Corporation	The president of United World Chinese Commercial Bank acts as the vice president of the Company

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(2) *Significant Transactions with Related Parties*

A. Property Transactions (From related parties):

a. Transactions between the Company and related parties are real estate, constructions, and lease transactions. The terms of such transactions are based on market surveys, contracts of both parties.

Name	For the nine months ended September 30, 2002		
	Item	NT\$	US\$
San -Ching Engineering Co., Ltd.	The construction build or extend:		
	Tainan Shopping Center	\$2,136,925	\$61,195
	Cathay General Hospital of Hsinchu	508,566	14,564
	Taitung Building	136,214	3,901
	Lin Yuan Financial building	722,412	20,688
	Hsinyi District Base	444,395	12,726
	Other	84,603	2,422
	Sub-total	4,033,115	115,496
Cathay Real Estate Development Co., Ltd.	Other	1,817	52
	Total	\$4,034,932	\$115,548

Name	For the nine months ended September 30, 2001		
	Item	NT\$	US\$
San -Ching Engineering Co., Ltd.	The construction build or extend:		
	Lin Yuan Financ building	\$813,702	\$23,545
	Banchian Lin Yuan General Hospital	100,686	2,913
	Tainan Shopping Center	2,377,629	68,797
	Cathay General Hospital of Hsinchu	184,700	5,344
	Other	241,117	6,977
	Total	\$3,717,834	\$107,576

b. The total amount of construction contracts for real estate on September 30, 2002 and 2001 between the Company and San-Ching Engineering Co., Ltd. are \$19,695,495 (US\$564,018) and \$16,867,961 (US\$488,078) respectively. Up to September 30 in 2002 and 2001, \$15,719,726 (US\$450,164) and \$8,892,451 (US\$257,305) had been paid according to the schedule of construction contracts.

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- c. For the nine Months ended September 30, 2002 and 2001, the Company purchased property and investments in real estate without selling them in previous years.
- d. The Company did not sell any real estate to related parties on September 30, 2002 and 2001.
- e. Real-Estate Rental Income (From related parties)

Name	Rental income			
	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$23,182	\$664	\$24,738	\$716
San-Ching Engineering Co., Ltd.	14,930	428	15,764	456
Cathay Century Insurance Co., Ltd.	34,473	987	29,377	850
Cathay Securities Investment Trust Co., Ltd.	6,834	196	5,887	170
Cathay United Bank	97,824	2,801	108,720	3,146
Cathay General Hospital	90,579	2,594	84,032	2,431
Symphox Information Co., Ltd.	22,888	655	23,851	690
Lin Ynan Investment Co., Ltd.	77	2	58	2
Cathay Financial Holding Co., Ltd.	5,862	168	-	-
Grand Pacific Peprochemical Corporation	841	24	-	-
Total	<u>\$297,490</u>	<u>\$8,519</u>	<u>\$292,427</u>	<u>\$8,461</u>

Name	Guarantee deposits received			
	Sep. 30, 2002	Sep. 30, 2002	Sep. 30, 2001	Sep. 30, 2001
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$355	\$12,386	\$358
San-Ching Engineering Co., Ltd.	6,828	195	6,828	198
Cathay General Hospital	1,983	57	1,983	57
Cathay Century Insurance Co., Ltd.	11,546	331	10,561	306
Cathay United Bank	38,629	1,106	34,195	989
Cathay Securities Investment Trust Co., Ltd.	2,144	61	1,614	47
Other	229	7	86	3
Total	<u>\$73,745</u>	<u>\$2,112</u>	<u>\$67,653</u>	<u>\$8,958</u>

According to previously signed contracts, lease terms with third parties are usually 2 to 5 years; rental collections are received monthly.

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B. Real-Estate Rental Expense (From related parties)

Name	Rental Expense			
	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$19,498	\$558	\$21,396	\$619

Name	Guarantee Deposits paid			
	Sep. 30,2002	Sep. 30,2002	Sep. 30,2001	Sep. 30,2001
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,352	\$268	\$402,362	\$11,642

According to contracts, terms of lease from the third party generally expire in 3 years; rentals are paid monthly.

C. Acquisition of other Equipment

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$26,874	\$770	\$19,561	\$566

D. Cash In Bank

Name	Item	September 30, 2002			
		Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
Cathay United Bank	Time Deposit	\$12,985,850	\$7,649,850	2.35% ~ 5.20%	\$164,160
	Cash In Bank	20,161,693	4,800,192	0.00%~ 2.00%	19,393

Name	Item	September 30, 2002			
		Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
United World Chinese Commercial Bank	Time Deposit	\$23,500,000	\$21,700,000	1.90%~ 3.15%	\$412,356
	Cash In Bank	262,250	184,557	0.00%~ 1.30%	172

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NOTES TO FINANCIAL STATEMENTS - (Continued)
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		September 30, 2002			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
Cathay United Bank	Time Deposit	\$371,874	\$219,068	2.35% ~ 5.20%	\$4,701
	Cash In Bank	577,368	137,463	0.00% ~ 2.00%	5

		September 30, 2002			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
United World Chinese Commercial Bank	Time Deposit	\$672,967	\$621,420	1.90% ~ 3.15%	\$11,809
	Cash In Bank	7,510	5,285	0.00% ~ 1.30%	555

		September 30, 2001			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
Cathay United Bank	Time Deposit	\$7,481,550	\$6,760,100	3.20% ~ 5.20%	\$69,886
	Cash In Bank	11,577,140	3,927,486	0.00% ~ 2.00%	11,824

		September 30, 2001			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
Cathay United Bank	Time Deposit	\$216,480	\$195,605	3.20% ~ 5.20%	\$2,022
	Cash In Bank	334,987	113,643	0.00% ~ 2.00%	342

E. Regular Secured Loans

		September 30, 2002			
Name	Maximum Amount	Ending Balance	Rate	Interest Income	
		NT\$	NT\$	NT\$	
Cathay General Hospital	\$1,174,594	\$1,174,088	5.21% ~ 4.36%	\$41,858	

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Name	September 30, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General			5.21%~	
Hospital	\$33,637	\$33,622	4.36%	\$1,199

Name	September 30, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General				
Hospital	\$1,175,179	\$1,174,751	7.575%	\$66,754

Name	September 30, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General				
Hospital	\$34,004	\$33,992	7.575%	\$1,932

F. Marketable Securities-Stock

Name	Item	September 30, 2002		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,700	\$27,000	\$773

Name	Item	September 30, 2001		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Taipei Financial Center Corp.	61,724	\$729,573	\$21,110
	SMBC-Cathay Co., Ltd.	20,000	259,200	7,500

CATHAY LIFE INSURANCE CO., LTD.
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G. Beneficiary Certificates:

Name	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$2,515,516	\$72,037	\$1,190,757	\$34,455

H. Notes Receivable

Name	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$47,597	\$1,363	\$6,641	\$192
Symphox Information Co., Ltd.	1,351	39	3,498	101
Cathay Century Insurance Co., Ltd.	2,055	59	-	-
Total	<u>\$51,003</u>	<u>\$1,461</u>	<u>\$10,139</u>	<u>\$293</u>

I. Accounts Payable-Related Parties

Name	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$55,667	\$1,594	\$47,303	\$1,369
Cathay Real Estate Development Co., Ltd.	2,088	60	1,549	45
Cathay Century Insurance Co., Ltd.	6,547	188	1,972	57
Cathay Insurance (Bermuda) Co., Ltd.	-	-	82	2
Symphox Information Co., Ltd.	131,443	3,764	18,766	543
Total	<u>\$195,745</u>	<u>\$5,606</u>	<u>\$69,672</u>	<u>\$2,016</u>

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NOTES TO FINANCIAL STATEMENTS - (Continued)
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J. Accounts Collected in Advance

Name	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$295	\$8	\$215	\$6
Other	413	12	1,970	57
Total	<u>\$708</u>	<u>\$20</u>	<u>\$2,185</u>	<u>\$63</u>

K. Prepayment

Name	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$145,275	\$4,160	\$32,601	\$943
San-Ching Engineering Co., Ltd.	-	-	720	21
Total	<u>\$145,275</u>	<u>\$4,160</u>	<u>\$33,321</u>	<u>\$964</u>

L. Insurance Expense

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$133,104	\$3,812	\$82,486	\$2,387

Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on September 30, 2002 and 2001 amounts of \$ 10,064 (US\$288) and \$10,904 (US\$316) were paid for employees' fidelity guarantee insurance.

M. Indemnity Income

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$6,408	\$184	\$7,172	\$208

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Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received in September 30, 2002 and 2001, \$65 (US\$2) and \$5,075 (US\$147), represented claims for employees' fidelity guarantee insurance.

N. Reinsurance Income

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$64,228	\$1,839	\$0	\$0

O. Reinsurance Expense

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$41,448	\$1,187	\$0	\$0

P. Commissions Income

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$3,023	\$87	\$0	\$0

Q. Commissions Expense

Name	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$25,234	\$723	\$0	\$0
Seaward Insurance agent Corp.	63,051	1,805	0	0

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NOTES TO FINANCIAL STATEMENTS - (Continued)
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	\$88,285	\$2,528	\$0	\$0
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R. Guarantee Deposit Paid

	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Wan Pao Development Co., Ltd.	\$0	\$0	\$600,000	\$17,361

Guarantee deposit paid is deposited to Wan Pao Development Co., Ltd. This amount will be paid back without interest when the buildings constructed by the Company receive the “user license”.

S. Other Expense (Marketing Expense)

	For the nine months ended September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$181,970	\$5,211	\$105,040	\$3,040
Lin Yuan Property Management Co., Ltd.	726,606	20,808	584,042	16,899
Cathay Real Estate Development Co., Ltd.	1,429	41	0	0
Total	\$910,005	\$26,060	\$689,082	\$19,939

19. Pledged Assets

	September 30,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Investment In Real Estate	\$0	\$0	\$1,318,153	\$38,141
Long-term Investment in Bonds	9,228,318	264,270	9,112,642	263,676
Time Deposits	9,000	258	9,000	260

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Total	\$9,237,318	\$264,528	\$10,439,795	\$302,077
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As of September 30, 2002 and 2001, the Company pledged its investments in real estate and time deposits as collateral to the renters. Guaranteed deposits of NT\$ 9,000 (US\$258) and NT\$17,940 (US\$519) were received from these renters. As requested by the tenant, we agree to purchase the time certificates by the security deposit received as a guarantee. According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guaranteed deposits.

20. Other Important Matters and Contingent Liabilities

Up to the date of September 30, 2002 signed sales contracts and construction contracts of approximately \$2,448 million (US\$70.10 million) dollars, respectively, are still in progress and remain open projects. About \$1,495 million (US\$42.81 million) dollars had been paid as of September 30,2002.

21.Serious Damages: None

22.Subsequent Events: None

23.Other Important Events

(1) Pension Related Information

Pension funded status:

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

(2) Financial Instruments Related Information

(a) Derivative Financial Instruments related information

1.Credit and Market Risk

The Company entered into forward contracts with financial institutions, with good credit. In addition, the Company entered into contracts with many financial institutions to hedge risk. Losses incurred from exchange rate fluctuation can be offset by forward hedging contracts.

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2. Cash Flow and Demand

As there will be cash inflow and cash outflow on the expiration date of a forward contract, no demand for substantial cash flow is expected.

3. Futures

All futures transaction had offset on September 30, 2002.

4. Forward Contract

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

(2) As of September 30, 2002 and 2001, the Company has forward exchange contracts of approximately US\$3,702,000 and US\$130,000 respectively in notional value.

5. Interest Rate Swap Agreement (IRS)

The IRS agreement is applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of September 30, 2002. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRS	NT	2002.05.02~2009.10.19	\$19,400,000

(b) Non Derivative Financial Instruments related information :

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of September 30, 2002 and 2001, is the same as the estimated fair market value:

Item	September 30,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$300,759,701	\$300,759,701	\$8,612,821	\$8,612,821

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Item	September 30,			
	2001		2001	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$207,518,676	\$207,518,676	\$6,004,591	\$6,004,591

(3) Discretionary Account Management

Item	September 30, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,794,489	\$51,389	\$1,628,543	\$46,636
Repurchase bonds	3,312,726	94,866	3,312,726	94,866
Short-term securities	572,077	16,383	572,077	16,383
Bonds	2,993,524	85,725	3,017,337	86,407
Cash in bank	304,819	8,729	304,819	8,729
Net other assets less liabilities	60,231	1,725	60,231	1,725
Total	\$9,037,866	\$258,817	\$8,895,733	\$254,746

2001 Year: None.

(4) Material Contract: None

19. Information for Investment in Mainland China: None

20. Segment Information:

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