

**CATHAY LIFE INSURANCE CO., LTD.  
FINANCIAL STATEMENTS  
TOGETHER WITH  
REVIEW REPORT  
AS OF MARCH 31, 2003 AND 2002**

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

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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 March 31, 2003 and 2002, and related statements of income, changes in stockholders' equity, and cash flows for the three-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 for these companies under the equity method were NT\$693,020 (US\$19,943) and NT\$671,380 (US\$19,182) as of March 31, 2003 and 2002, respectively. The related amount of investment gain (loss) were NT\$9,972(US\$287) and NT\$(3,294) (US\$94) for the periods ended March 31, 2003 and 2002.

Based 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 March 31, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Notes 2, 4)	\$160,016,587	\$4,604,794	12.15	\$154,448,482	\$4,412,814	13.42
Short-term investments (Notes 2, 5)	304,476,810	8,761,923	23.12	238,048,107	6,801,374	20.68
Notes receivable	13,305,661	382,897	1.01	13,462,253	384,636	1.17
Notes receivable-related parties (Note 19)	35,001	1,007	0.00	47,750	1,364	0.00
Tax refund receivable	15,029	432	0.00	0	0	0.00
Interest receivable	10,802,592	310,866	0.82	10,908,722	311,678	0.95
Other accounts receivable	2,679,238	77,100	0.21	2,475,892	70,740	0.21
Prepayments	305,729	8,798	0.02	525,323	15,009	0.04
Premiums paid for others (Note 6)	13,691,537	394,001	1.04	13,266,961	379,056	1.15
Sub-total	<u>505,328,184</u>	<u>14,541,818</u>	<u>38.37</u>	<u>433,183,490</u>	<u>12,376,671</u>	<u>37.62</u>
<b>Exchange Bills Negotiated, Discounted and Loans</b>						
(Notes 2, 7)						
Policy loans for life insurers	169,465,197	4,876,696	12.87	172,015,120	4,914,718	14.94
Short-term secured loans	102,492	2,950	0.01	82,742	2,364	0.01
Medium-term secured loans	9,397,948	270,445	0.71	11,547,041	329,916	1.00
Long-term secured loans	307,557,345	8,850,571	23.35	298,846,848	8,538,481	25.96
Sub-total	<u>486,522,982</u>	<u>14,000,662</u>	<u>36.94</u>	<u>482,491,751</u>	<u>13,785,479</u>	<u>41.91</u>
<b>Funds, Long-Term Investments, and Receivable</b>						
<b>Long-term investments in stocks (Notes 2, 8)</b>						
Under the equity method	2,084,622	59,989	0.16	2,006,967	57,342	0.18
Under the cost method	56,362,328	1,621,937	4.28	8,792,810	251,223	0.76
Allowance for valuation loss on long-term investments in stocks	(9,458)	(272)	0.00	0	0	0.00
Long-term investments in bonds (Notes 2, 9)	141,309,523	4,066,461	10.73	100,322,098	2,866,346	8.71
Investments in real estate (Notes 2, 10)	93,959,827	2,703,880	7.13	90,114,480	2,574,699	7.83
Sub-total	<u>293,706,842</u>	<u>8,451,995</u>	<u>22.30</u>	<u>201,236,355</u>	<u>5,749,610</u>	<u>17.48</u>
<b>Property and Equipment (Notes 2, 11)</b>						
Land	5,566,747	160,194	0.43	5,118,472	146,242	0.45
Buildings and structures	10,818,088	311,312	0.82	10,505,516	300,158	0.91
Communication and transportation equipment	145,400	4,184	0.01	140,958	4,027	0.01
Other equipment	4,082,973	117,496	0.31	3,482,409	99,497	0.30
Sub-total	<u>20,613,208</u>	<u>593,186</u>	<u>1.57</u>	<u>19,247,355</u>	<u>549,924</u>	<u>1.67</u>
Less: Accumulated depreciation	(5,184,253)	(149,187)	(0.39)	(4,613,822)	(131,823)	(0.40)
Construction in progress and prepayment for equipment	704,518	20,274	0.05	184,870	5,282	0.02
Sub-total	<u>16,133,473</u>	<u>464,273</u>	<u>1.23</u>	<u>14,818,403</u>	<u>423,383</u>	<u>1.29</u>
<b>Other Assets</b>						
Non-operating assets (Notes 2, 24)	3,430,317	98,714	0.26	2,355,152	67,290	0.20
Guarantee deposits paid (Notes 2, 20)	273,727	7,877	0.02	1,271,596	36,331	0.11
Overdue receivables (Notes 2, 12)	2,815,199	81,013	0.21	6,323,574	180,674	0.55
Temporary payments and suspense accounts	134,140	3,860	0.01	169,501	4,843	0.02
Securities serving as deposits paid-bonds (Notes 2, 9, 20)	7,724,837	222,297	0.59	8,890,857	254,024	0.77
Deferred income tax assets (Notes 2, 17)	457,034	13,152	0.04	519,252	14,836	0.05
Investment-linked products assets (Notes 2)	383,097	11,025	0.03	32,347	924	0.00
Sub-total	<u>15,218,351</u>	<u>437,938</u>	<u>1.16</u>	<u>19,562,279</u>	<u>558,922</u>	<u>1.70</u>
<b>Total Assets</b>	<u><u>\$1,316,909,832</u></u>	<u><u>\$37,896,686</u></u>	<u><u>100.00</u></u>	<u><u>\$1,151,292,278</u></u>	<u><u>\$32,894,065</u></u>	<u><u>100.00</u></u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 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 March 31, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Notes payable	\$1,707	\$49	0.00	\$1,742	\$50	0.00
Accounts payable-related parties (Note 19)	93,636	2,695	0.01	129,455	3,699	0.01
Collections for others	139,628	4,018	0.01	138,330	3,952	0.01
Accrued expenses	1,454,109	41,845	0.11	1,586,419	45,326	0.14
Taxes payable	3,793,944	109,178	0.29	657,857	18,796	0.06
Commissions payable	833,214	23,977	0.06	872,946	24,941	0.08
Dividends payable	171,050	4,922	0.01	305,856	8,739	0.03
Life insurance proceeds payable	1,825	52	0.00	1,628	47	0.00
Other payable	792,215	22,798	0.06	2,804,621	80,132	0.24
Deferred tax liabilities- current (Note 17)	1,214,028	34,936	0.09	1,060,023	30,286	0.09
Accounts collected in advance	338,422	9,739	0.03	242,428	6,927	0.02
Sub-total	<u>8,833,778</u>	<u>254,209</u>	<u>0.67</u>	<u>7,801,305</u>	<u>222,895</u>	<u>0.68</u>
<b>Long-term Liabilities</b>						
Reserve for land revaluation increment tax	3,726	108	0.00	3,726	106	0.00
Accrued pension liability (Note 2)	121,955	3,509	0.01	0	0	0.00
Sub-total	<u>125,681</u>	<u>3,617</u>	<u>0.01</u>	<u>3,726</u>	<u>106</u>	<u>0.00</u>
<b>Other Liabilities</b>						
<b>Reserve for operations and liabilities</b>						
Unearned premium reserve (Note 2)	9,566,414	275,293	0.73	13,495,837	385,595	1.17
Reserve for life insurance (Note 2)	1,209,621,962	34,809,265	91.85	1,041,921,243	29,769,178	90.50
Special claim reserve (Note 2)	11,706,379	336,874	0.89	16,557,341	473,067	1.44
Claims reserve (Note 2)	315,542	9,080	0.02	274,197	7,834	0.03
<b>Miscellaneous liabilities</b>						
Guarantee deposits received	1,306,646	37,601	0.10	1,246,699	35,620	0.11
Temporary receipts and suspense accounts	499,836	14,384	0.04	436,616	12,475	0.04
Investment-linked products liabilities (Note 2)	383,097	11,025	0.03	32,347	924	0.00
Sub-total	<u>1,233,399,876</u>	<u>35,493,522</u>	<u>93.66</u>	<u>1,073,964,280</u>	<u>30,684,693</u>	<u>93.29</u>
Total Liabilities	<u>1,242,359,335</u>	<u>35,751,348</u>	<u>94.34</u>	<u>1,081,769,311</u>	<u>30,907,694</u>	<u>93.97</u>
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock (Note 13)	50,686,158	1,458,594	3.85	58,386,158	1,668,176	5.07
Capital surplus	3,048	88	0.00	126,519	3,615	0.01
<b>Retained earnings (Note 14,17)</b>						
Legal reserve	13,254,705	381,430	1.01	13,254,705	378,706	1.15
Unappropriated retained earnings	17,939,081	516,232	1.36	5,082,789	145,223	0.44
<b>Equity adjustment (Notes 2, 8)</b>						
Unrealized valuation losses on long-term equity investment	(9,458)	(272)	0.00	0	0	0.00
Cumulative translation adjustments	10,826	312	0.00	6,659	190	0.00
Treasury stock (Notes 2, 15)	(7,333,863)	(211,046)	(0.56)	(7,333,863)	(209,539)	(0.64)
Total Stockholders' Equity	<u>74,550,497</u>	<u>2,145,338</u>	<u>5.66</u>	<u>69,522,967</u>	<u>1,986,371</u>	<u>6.03</u>
Total Liabilities and Stockholders' Equity	<u>\$1,316,909,832</u>	<u>\$37,896,686</u>	<u>100.00</u>	<u>\$1,151,292,278</u>	<u>\$32,894,065</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 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 Three Months Ended March 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues (Note 2)						
Premiums income	\$55,323,731	\$1,592,050	56.45	\$48,817,480	\$1,394,785	56.69
Reinsurance commission earned	125	4	0.00	30,958	884	0.04
Claims recovered from reinsures	27,777	799	0.03	97,928	2,798	0.11
Recovered premiums reserve	27,340,591	786,780	27.90	20,083,387	573,811	23.32
Handling fee earned	2,504	72	0.00	1,574	45	0.00
Interest Income	11,809,930	339,854	12.05	10,726,444	306,470	12.46
Gain on disposal of investments	2,171,686	62,494	2.22	804,797	22,994	0.93
Gain on long-term equity investments	9,972	287	0.01	0	0	0.00
Gain on investments-real estate	1,146,402	32,990	1.17	1,089,747	31,136	1.27
Gain on foreign exchange	50,154	1,443	0.05	0	0	0.00
Other operating Income	0	0	0.00	4,425,352	126,439	5.14
Investment-linked products revenues (Note 2)	118,172	3,401	0.12	32,347	924	0.04
Sub-total	98,001,044	2,820,174	100.00	86,110,014	2,460,286	100.00
Operating Costs (Note 2)						
Insurance expenses	(1,254)	(36)	0.00	(235,753)	(6,736)	(0.27)
Brokerage expenses	(4,417,872)	(127,133)	(4.51)	(4,643,361)	(132,667)	(5.39)
Commissions expenses	(25,610)	(737)	(0.03)	(10,438)	(298)	(0.01)
Insurance claims payment	(28,328,148)	(815,199)	(28.91)	(26,186,990)	(748,200)	(30.41)
Provision for premiums reserve	(53,780,082)	(1,547,628)	(54.88)	(44,183,357)	(1,262,382)	(51.31)
Provision for special claim reserve	(551,058)	(15,858)	(0.56)	(439,693)	(12,563)	(0.51)
Contribution to the stabilization funds	(55,406)	(1,594)	(0.06)	(48,828)	(1,395)	(0.06)
Provision for claims reserve	(37,461)	(1,078)	(0.04)	(7,875)	(225)	(0.01)
Handling fee paid	(482,038)	(13,872)	(0.49)	(393,709)	(11,249)	(0.46)
Interest expenses	(4,904)	(141)	0.00	(5,960)	(170)	(0.01)
Provision for securities trading losses reserve	(64,331)	(1,851)	(0.06)	0	0	0.00
Loss on long-term equity investments	0	0	0.00	(3,294)	(94)	0.00
Loss on foreign exchange	0	0	0.00	(239,659)	(6,847)	(0.28)
Provisions expenses	(421,271)	(12,123)	(0.43)	(834,000)	(23,829)	(0.97)
Investment-linked products expenses (Note 2)	(118,172)	(3,401)	(0.12)	(32,347)	(924)	(0.04)
Sub-total	(88,287,607)	(2,540,651)	(90.09)	(77,265,264)	(2,207,579)	(89.73)
Operating Gross Profit	9,713,437	279,523	9.91	8,844,750	252,707	10.27
Operating Expenses (Note 2)						
Marketing expenses	(1,144,246)	(32,928)	(1.16)	(1,504,363)	(42,982)	(1.75)
Administrative and general expenses	(2,546,504)	(73,281)	(2.60)	(2,287,605)	(65,360)	(2.65)
Operating Income	6,022,687	173,314	6.15	5,052,782	144,365	5.87
Non-Operating Revenues						
Gain on disposal of property and equipment	353	10	0.00	1,442	41	0.00
Miscellaneous income	229,337	6,600	0.23	77,062	2,202	0.09
Sub-total	229,690	6,610	0.23	78,504	2,243	0.09
Non-Operating Expenses						
Loss on disposal of property and equipment	(393)	(11)	0.00	(309)	(9)	0.00
Miscellaneous expenses	(6,605)	(190)	(0.01)	(257)	(7)	0.00
Sub-total	(6,998)	(201)	(0.01)	(566)	(16)	0.00
Income from Continuing Operations before income taxes	6,245,379	179,723	6.37	5,130,720	146,592	5.96
Income Taxes (Notes 2, 17)	(1,279,901)	(36,832)	(1.30)	(51,906)	(1,483)	(0.06)
Net Income	\$4,965,478	\$142,891	5.07	\$5,078,814	\$145,109	5.90
Before income taxes Earnings Per Share (expressed in dollars) (Note 18)	\$1.27	\$0.04		\$0.90	\$0.03	
After income taxes Earnings Per Share (expressed in dollars) (Note 18)	\$1.01	\$0.03		\$0.89	\$0.03	

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Expressed in Thousands of Dollars)

**For the Three Months Ended March 31, 2003 and 2002**

Summary	Capital Stock		Retained Earnings						Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Unappropriated Retained Earnings		Unrealized valuation losses on long-term equity investment		Cumulative translation adjustments		Treasury Stock			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2002	\$58,386,158	\$1,668,176	\$130,494	\$3,728	\$12,195,156	\$348,433	\$11,461,899	\$327,483	\$0	\$0	\$6,657	\$190	(\$7,333,863)	(\$209,539)	\$74,846,501	\$2,138,471
Appropriations and Distributions for 2001																
Legal reserve					1,059,549	\$30,273	(1,059,549)	(30,273)							0	0
Cash dividends							(10,254,383)	(292,982)							(10,254,383)	(292,982)
Remuneration paid to directors and supervisors							(8,100)	(231)							(8,100)	(231)
Bonus paid to employees							(139,867)	(3,996)							(139,867)	(3,996)
Cumulative translation adjustments											2	0			2	0
Net income after Tax for the first quarter							5,078,814	145,109							5,078,814	145,109
Capital surplus return from disposal of property and equipment			(3,975)	(113)			3,975	113							0	0
Balance on March 31, 2002	\$58,386,158	\$1,668,176	\$126,519	\$3,615	\$13,254,705	\$378,706	\$5,082,789	\$145,223	\$0	\$0	\$6,659	\$190	(\$7,333,863)	(\$209,539)	\$69,522,967	\$1,986,371
Balance on January 1, 2003	\$50,686,158	\$1,458,594	\$3,048	\$88	\$13,254,705	\$381,430	\$12,973,603	\$373,341	(\$935,733)	(\$26,927)	\$10,829	\$312	(\$7,333,863)	(\$211,046)	\$68,658,747	\$1,975,792
Unrealized valuation losses on long-term equity investment									926,275	26,655					926,275	26,655
Capital surplus from disposal of property and equipment turn into retained earnings											(3)	0			(3)	0
Net income after Tax for the first quarter							4,965,478	142,891							4,965,478	142,891
Balance on March 31, 2003	\$50,686,158	\$1,458,594	\$3,048	\$88	\$13,254,705	\$381,430	\$17,939,081	\$516,232	(\$9,458)	(\$272)	\$10,826	\$312	(\$7,333,863)	(\$211,046)	\$74,550,497	\$2,145,338

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 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 Three Months Ended March 31, 2003 and 2002**

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income	\$4,965,478	\$142,891	\$5,078,814	\$145,109
Adjustments:				
Loss (gain) on bad debt	421,271	12,123	834,000	23,829
Depreciation	550,899	15,853	545,926	15,598
Provision for reserve for operations	54,368,601	1,564,564	44,663,272	1,276,093
Recovered unearned premium reserve	(4,514,050)	(129,901)	(31,805)	(909)
Recovered reserve for life insurance	(22,214,631)	(639,270)	(19,623,211)	(560,663)
Applicant terminates the insurance contract income	(611,910)	(17,609)	(428,371)	(12,239)
Provision loss (gain) on short-term investments	64,331	1,851	(4,425,352)	(126,439)
Loss (gain) on disposal of property and equipment	40	1	(1,133)	(32)
Loss (gain) on disposal of investments	(1,916,742)	(55,158)	(17,513)	(500)
Loss (gain) on disposal of real estate	177	5	13,650	390
Amortization long-term investments in bonds	8,545	246	4,281	122
Unrealized loss (gain) on long-term investments	(9,972)	(287)	3,294	94
Effects of exchange rate changes	2,329	67	133	4
Decrease (increase) in short-term investments	(24,666,558)	(709,829)	(17,915,649)	(511,876)
Decrease (increase) in notes receivable	6,358,232	182,971	5,873,500	167,814
Decrease (increase) in notes and accounts receivable-related parties	1,110	32	(24,143)	(690)
Decrease (increase) in prepayments	(1,016)	(29)	(147,072)	(4,202)
Decrease (increase) in prepaid pension	76,930	2,214	180,151	5,147
Decrease (increase) in other current assets	542,132	15,601	(779,416)	(22,269)
Decrease (increase) in temporary payments and suspense accounts	(29,184)	(840)	(44,066)	(1,259)
Decrease (increase) in deferred income tax assets	(23,656)	(681)	(107,241)	(3,064)
Increase (decrease) in notes payable	(970)	(28)	68	2
Increase (decrease) in accounts payable-related parties	60,363	1,737	97,460	2,785
Increase (decrease) in accrued expenses	(1,211,402)	(34,859)	(965,873)	(27,596)
Increase (decrease) in other accounts payable	(865,753)	(24,914)	1,348,207	38,520
Increase (decrease) in accounts collected in advance	136,085	3,916	24,574	702
Increase (decrease) in other current liabilities	(40,823)	(1,175)	(22,752)	(650)
Increase (decrease) in accrued pension liability	121,955	3,509	0	
Increase (decrease) in temporary receipts and suspense accounts	50,853	1,464	21,882	625
Increase (decrease) in deferred income tax liabilities	(1,979)	(57)	(59,008)	(1,686)
Net Cash Provided by (Used in) Operating Activities	<u>11,620,685</u>	<u>334,408</u>	<u>14,096,607</u>	<u>402,760</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange payable	68,102	1,960	534,190	15,263
Decrease (increase) in policy loans for life insurers	1,374,541	39,555	1,436,716	41,049
Decrease (increase) in secured loans	1,185,942	34,128	(2,648,203)	(75,663)
Acquisition of long-term investments in stocks	(1,205,000)	(34,676)	(17,937,404)	(512,497)
Proceeds from disposal of long-term investments in stocks	12,449,193	358,250	105,513	3,015
Disposal of investments in real estate	2,775	80	19,816	566
Acquisition of investments in real estate	(353,262)	(10,166)	(2,823,731)	(80,678)
Disposal of property and equipment	2,508	72	6,866	196
Acquisition of property and equipment	(178,008)	(5,123)	(204,314)	(5,838)
Decrease (increase) in non-operating assets	(69,846)	(2,010)	(97,109)	(2,775)
Decrease (increase) in guarantee deposits paid	(10,905)	(314)	9,007	257
Decrease (increase) in overdue receivables	58,394	1,681	(1,102,229)	(31,492)
Net Cash Provided by (Used in) Investing Activities	<u>13,324,434</u>	<u>383,437</u>	<u>(22,700,882)</u>	<u>(648,597)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 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 Three Months Ended March 31, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	12,245	353	(35,398)	(1,011)
Remuneration paid to directors and supervisors	0	0	(8,100)	(231)
Bonus to employees	0	0	(139,867)	(3,996)
Cash dividends	0	0	(10,254,383)	(292,982)
Net Cash Provided by (Used in) Financing Activities	12,245	353	(10,437,748)	(298,220)
Effects of Exchange Rate Changes	(2,329)	(67)	(133)	(4)
Increase (decrease) in Cash and Cash Equivalents	24,955,035	718,131	(19,042,156)	(544,061)
Cash and Cash Equivalents at the Beginning of Period	135,061,552	3,886,663	173,490,638	4,956,875
Cash and Cash Equivalents at the End of Period	\$160,016,587	\$4,604,794	\$154,448,482	\$4,412,814
Supplemental Disclosure of Cash Flows Information				
Interest paid during the period	\$517	\$15	\$604	\$17
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$517	\$15	\$604	\$17
Income tax paid	\$198,266	\$5,705	\$206,262	\$5,893

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2003 and 2002 were NT\$34.75 and NT\$35.00 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
(Expressed in thousands of dollars unless otherwise stated)  
**As of March 31, 2003 and 2002**

**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 adopted 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**

We performed the financial statement, in accordance with generally accepted accounting principles, stock issuer financial statement principles and insurance financial statement principles. Summary of significant accounting policies as follow:

(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.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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(3) *Allowance for Bad and Doubtful Debts*

Allowance for bad debts are evaluated based on the possibilities of overdue receivable and secured loan losses.

(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)**  
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*(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 offsetting account “Stabilization fund reserve”. These two accounts should not be listed in the financial statements due to their offsetting nature. From 1993 to March 31, 2003, the amount of NT\$1,800,746(US\$51,820) 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)**  
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*(9) Reserve for Operating*

Reserve for the operation is organized according to the insurance law provided by the Ministry of Finance. These include Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. The figures of the reserve are provided by actuary in the financial statements.

Ministry of Finance has passed a new regulation on December 24, 2002. Under the regulation, it states that when the accumulated gross amount of "Special Reserve for the Loss Movement" exceeds 30% of the gross amount of "Net Earned Premium," its surplus should be treated as income.

In addition, according to the regulation that was passed on December 30, 2002: It states that the surplus from the "Special Reserve for the Loss Movement" should be placed as Special Reserve under Proprietary equity after the board of directors have approved the surplus appropriation act. This amount may not be allocated or used for other purposes unless approved by the board of directors.

The company has a surplus of NT \$6,249,135 from the "Special Reserve for the Loss Movement" in 2002.

*(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.

*(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.

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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”.

*(12) Foreign-currency Transactions*

A. Translations of Foreign Currency Transactions

Foreign-currency transactions are recorded in New Taiwan Dollars at the rates of exchange date 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 exchange 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.

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

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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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income tax payable (refund). Furthermore, it requires recognition of temporary differences on deferred income tax liabilities, and deferred income tax assets, as well as prior year's loss carry forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and estimate valuation allowance, if needed. Prior year's income tax expenses adjustment should be 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 imposed on undistributed earnings is recognized as expense on the date of the board of directors' 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.

*(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.

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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*

A. 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.

B. 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 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 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.

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.

C. 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



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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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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.

**D. 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) 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 insurers. In addition, the investment distribution is appointed or approved by the insured and then transferred to specific accounts as the insurers' requested. The value of these specific accounts is determined based on the market value of that day, and its net value is determined based on accounting principles and practices generally accepted in the Republic of China.

Assets, liabilities, revenues and expenses of these specific accounts do not have generally accepted accounting standards yet. Therefore, the related accounting treatments are temporarily recorded according to insurance accounting regulations under the items of "investment-linked products assets", "investment-linked products liabilities", "investment-linked products revenues", and "investment-linked products expenses".

*(18) Convenience Translation Into US Dollars*

The financial statements are stated in New Taiwan dollars. Translation of the March 31, 2003 and 2002 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 March 31, 2003 and 2002, of NT\$34.75 and NT\$35 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.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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**3. Changes in Accounting and its Effects:** None

**4. Cash and Cash Equivalents**

	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cash on hand	\$403,917	\$11,624	\$530,592	\$15,160
Cash in banks	6,043,588	173,916	8,165,038	233,287
Time deposits	92,549,841	2,663,305	126,397,972	3,611,371
Cash equivalents	61,019,241	1,755,949	19,354,880	552,996
Total	<u>\$160,016,587</u>	<u>\$4,604,794</u>	<u>\$154,448,482</u>	<u>\$4,412,814</u>

**5. Short-Term Investments**

	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Parent stock	\$856,726	\$24,654	\$0	\$0
Less: Allowance for valuation loss	(465,704)	(13,402)	0	0
Sub-Total	<u>391,022</u>	<u>11,252</u>	<u>0</u>	<u>0</u>
Common stock and Beneficiary certificates	104,940,275	3,019,864	107,304,043	3,065,830
Oversea investments	89,733,413	2,582,257	57,155,045	1,633,001
Appoint purpose trust funds	49,588,812	1,427,016	50,779,788	1,450,851
Corporate bonds	10,806,804	310,987	10,901,279	311,465
Government bonds	14,062,517	404,677	12,147,767	347,079
Financial debentures	15,099,550	434,519	2,000,000	57,143
Short-term notes	85,544,550	2,461,714	19,696,194	562,748
Sub-Total	<u>369,775,921</u>	<u>10,641,034</u>	<u>259,984,116</u>	<u>7,428,117</u>
Less: Cash equivalents	(61,019,241)	(1,755,949)	(19,354,880)	(552,997)
Allowance for valuation loss	(4,670,892)	(134,414)	(2,581,129)	(73,746)
Sub-Total	<u>304,085,788</u>	<u>8,750,671</u>	<u>238,048,107</u>	<u>6,801,374</u>
Total	<u>\$304,476,810</u>	<u>\$8,761,923</u>	<u>\$238,048,107</u>	<u>\$6,801,374</u>

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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**6. Premiums Paid for Others**

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

	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$103,152	\$2,969	\$83,578	\$2,388
Less: Allowance for				
bad debts	(660)	(19)	(836)	(24)
Sub-total	102,492	2,950	82,742	2,364
Medium-term secured				
loans	9,460,658	272,249	11,663,678	333,248
Less: Allowance for bad				
debts	(62,710)	(1,804)	(116,637)	(3,332)
Sub-total	9,397,948	270,445	11,547,041	329,916
Long-term secured loans	309,728,586	8,913,053	301,865,503	8,624,728
Less: Allowance for bad				
debts	(2,171,241)	(62,482)	(3,018,655)	(86,247)
Sub-total	307,557,345	8,850,571	298,846,848	8,538,481
Total	\$317,057,785	\$9,123,966	\$310,476,631	\$8,870,761

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.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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**8. Long-Term Investments**

(A) Long -term Investments in Stocks

<u>Investee</u>	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI				
Co., Ltd.	\$380,209	\$10,941	\$313,048	\$8,945
Vista Technology Venture				
Capital Corp.	82,994	2,388	98,038	2,801
Omnitek Venture Capital				
Corp.	152,693	4,394	150,412	4,297
Wa Tech Venture Capital				
Co., Ltd.	176,034	5,066	184,098	5,260
IBT Venture Capital Corp.	590,214	16,985	589,991	16,857
Cathay Insurance				
(Bermuda) Co., Ltd.	53,071	1,527	63,148	1,804
Symphox Information Co.,				
Ltd.	255,171	7,343	265,806	7,594
Cathay Securities				
Investment Trust Co., Ltd.	200,429	5,768	191,237	5,464
Cathay Venture Capital				
Corp.	143,177	4,120	151,189	4,320
Lin Yuan Property				
Management Co., Ltd.	34,761	1,000	0	0
Cathay Securities				
Investment Co., Ltd.	6,411	185	0	0
Sub-total	<u>2,075,164</u>	<u>59,717</u>	<u>2,006,967</u>	<u>57,342</u>
B. Under the cost method:				
Cathay Financial Holding				
Co., Ltd.	12,888,129	370,881	0	0
Chunghwa Telecom Co.,				
Ltd.	33,433,070	962,103	0	0
WK Technology Fund Co.,				
Ltd.	100,000	2,878	100,000	2,857
Taiwan Aerospace				
Company	260,000	7,482	260,000	7,428

**CATHAY LIFE INSURANCE CO., LTD.**  
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Koo Group				
Telecommunications Co., Ltd.	749,998	21,583	749,998	21,428
Concord III Venture Capital Co., Ltd.	89,280	2,569	89,280	2,551
Taipei Financial Center Corp.	1,441,591	41,485	1,441,591	41,188
InveStar Dayspring V.C. Inc.	200,000	5,755	200,000	5,714
FAT Venture Capital Co., Ltd.	50,000	1,439	50,000	1,429
Concord IV Venture Capital Co., Ltd.	50,000	1,439	50,000	1,429
WK Technology Fund V Co., Ltd.	150,000	4,316	100,000	2,857
WK Technology Fund IV Co., Ltd.	127,200	3,660	127,200	3,634
Century Venture Capital Co., Ltd.	100,000	2,878	100,000	2,857
China Power Venture Capital Co., Ltd.	190,000	5,468	0	0
Super Tech Venture Capital Corp.	100,000	2,878	100,000	2,857
CDIB & Partners Investment Holding Corp.	500,000	14,388	500,000	14,286
Alex-Tech Machinery Industrial Co., Ltd.	21,000	604	21,000	600
Quanta Display Inc.	0	0	1,027,167	29,348
R.O.C. Venture Capital Co., Ltd.	151,970	4,373	151,970	4,342
National Venture Capital Co., Ltd.	100,000	2,878	100,000	2,857
WK Technology Fund VII Co., Ltd.	200,000	5,755	200,000	5,714
Capital Venture Fund II Corp.	50,000	1,439	50,000	1,429
Fu Yu Venture Capital Investment Corp.	200,000	5,755	200,000	5,714
Concord VII Venture Capital Co., Ltd.	100,000	2,878	100,000	2,857

**CATHAY LIFE INSURANCE CO., LTD.**  
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Allied Material Technology Corp.	98,400	2,832	98,400	2,811
New Century InfoComm Tech Co., Ltd.	1,268,000	36,489	1,268,000	36,229
Srsuntour Co., Ltd.	62,000	1,784	62,000	1,771
Titan I Venture Capital Co., Ltd.	150,000	4,316	150,000	4,286
Harbinger Venture Capital Crop.	200,000	5,755	200,000	5,714
Prosperity Venture Capital Corp.	100,000	2,878	100,000	2,857
KGEx.com Co., Ltd.	175,000	5,036	175,000	5,000
United Venture Corp.	50,000	1,439	50,000	1,429
BioCare Corp.	12,000	345	12,000	343
Megic Corp.	18,000	518	18,000	514
WK Technology Fund VII Co., Ltd.	200,000	5,755	200,000	5,714
Hua Chih Venture Capital Corp.	60,000	1,727	60,000	1,714
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,302	80,000	2,286
Formosa Epitaxy Inc.	20,500	590	20,500	586
Win Semiconductors Corp.	50,949	1,466	50,949	1,456
Sintek Photronic Corp.	0	0	75,000	2,143
Kinik Precision Grinding Co., Ltd.	6,000	173	6,000	171
Vita Genomics Inc.	87,500	2,518	87,500	2,500
Tong Hsing Electronic Inc. Co., Ltd.	27,144	781	27,144	776
China Technology Venture Capital Corp.	50,000	1,439	50,000	1,429
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,459	259,200	7,406
Applied Vacuum Coating Technologies Co., Ltd.	6,661	192	6,661	190
TaiGen Biotechnology Co., Ltd.	16,500	475	8,250	236
Cdid BioScience venture I Inc.	285,000	8,201	0	0
Maxima Venture I, Inc, Taiwan	126,630	3,644	0	0

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Parawin Venture Capital Co., Ltd.	50,000	1,439	0	0
Darly 3 Venture Co., Ltd.	20,000	575	10,000	286
Top Taiwan IV Venture Capital Co., Ltd.	50,000	1,439	0	0
Cash Box Audio and Video Co., Ltd.	200,000	5,755	0	0
Richtech Technology Co., Ltd.	28,806	829	0	0
Hua VI Venture Capital Corp.	50,000	1,439	0	0
Shin Sheng Venture Capital Investment Corp.	50,000	1,439	0	0
Centillion III Venture Capital Corp.	50,000	1,439	0	0
Harbinger III Venture Capital Corp.	100,000	2,878	0	0
Unitive Semiconductor Taiwan Corp.	46,800	1,347	0	0
Honey Hope Honesty	55,000	1,583	0	0
Taiwan High Speed Rail	1,000,000	28,777	0	0
Sub-total	56,362,328	1,621,937	8,792,810	251,223
Total	\$58,437,492	\$1,681,654	\$10,799,777	\$308,565

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

	For the three months ended March 31,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Balance on January 1	\$2,065,196	\$59,430	\$2,010,259	\$57,436
Add: Investment gains (losses) by equity method recognized	9,972	287	(3,294)	(94)
Cumulative translation adjustments	(4)	0	2	0
Balance on March 31,	\$2,075,164	\$59,717	\$2,006,967	\$57,342

2. The investment gains (losses) recognized by the equity method for the years ended March 31, 2003 and 2002 are listed below:

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<u>Investee</u>	For the three months ended March 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Insurance (Bermuda) Co., Ltd.	(\$322)	(\$9)	\$9,885	\$282
Symphox Information Co., Ltd.	7,221	208	(15,725)	(449)
Cathay Securities Investment Co., Ltd.	1,703	49	2,333	67
Cathay Venture Capital Corp.	883	25	213	6
Lin Yuan Property Management Co., Ltd.	3,503	101	0	0
Cathay Securities Investment Trust Co., Ltd.	(3,016)	(87)	0	0
Total	<u>\$9,972</u>	<u>\$287</u>	<u>(\$3,294)</u>	<u>(\$94)</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 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 years ended March 31, 2003 and 2002.

(2) The investment gains (losses) of investee companies for the three months ended March 31, 2003 were recognized based on unreviewed financial statements. Those investee companies are Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Cathay Securities Investments Trust Co., Ltd. Cathay Venture Capital Corp., Lin Yuan Property Management Co., Ltd. and Cathay Securities Investment Co., Ltd.

The investment gains (losses) of investee companies for the three months ended March 31, 2002 were recognized based unreviewed financial statements. Those investee companies are Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Cathay Securities Investments Trust Co., Ltd. Cathay Venture Capital Corp..



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**9. Long-Term Investments in Bonds**

Long-term investments in bonds consist mainly of government bonds as of March 31, 2003 and 2002. Partitive Bonds are deposited in The Central Bank of China as Capital Guarantee Deposits. As of March 31, 2003 and 2002, the capital guarantee deposits amounted to \$7,724,837 (US\$222,297) and \$8,890,857 (US\$254,024), respectively, categorized under securities serving as deposits paid-bonds of other assets. Please See note 20, "Pledged Assets" for details.

**10. Investments in Real Estate**

Item	March 31, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$93,988,166	\$2,704,695	\$5,132	\$148	(\$10,745,472)	(\$309,222)	\$83,247,826	\$2,395,621
Construction	10,711,587	308,247	0	0	0	0	10,711,587	308,247
Prepayments for buildings and land	414	12	0	0	0	0	414	12
<b>Total</b>	<b>\$104,700,167</b>	<b>\$3,012,954</b>	<b>\$5,132</b>	<b>\$148</b>	<b>(\$10,745,472)</b>	<b>(\$309,222)</b>	<b>\$93,959,827</b>	<b>\$2,703,880</b>

Item	March 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$81,284,976	\$2,322,428	\$5,132	\$147	(\$9,475,841)	(\$270,739)	\$71,814,267	\$2,051,836
Construction	17,946,048	512,744	0	0	0	0	17,946,048	512,744
Prepayments for buildings and land	354,165	10,119	0	0	0	0	354,165	10,119
<b>Total</b>	<b>\$99,585,189</b>	<b>\$2,845,291</b>	<b>\$5,132</b>	<b>\$147</b>	<b>(\$9,475,841)</b>	<b>(\$270,739)</b>	<b>\$90,114,480</b>	<b>\$2,574,699</b>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) As of March 31, 2003 and 2002, investments in real estate were pledged. Please See note 20, "Pledged Assets" for details.

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**11. Property and Equipment**

Item	March 31, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,565,104	\$160,147	\$1,643	\$47	\$0	\$0	\$5,566,747	\$160,194
Buildings and structures	10,818,088	311,312	0	0	(2,981,494)	(85,798)	7,836,594	225,514
Communication and transportation equipment	145,400	4,184	0	0	(55,361)	(1,593)	90,039	2,591
Other equipment	4,082,973	117,496	0	0	(2,147,398)	(61,796)	1,935,575	55,700
Sub-total	20,611,565	593,139	1,643	47	(5,184,253)	(149,187)	15,428,955	443,999
Construction in progress	503,298	14,483	0	0	0	0	503,298	14,483
Prepayment for equipment	201,220	5,791	0	0	0	0	201,220	5,791
Total	\$21,316,083	\$613,413	\$1,643	\$47	(\$5,184,253)	(\$149,187)	\$16,133,473	\$464,273

Item	March 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,116,829	\$146,195	\$1,643	\$47	\$0	\$0	\$5,118,472	\$146,242
Buildings and structures	10,505,516	300,158	0	0	(2,792,363)	(79,782)	7,713,153	220,376
Communication and transportation equipment	140,958	4,027	0	0	(46,654)	(1,333)	94,304	2,694
Other equipment	3,482,409	99,497	0	0	(1,774,805)	(50,708)	1,707,604	48,789
Sub-total	19,245,712	549,877	1,643	47	(4,613,822)	(131,823)	14,633,533	418,101
Construction in progress	184,570	5,273	0	0	0	0	184,570	5,273
Prepayment for equipment	300	9	0	0	0	0	300	9
Total	\$19,430,582	\$555,159	\$1,643	\$47	(\$4,613,822)	(\$131,823)	\$14,818,403	\$423,383

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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**

	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$5,630,398	\$162,026	\$9,049,190	\$258,548
Less: Allowance for bad and doubtful debts	(2,815,199)	(81,013)	(2,725,616)	(77,874)
Total	\$2,815,199	\$81,013	\$6,323,574	\$180,674

**13. Capital Stock and Capital Increment**

As of March 31, 2003 and 2002, the total authorized shares were 5,068,615,765 and 5,838,615,765 respectively, with par value of NT\$10 dollars each.

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

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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.

C. 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**

(Unit: thousand shares)

Reason for transfer	Jan. 1, 2003	Increase	Decrease	March 31, 2003
Transferred it to employees	156,927	0	0	156,927
Total	156,927	0	0	156,927

(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 December 30, 2001, the Company had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$211,046).

(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.

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**16. Personnel 、 Depreciation 、 Depletion and Amortizations**

Item	For the three months ended March 31,2003 (NT\$)			For the three months ended March 31,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	2,506,187	1,227,876	3,734,063	2,816,607	1,368,287	4,184,894
Labor & health Insurance expenses	712,533	349,097	1,061,630	714,674	347,183	1,061,857
Pension expenses	562,673	275,675	838,348	525,810	255,435	781,245
Other expenses	616,971	302,277	919,248	573,375	278,542	851,917
Depreciation	0	550,899	550,899	0	545,926	545,926
Depletion	—	—	—	—	—	—
Amortizations	—	—	—	—	—	—

Item	For the three months ended March 31,2003 (US\$)			For the three months ended March 31,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	72,120	35,335	107,455	80,474	39,094	119,568
Labor & health Insurance expenses	20,505	10,046	30,551	20,419	9,920	30,339
Pension expenses	16,192	7,933	24,125	15,023	7,298	22,311
Other expenses	17,755	8,699	26,454	16,382	7,958	24,340
Depreciation	0	15,853	15,853	0	15,598	15,598
Depletion	—	—	—	—	—	—
Amortizations	—	—	—	—	—	—

The total number of employees is 31,473 on March 31, 2003.

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**17. Estimated Income Taxes**

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

	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Income before Taxes	\$6,245,379	\$179,723	\$5,130,720	\$146,592
Adjustments				
Interest income of tax on a separate basis	(288,703)	(8,308)	(272,767)	( 7,793)
Loss (gain) on disposal of investments	(1,010,895)	(29,091)	(391,482)	(11,185)
Loss (gain) on market price loss (recovery) of short-term investments	64,331	1,851	( 4,425,352)	(126,439)
Unrealized exchange loss (gain)	(52,482)	(1,510)	239,526	6,844
Cash Dividend	(30,506)	(878)	(51,358)	( 1,467)
Others	75,889	2,184	432,097	12,345
Taxable Income	5,003,013	143,971	661,384	18,897
Times; Taxes Rate; Less:				
Progressive difference	25%-10	25%	25% - 10	25%
Sub-Total	1,250,743	35,993	165,336	4,724
Add: Tax on a separate basis	57,742	1,662	54,553	1,559
Beginning deferred income tax assets	649,565	18,692	892,355	25,496
Ending deferred income tax liabilities	1,249,246	35,950	1,334,659	38,133
Less: Income tax credit	(2,949)	(85)	(1,734)	(50)
Beginning deferred income tax liabilities	(1,432,194)	(41,214)	(1,599,375)	(45,696)
Ending deferred income tax assets	(492,252)	(14,166)	(793,888)	(22,683)
Total Income Tax expenses	<u>\$1,279,901</u>	<u>\$36,832</u>	<u>\$51,906</u>	<u>\$1,483</u>

The Company's income tax returns, up until 2000, have been reviewed and approved by the tax authorities.

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

	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
A. Total deferred tax liabilities	\$1,249,246	\$35,950	\$1,334,659	\$38,133
Total deferred tax assets	\$492,252	\$14,166	\$793,888	\$22,683
B. Temporary differences:				
Employee benefits	\$59,339	1,708	\$104,747	\$2,993
Unrealized exchange gains				
(Losses)	(4,786,650)	(137,745)	(4,301,502)	(122,900)
Bad debts exceeding limit	1,667,176	47,976	2,635,124	75,289
Taxable temporary difference from recognition of pension expense	0	0	(617,456)	(17,642)
Other	32,159	925	16,003	457
C. Deferred tax assets-current	\$15,986	\$460	\$75,234	\$2,150
Deferred tax liabilities-current	(1,230,014)	(35,396)	(1,135,257)	(32,436)
Net offset balance of deferred tax assets (liabilities)-current	<u>(\$1,214,028)</u>	<u>(\$34,936)</u>	<u>(\$1,060,023)</u>	<u>(\$30,286)</u>
D. Deferred tax assets-noncurrent	\$476,266	\$13,706	\$718,654	\$20,533
Deferred tax Liabilities-noncurrent	(19,232)	(554)	(199,402)	(5,697)
Net offset balance of deferred income tax assets (liabilities) - noncurrent	<u>\$457,034</u>	<u>\$13,152</u>	<u>\$519,252</u>	<u>\$14,836</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

	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$3,850,520</u>	<u>\$110,806</u>	<u>\$3,144,327</u>	<u>\$89,838</u>

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	For the three months ended March 31,	
	2003	2002
Imputation credit account ratio ( stock dividends ) - Actual February 4, 2002	--	33.33%
Imputation credit account ratio ( stock dividends ) - Estimate	21.59%	--

(5) Related Information on Undistributed Earnings

Year	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$105,651	\$3,040	\$0	\$0
After 1998	12,867,952	370,301	0	0
Total	\$12,973,603	\$373,341	\$0	\$0

Net income after tax for the three months ended March 31, 2003 and 2002 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\$2,949(US\$85)	\$0	2007



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**18. Earning Per Share**

	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	\$6,245,379	\$179,723	\$5,130,720	\$146,592
Net income (b)	<u>\$4,965,478</u>	<u>\$142,891</u>	<u>5,078,814</u>	<u>145,109</u>
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,838,615,765	5,838,615,765
Weighted average outstanding number of shares (c)	4,911,688,765	4,911,688,765	5,681,688,765	5,681,688,765
Before income taxes				
Earnings per share (a) / (c) (dollars)	<u>\$1.27</u>	<u>\$0.04</u>	<u>\$0.90</u>	<u>\$0.03</u>
After income taxes				
Earnings per share (b) / (c) (dollars)	<u>\$1.01</u>	<u>\$0.03</u>	<u>\$0.89</u>	<u>\$0.03</u>

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

	For the three months ended March 31,	
	<u>2003</u>	<u>2002</u>
(Shares)		
Shares at the beginning of year	5,068,615,765	5,838,615,765
Less: Treasury stock	<u>(156,927,000)</u>	<u>(156,927,000)</u>
Total	<u>4,911,688,765</u>	<u>5,681,688,765</u>

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**19. 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 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
United World Chinese Commercial Bank	Affiliate
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 Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Seaward Insurance agent Corp.	The investee of United World Chinese Commercial Bank

*(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.

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Name	For the three months ended March 31,2003		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Tainmu jungcheng	\$2,310	\$66
	Hsinyi District Base-D	244,248	7,029
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	1,071	31
	Tucheng office Building	233	7
	Total	<u>\$247,862</u>	<u>\$7,133</u>

Name	For the three months ended March 31,2002		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Kaohsing International Business Building	\$ 6,629	\$189
	Lin Yuan Financial building	188,448	5,384
	Hsinyi District Base-D	182,285	5,208
	Tainmu jungcheng	3,201	91
	Taitung Building	39,462	1,128
	Tainan Shopping Center	902,931	25,798
	Cathay General Hospital of Hsinchu	157,077	4,488
	Yungdang Building	19,559	559
	Other	263	8
	Total	<u>\$1,499,855</u>	<u>\$42,853</u>

1. The total amount of construction contracts for real estate on March 31, 2003 and 2002 between the Company and San Ching Engineering Co., Ltd. are \$9,483,892 (US\$272,918) and \$17,834,239 (US\$509,550) respectively. Up to March 31 in 2003 and 2002, \$9,532,884 (US\$274,328) and \$12,392,710 (US\$354,077) had been paid according to the schedule of construction contracts.
2. For the three months ended March 31, 2003 and 2002, the Company purchased property and investments in real estate without selling them in previous years.
- b. The Company did not sell any real estate to its related parties for the three months ended March 31,2002
- c. Real-Estate Rental Income (From related parties)

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Name	Rental income			
	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,553	\$217	\$ 7,707	\$220
San Ching Engineering Co., Ltd.	5,043	145	5,000	143
Cathay Century Insurance Co., Ltd.	12,384	356	11,019	315
Cathay United Bank	44,517	1,281	31,025	886
Cathay Securities Investment Trust Co., Ltd.	2,272	66	2,307	66
Cathay Financial Holding Co., Ltd.	1,954	56	0	0
Cathay General Hospital	21,571	621	30,232	864
Symphox Information Co., Ltd.	7,508	216	7,625	218
Other	1,061	31	26	1
Total	<u>\$103,863</u>	<u>\$2,989</u>	<u>\$94,941</u>	<u>\$2,713</u>

Name	Guarantee deposits received			
	Mar. 31, 2003	Mar. 31, 2003	Mar. 31, 2002	Mar. 31, 2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$356	\$12,386	\$354
San Ching Engineering Co., Ltd.	6,779	195	6,828	195
Cathay Century Insurance Co., Ltd.	12,894	371	10,589	302
Cathay United Bank	60,151	1,731	30,168	862
Cathay General Hospital	1,983	57	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	62	2,060	59
Other	1,486	43	86	2
Total	<u>\$97,823</u>	<u>\$2,815</u>	<u>\$64,100</u>	<u>\$1,831</u>

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

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

Name	Rental Expense			
	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$7,859	\$226	\$ 3,999	\$114
Lin Ynan Investment Co., Ltd.	550	16	0	0
Total	<u>\$8,409</u>	<u>\$242</u>	<u>\$3,999</u>	<u>\$114</u>

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Name	Guarantee Deposits paid			
	Mar. 31, 2003	Mar. 31, 2003	Mar. 31, 2002	Mar. 31, 2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,352	\$269	\$402,362	\$11,496
Lin Ynan Investment Co., Ltd.	1,650	48	0	0
<b>Total</b>	<b>\$11,002</b>	<b>\$317</b>	<b>\$402,362</b>	<b>\$11,496</b>

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

**B. Cash In Bank**

For the three months ended March 31, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
Cathay United Bank	Time Deposit	\$9,208,850	\$6,508,850	1.50% ~ 2.65%	\$34,242
	Cash In Bank	12,693,027	4,408,324	0.00% ~ 1.75%	1,669
<b>Total</b>			<b>\$10,917,174</b>		<b>\$35,911</b>

For the three months ended March 31, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
United World Chinese Commercial Bank	Time Deposit	30,575,000	\$21,300,000	1.25% ~ 2.35%	\$196,015
	Cash In Bank	2,232,305	674,795	0.00% ~ 0.20%	0
<b>Total</b>			<b>\$21,974,795</b>		<b>\$196,015</b>

For the three months ended March 31, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
Cathay United Bank	Time Deposit	\$265,003	\$187,305	1.50% ~ 2.65%	\$985
	Cash In Bank	365,267	126,858	0.00% ~ 1.75%	48
<b>Total</b>			<b>\$314,163</b>		<b>\$1,033</b>

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For the three months ended March 31, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
United World Chinese Commercial Bank	Time Deposit	\$879,856	\$612,950	1.25% ~ 2.35%	\$5,641
	Cash In Bank	64,239	19,418	0.00% ~ 0.20%	0
Total			<u>\$632,368</u>		<u>\$5,641</u>

For the three months ended March 31, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		(NT\$)	(NT\$)		(NT\$)
Cathay United Bank	Time Deposit	\$10,684,850	\$7,648,850	2.40% ~ 5.25%	\$64,682
	Cash In Bank	14,025,717	3,513,761	0.00% ~ 2.00%	7,634
Total			<u>\$11,162,611</u>		<u>\$72,316</u>

For the three months ended March 31, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		(US\$)	(US\$)		(US\$)
Cathay United Bank	Time Deposit	\$305,281	\$218,539	2.40% ~ 5.25%	\$1,848
	Cash In Bank	400,735	100,393	0.00% ~ 2.00%	218
Total			<u>\$318,932</u>		<u>\$2,066</u>

**C. Regular Secured Loans**

For the three months ended March 31, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General Hospital	<u>\$1,173,912</u>	<u>\$1,173,734</u>	4.00%~4.25%	<u>\$12,071</u>

For the three months ended March 31, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General Hospital	<u>\$33,782</u>	<u>\$33,777</u>	4.00%~4.25%	<u>\$347</u>

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Name	For the three months ended March 31, 2002			
	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	\$1,174,594	\$1,174,429	5.21%	\$15,298

Name	For the three months ended March 31, 2002			
	Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay General Hospital	\$33,560	\$33,555	5.21%	\$437

**D. Beneficiary Certificates:**

Name	March 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Securities Investment Trust Co., Ltd.	\$3,567,060	\$102,649	\$1,823,617	\$52,103

**E. Notes Receivable**

Name	March 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay General Hospital	\$34,448	\$991	\$47,597	\$1,360
Symphox Information Co., Ltd.	553	16	153	4
Total	\$35,001	\$1,007	\$47,750	\$1,364

**F. Accounts Payable-Related Parties**

Name	March 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Century Insurance Co., Ltd.	3,968	114	3,359	96
Lin Yuan Property Management Co., Ltd.	53,038	1,526	\$83,022	\$2,372
Cathay Real Estate Development Co., Ltd.	\$1,961	\$57	\$577	\$16
Cathay Insurance (Bermuda) Co., Ltd.	0	0	130	4
Symphox Information Co., Ltd.	34,669	998	42,367	1,211
Total	\$93,636	\$2,695	\$129,455	\$3,699

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G. Prepayment

Name	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$38,651	\$1,112	\$0	\$0

H. Accounts Collected in Advance

Name	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century insurance Co., Ltd.	\$2,157	\$62	\$1,891	\$54
Cathay General Hospital	119,205	3,430	218	6
Other	329	10	440	13
Total	<u>\$121,691</u>	<u>\$3,502</u>	<u>\$2,549</u>	<u>\$73</u>

I. Guarantee Deposit Paid

Name	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Wan Pao Development Co., Ltd.	\$0	\$0	\$600,000	\$17,143
Cathay United Bank	55,000	1,583	0	0
Total	<u>\$55,000</u>	<u>\$1,583</u>	<u>\$600,000</u>	<u>\$17,143</u>

Guarantee deposit paid is the guarantee money which deposited at Cathay United Bank.

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".

J. Insurance Expense

Name	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$121,775	\$3,504	\$ 93,384	\$2,668



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Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on March 31, 2003 and 2002 amounts of \$3,370 (US\$97) and \$3,360 (US\$96) were paid for employees' fidelity guarantee insurance.

**K. Indemnity Income**

Name	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$380	\$11	\$ 368	\$11

Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received in March 31, 2003 and 2002, \$0 (US\$0) and \$63 (US\$2), represented claims for employees' fidelity guarantee insurance.

**L. Reinsurance Income**

Name	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$25,672	\$739	\$19,077	\$545

**M. Reinsurance Expense**

Name	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$12,801	\$368	\$8,879	\$254

**CATHAY LIFE INSURANCE CO., LTD.**  
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N. Commissions Income

Name	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$914	\$26	\$0	\$0

O. Commissions Expense

Name	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$8,136	\$234	\$0	\$0
Seaward Insurance agent Corp.	14,829	427	0	0
Total	\$22,965	\$661	\$0	\$0

P. Other Expense (Marketing Expense)

	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$96,760	\$2,784	\$55,539	\$1,587

Q. Repairs And Maintenance (Administrative and general expense)

	For the three months ended March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$184,329	\$5,304	\$281,264	\$8,036
Cathay Real Estate Development Co., Ltd.	4,818	139	0	0
Total	\$189,147	\$5,443	\$281,264	\$8,036

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**20. Pledged Assets**

Item	March 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Investment In Real Estate	\$0	\$0	\$1,303,669	\$37,248
Government bonds	7,724,837	222,297	8,890,857	254,024
Time Deposits	788,750	22,698	711,500	20,329
Total	<u>\$8,513,587</u>	<u>\$244,995</u>	<u>\$10,906,026</u>	<u>\$311,601</u>

As of March 31, 2003 and 2002, the Company pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, we agree to purchase the time certificates by the security deposit received as a guarantee. In addition, they also served the deposits as a guarantee for the Law court. According to Article 141, the Insurance Law of R.O.C. the Company should deposited Government bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guaranteed deposits.

**21. Other Important Matters and Contingent Liabilities**

Up to the date of March 31, 2003 signed sales contracts and construction contracts of approximately \$2,778 million (US\$80 million) dollars, respectively, are still in progress and remain open projects. About \$1,657 million (US\$48 million) dollars had been paid as of March 31,2003.

**22.Serious Damages:** None

**23.Subsequent Events:** None

**24.Other Important Events**

**(1) Pension Related Information**

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Pension funded status:

About the accounting for pensions, we performed the amount base on minimum pension liability and net periodic pension cost. We expect the net periodic pension cost is \$275,675( US\$7,933), and we have allotted \$76,790(US\$2,210) to pension fund.

**(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.

2. 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.

3. Futures

All futures transaction had offset on March 31, 2003.

March 31, 2002				
	Item	Lot	Contract amount	Net loss of Fair Value estimated
TX	Selling out	256	NT\$314,624	(NT\$6,627)
			US\$8,989	(US\$189)

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.

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(2) As of March 31, 2003 and 2002, the Company has forward exchange contracts of approximately US\$4,538,000 and US\$1,741,000 respectively in notional value.

(3) March 31, 2003

Item	Contract	Fair Value	Fair Value	Fair Value	Due Value
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$7,103,000	\$246,031,114	\$7,080,032	\$245,766,291	\$7,072,411

March 31, 2002

Item	Contract	Fair Value	Fair Value	Fair Value	Due Value
	Amount	(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$4,431,000	\$153,482,068	\$4,385,202	\$153,016,613	\$4,371,903

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 March 31, 2003. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRS	NT	2002.09.03~2009.12.16	\$9,700,000

(b) Non Derivative Financial Instruments related information :

The book value of Non Derivative Financial Instruments as of March 31, 2003 and 2002, is the same as the estimated fair market value

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**(3) Discretionary Account Management**

Item	March 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,303,028	\$37,497	\$1,186,216	\$34,136
Repurchase bonds	4,158,404	119,667	4,158,404	119,666
Short-term securities	722,074	20,779	722,074	20,779
Bonds	2,913,709	83,848	2,936,956	84,517
Cash in bank	500,359	14,399	500,359	14,399
Net other assets less				
liabilities	28,462	819	28,462	819
Total	\$9,626,036	\$277,009	\$9,532,471	\$274,316

Item	March 31, 2002			
	Book Value		Fair Value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Stocks	\$5,703,207	\$162,949	\$5,963,248	\$170,379
Repurchase bonds	2,437,275	69,636	2,437,275	69,636
Short-term securities	1,198,636	34,247	1,198,636	34,247
Bonds	1,060,769	30,308	1,017,871	29,082
Cash in bank	394,101	11,260	394,101	11,260
Net other assets less				
liabilities	117,566	3,359	117,566	3,359
Total	\$10,911,554	\$311,759	\$11,128,697	\$317,963

**(4) Material Contract:** None

**(5) Other:**

On December 25, 2002, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 thousand dollars as the capital of investment in order to found a new company called Guangzhou Cathay life insurance Co., Ltd. However, we are only in the preparatory stage and have not yet invested substantially.

**25. Information for Investment in Mainland China:** None

**26. Segment Information:** None