

**Cathay Century Insurance Co., Ltd.**  
**Financial Statements**  
**together with**  
**Independent auditors' report**  
**As of June 30, 2003 and 2002**

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

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## Index to financial statements

	<u>Page</u>
Independent Auditors' Report	2
Balance Sheets as of June 30, 2003 and 2002	3-4
Statements of Income for the six months ended June 30, 2003 and 2002	5
Statements of Changes in Stockholders' Equity for the six months ended June 30, 2003 and 2002	6
Statements of Cash Flows for the six months ended June 30, 2003 and 2002	7-8
Notes to Financial Statements	9-30



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### **Independent auditors' report**

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

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. as of June 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity and cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the six-month periods then ended in conformity with generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.  
Taipei, Taiwan  
Republic of China  
July 21, 2003

#### Notice to Readers

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

**Cathay Century Insurance Co., Ltd.**  
**Balance Sheets**  
**(Expressed in thousands of dollars)**  
**As of June 30, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents (Notes 2, 4)	\$3,890,325	\$112,405	38.38	\$3,688,346	\$110,233	40.00
Short-term investments (Notes 2, 5)	2,208,030	63,797	21.78	1,938,043	57,921	21.02
Notes receivable (Note 2)	218,824	6,323	2.16	252,396	7,543	2.74
Interest receivable	42,226	1,220	0.42	52,167	1,559	0.57
Premiums receivable (Notes 2, 6)	638,205	18,440	6.30	631,419	18,871	6.85
Claims recoverable from reinsurers (Note 2)	314,480	9,086	3.10	244,649	7,312	2.65
Due from reinsurers and ceding companies	40,552	1,172	0.40	198,733	5,939	2.16
Other accounts receivable (Note 2)	8,866	256	0.09	8,758	262	0.09
Deferred income tax assets - current (Notes 2, 15)	46,717	1,350	0.46	41,971	1,254	0.45
Prepayments	2,318	67	0.02	2,625	79	0.03
Subtotal	<u>7,410,543</u>	<u>\$214,116</u>	<u>73.11</u>	<u>7,059,107</u>	<u>210,973</u>	<u>76.56</u>
<b>Exchange bills negotiated, discounted and loans (Notes 2, 7)</b>						
Short-term secured loans	0	0	0.00	19,270	576	0.21
Medium-term secured loans	493,412	14,256	4.87	578,257	17,282	6.27
Long-term secured loans	423,308	12,231	4.17	445,302	13,308	4.83
Subtotal	<u>916,720</u>	<u>26,487</u>	<u>9.04</u>	<u>1,042,829</u>	<u>31,166</u>	<u>11.31</u>
<b>Funds, long-term investments, and receivable (Notes 2, 8)</b>						
<b>Long-term investments in stocks</b>						
Under the equity method	157,199	4,542	1.55	151,823	4,537	1.65
Under the cost method	225,000	6,501	2.22	450,434	13,462	4.88
<b>Long-term investments in bonds</b>						
Subtotal	<u>907,748</u>	<u>26,228</u>	<u>8.95</u>	<u>0</u>	<u>0</u>	<u>0.00</u>
Subtotal	<u>1,289,947</u>	<u>37,271</u>	<u>12.72</u>	<u>602,257</u>	<u>17,999</u>	<u>6.53</u>
<b>Property and equipment (Notes 2, 9)</b>						
Communication and transportation equipment	14,930	431	0.15	15,855	474	0.17
Other equipment	145,688	4,210	1.43	104,053	3,110	1.13
Subtotal	<u>160,618</u>	<u>4,641</u>	<u>1.58</u>	<u>119,908</u>	<u>3,584</u>	<u>1.30</u>
Less: Accumulated depreciation	(99,221)	(2,867)	(0.97)	(78,985)	(2,361)	(0.86)
Subtotal	<u>61,397</u>	<u>1,774</u>	<u>0.61</u>	<u>40,923</u>	<u>1,223</u>	<u>0.44</u>
<b>Intangible assets</b>						
Computer software cost (Note 2)	7,107	205	0.07	6,118	183	0.07
Subtotal	<u>7,107</u>	<u>205</u>	<u>0.07</u>	<u>6,118</u>	<u>183</u>	<u>0.07</u>
<b>Other assets</b>						
Guarantee deposits paid	14,433	417	0.14	12,390	370	0.14
Overdue receivables (Note 2)	56,455	1,631	0.56	68,312	2,042	0.74
Temporary payments and suspense accounts	11,854	343	0.12	20,310	607	0.22
Securities serving as deposits paid-bonds (Notes 10, 18)	362,762	10,481	3.58	367,677	10,989	3.99
Funds held by ceding companies	0	0	0.00	121	4	0.00
Deferred charges	5,542	160	0.05	0	0	0.00
Deferred income tax assets- noncurrent (Notes 2, 15)	31	1	0.00	92	3	0.00
Subtotal	<u>451,077</u>	<u>13,033</u>	<u>4.45</u>	<u>468,902</u>	<u>14,015</u>	<u>5.09</u>
<b>Total assets</b>	<u>\$10,136,791</u>	<u>\$292,886</u>	<u>100.00</u>	<u>\$9,220,136</u>	<u>\$275,559</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)

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

**Cathay Century Insurance Co., Ltd.**  
**Balance Sheets - (Continued)**  
**(Expressed in thousands of dollars)**  
**As of June 30, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; stockholders' equity</b>						
<b>Current liabilities</b>						
Collections for others	6,803	196	0.07	12,544	\$375	0.14
Accrued expenses	164,009	4,739	1.62	101,069	3,021	1.10
Income taxes payable	62,598	1,809	0.62	73,914	2,209	0.80
Commissions payable	4,879	141	0.05	11,255	336	0.12
Dividends payable	211,052	6,098	2.08	3,755	112	0.04
Claims outstanding	1,565	45	0.02	548	16	0.01
Due to reinsurers and ceding companies	143,189	4,137	1.41	192,948	5,767	2.09
Other payable	568,084	16,414	5.60	385,947	11,535	4.18
Subtotal	<u>1,162,179</u>	<u>33,579</u>	<u>11.47</u>	<u>781,980</u>	<u>23,371</u>	<u>8.48</u>
<b>Long-term liabilities</b>						
Accrued pension liabilities	8,067	233	0.08	2,126	64	0.02
Subtotal	<u>8,067</u>	<u>233</u>	<u>0.08</u>	<u>2,126</u>	<u>64</u>	<u>0.02</u>
<b>Other liabilities</b>						
Unearned premiums reserve (Notes 2, 10)	3,606,324	104,199	35.58	3,252,684	97,211	35.28
Special claim reserve (Notes 2, 10)	2,039,674	58,933	20.12	2,009,502	60,057	21.79
Claims reserve (Notes 2, 10)	581,495	16,801	5.74	524,485	15,675	5.69
Temporary receipts and suspense accounts	24,510	708	0.24	34,658	1,036	0.38
Funds held for reinsurers	165	5	0.00	954	29	0.01
Subtotal	<u>6,252,168</u>	<u>180,646</u>	<u>61.68</u>	<u>5,822,283</u>	<u>174,008</u>	<u>63.15</u>
<b>Total liabilities</b>	<u>7,422,414</u>	<u>214,458</u>	<u>73.23</u>	<u>6,606,389</u>	<u>197,443</u>	<u>71.65</u>
<b>Stockholders' equity</b>						
<b>Capital stock</b>						
Common stock (Note 12)	2,317,006	66,946	22.86	2,317,006	69,247	25.13
Capital surplus	430	12	0.00	0	0	0.00
<b>Retained earnings (Note 13)</b>						
Legal reserve	161,475	4,666	1.59	138,025	4,125	1.50
Unappropriated retained earnings	233,223	6,739	2.30	156,454	4,676	1.70
<b>Equity adjustment</b>						
Cumulative conversion adjustments	2,243	65	0.02	2,262	68	0.02
<b>Total stockholders' equity</b>	<u>2,714,377</u>	<u>78,428</u>	<u>26.77</u>	<u>2,613,747</u>	<u>78,116</u>	<u>28.35</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$10,136,791</u>	<u>292,886</u>	<u>100.00</u>	<u>\$9,220,136</u>	<u>275,559</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)

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

**Cathay Century Insurance Co., Ltd.**  
**Statements of changes in stockholders' equity**  
**(Expressed in thousands of dollars)**  
**For the six months ended June 30, 2003 and 2002**

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative		Total	
	Common stock				Legal reserve		Unappropriated retained earnings		conversion adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2002	\$2,317,006	\$69,247	\$724	\$22	\$102,100	\$3,051	\$361,977	\$10,818	\$2,262	\$68	\$2,784,069	\$83,206
Appropriations and distributions for 2001												
Legal reserve					35,925	1,074	(35,925)	(1,074)			0	0
Cash dividends							(323,021)	(9,654)			(323,021)	(9,654)
Bouns paid to employees							(3,755)	(112)			(3,755)	(112)
Capital surplus from disposal of property and equipment												
turn into retained earnings			(724)	(22)			724	22			0	0
Net Income for the six month ended June 30, 2002							156,454	4,676			156,454	4,676
Balance on June 30, 2002	\$2,317,006	\$69,247	\$0	\$0	\$138,025	\$4,125	\$156,454	\$4,676	\$2,262	\$68	\$2,613,747	\$78,116
Balance on January 1, 2003	\$2,317,006	\$66,946	\$0	\$0	\$138,025	\$3,988	\$234,503	\$6,776	\$2,172	\$63	\$2,691,706	\$77,773
Appropriations and distributions for 2002												
Legal reserve					23,450	678	(23,450)	(678)			0	0
Cash dividends							(209,612)	(6,056)			(209,612)	(6,056)
Bouns paid to employees							(1,441)	(42)			(1,441)	(42)
Capital surplus- long-term equity investment			430	12							430	12
Cumulative conversion adjustments									71	2	71	2
Net Income for the six month ended June 30, 2003							233,223	6,739			233,223	6,739
Balance on June 30, 2003	\$2,317,006	\$66,946	\$430	\$12	\$161,475	\$4,666	\$233,223	\$6,739	\$2,243	\$65	\$2,714,377	\$78,428

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)

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

**Cathay Century Insurance Co., Ltd.**  
**Statements of income**  
(Expressed in thousands of dollars, except earning per share)  
**For the six months ended June 30, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Operating revenues (Note 2)						
Premiums income	\$3,546,916	\$102,482	45.24	\$3,052,531	\$91,229	55.60
Reinsurance commission earned	153,484	4,435	1.96	144,923	4,331	2.64
Claims recovered from reinsurers	438,946	12,683	5.60	484,103	14,468	8.82
Recovered unearned premium reserve	3,352,667	96,870	42.77	1,594,493	47,654	29.04
Recovered special claim reserve	201,249	5,815	2.58	67,793	2,026	1.24
Recovered claims reserve	18,391	531	0.23	21,557	644	0.39
Handling fee earned	313	9	0.00	26	1	0.00
Interest income	103,769	2,998	1.32	124,131	3,710	2.26
Gain on trading bills and securities	23,789	687	0.30	0	0	0.00
Gain on long-term equity investment	0	0	0.00	847	25	0.01
Subtotal	<u>7,839,524</u>	<u>226,510</u>	<u>100.00</u>	<u>5,490,404</u>	<u>164,088</u>	<u>100.00</u>
Operating costs (Note 2)						
Reinsurance premiums ceded	(1,308,568)	(37,809)	(16.69)	(1,174,937)	(35,115)	(21.40)
Commissions expenses	(69,708)	(2,014)	(0.89)	(99,385)	(2,970)	(1.81)
Insurance claims payment	(1,542,444)	(44,566)	(19.68)	(1,379,915)	(41,241)	(25.13)
Provision for unearned premiums reserve	(3,606,324)	(104,199)	(46.00)	(1,660,640)	(49,631)	(30.25)
Provision for special claim reserve	(203,238)	(5,872)	(2.59)	(266,034)	(7,951)	(4.84)
Contribution to the stabilization funds	(6,740)	(195)	(0.09)	(5,854)	(175)	(0.11)
Provision for claims reserve	(20,744)	(599)	(0.26)	(18,391)	(550)	(0.33)
Handling fee paid	(80,842)	(2,336)	(1.03)	(64,040)	(1,914)	(1.17)
Interest expenses	(25)	(1)	(0.01)	(49)	(1)	0.00
Loss on trading bills and securities	0	0	0.00	(48,371)	(1,446)	(0.88)
Loss on long-term equity investment	(2,196)	(63)	(0.03)	0	0	0.00
Agent expenses	(1,165)	(34)	(0.01)	(451)	(13)	(0.01)
Subtotal	<u>(6,841,994)</u>	<u>(197,688)</u>	<u>(87.28)</u>	<u>(4,718,067)</u>	<u>(141,007)</u>	<u>(85.93)</u>
Operating gross profit	<u>997,530</u>	<u>28,822</u>	<u>12.72</u>	<u>772,337</u>	<u>23,081</u>	<u>14.07</u>
Operating expenses (Note 2)						
Marketing expenses	(575,336)	(16,623)	(7.34)	(421,670)	(12,602)	(7.68)
Administrative and general expenses	(119,358)	(3,449)	(1.52)	(120,806)	(3,610)	(2.20)
Operating income	<u>302,836</u>	<u>8,750</u>	<u>3.86</u>	<u>229,861</u>	<u>6,869</u>	<u>4.19</u>
Non-operating revenues						
Gain on foreign exchange	192	6	0.00	220	7	0.00
Gain on disposal of property and equipment	0	0	0.00	593	18	0.01
Miscellaneous income	1,660	48	0.02	1,764	53	0.03
Subtotal	<u>1,852</u>	<u>54</u>	<u>0.02</u>	<u>2,577</u>	<u>78</u>	<u>0.04</u>
Non-operating expenses						
Loss on foreign exchange	(1,325)	(38)	(0.01)	(209)	(6)	0.00
Loss on disposal of property and equipment	0	0	0.00	(16)	(1)	0.00
Subtotal	<u>(1,325)</u>	<u>(38)</u>	<u>(0.01)</u>	<u>(225)</u>	<u>(7)</u>	<u>0.00</u>
Income from continuing operations before income taxes	303,363	8,766	3.87	232,213	6,940	4.23
Income taxes (Notes 2, 15)	(70,140)	(2,027)	(0.90)	(75,759)	(2,264)	(1.38)
Net income	<u>\$233,223</u>	<u>\$6,739</u>	<u>2.97</u>	<u>\$156,454</u>	<u>\$4,676</u>	<u>2.85</u>
Earnings per share before tax (expressed in dollars) (Note 16)	<u>\$1.31</u>	<u>\$0.04</u>		<u>\$1.00</u>	<u>\$0.03</u>	
Earnings per share after tax (expressed in dollars) (Note 16)	<u>\$1.01</u>	<u>\$0.03</u>		<u>\$0.68</u>	<u>\$0.02</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2003 and 2002 were NT\$34.61 and NT\$33.46 to US\$1.00)

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

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

**1. Organization of business scope**

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engaged in property and casualty insurance. On April 22, 2002, the Company became the subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On June 28, 2002, the Company changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

**2. Summary of significant accounting policies**

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

*(1) Distinguish Assets and Liabilities, Current and Non-current*

Current assets mean assets can be liquidated or disposed within one-year, assets do not belong to current assets called non-current assets. Current liabilities mean debts must be paid-off with period of one-year; debts do not belong to current liabilities called non-current liabilities.

*(2) Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, unrestricted bank deposits, and all highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) near to their maturity and where changes in interest rates shall present insignificant risk.

*(3) Short-term investments*

Marketable equity securities are stated at the lower of cost or market. 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 value. The cost of beneficiary certificates sold is determined based on the weighted-average cost method.



**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

When market value is available, short-term notes are stated at the lower of cost or market value. The cost of these notes, interest income, and gain or loss due to maturity or as a result of sales of notes are determined by the specific identification method.

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

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

*(4) Allowance for bad and doubtful debts*

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

*(5) Long – term investments*

A. Long-term investments in stocks

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

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

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 shareholding of interest, adjustments will be made in the capital surplus and long-term equity investments 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 are accounted for at cost, and any premium or discount is amortized based on a reasonable and systematic basis.

*(6) Property and equipment*

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed 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 “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC (the “Executive Yuan Depreciation Table”). When their economic useful lives have expired, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

*(7) Deferred charges*

Deferred charges are stated at cost and amortized over three years on the straight-line method.

*(8) Reserves for operations*

Reserves for operation are organized according to the insurance law. These reserves include unearned premium reserve, claim reserve and special reserve. The actuary provides the figures of such reserves in the financial statements.

*(9) Insurance premiums*

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

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

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

*(10) Contribution to the stabilization funds*

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

*(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 SFC regulations, the Company followed the ROC 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 obligations and the fair value of plan assets.

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

*(12) Guaranteed depository insurance payment*

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

*(13) Foreign currency transactions*

Foreign currency transactions should be accounted for at cost and recognized on a straight-line method recorded in NT dollars at the spot rate when the transactions occur. 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 converted at the exchange rate on the balance sheet date, and any gains or losses resulting from the transactions are credited or charged to current income.

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

*(14) Income Taxes*

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

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

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

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

*(15) Capital expenditure expenses*

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

*(16) Derivative financial products transaction*

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

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

*(17) Insurance claims payment & claims recovered from reinsurers*

A. Insurance claims payment

The compensations and expenses under direct written policy and incoming reinsured policy, which the insurer should pay when the insured runs into an accident, are reported as "Insurance claims payment" in the statements of income, and these compensations payable are reported as "Claims outstanding" on the balance sheets.

B. Claims recovered from reinsurers

The compensations and expenses under outgoing reinsured policy, which the insurer can receive from other insurers after the company has paid for the compensation in advance when the insured runs into an accident, are reported as "Claims recovered from reinsurers", and these compensations receivable are reported as "Claims recoverable from reinsurers" on the balance sheets.

*(18) Convenience conversion into U.S. dollars*

The financial statements are stated in NT dollars. Conversion of the June 30, 2003 and 2002 NT dollar amounts into U.S. dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$34.61 and NT\$33.46 to US\$1.00 effective on June 30, 2003 and 2002, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

**3. Changes in accounting and its effects: None**

**4. Cash and cash equivalents**

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$8,663	\$250	\$8,219	\$246
Cash in banks	366,635	10,593	188,248	5,627
Time deposits	3,445,415	99,550	3,372,661	100,797
Cash equivalents	69,612	2,012	119,218	3,563
Total	<u>\$3,890,325</u>	<u>\$112,405</u>	<u>\$3,688,346</u>	<u>\$110,233</u>
Interest rate of time deposits	<u>0.975%~2.4%</u>	<u>0.975%~2.4%</u>	<u>1.95%~4.10%</u>	<u>1.95%~4.10%</u>
Interest rate of cash equivalents	<u>0.975%~1.15%</u>	<u>0.975%~1.15%</u>	<u>1.8%~2.15%</u>	<u>1.8%~2.15%</u>

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

**5. Short – term investments**

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$6,604	\$228,587	\$6,832
Less: Allowance for				
valuation loss	(83,622)	(2,416)	(61,559)	(1,840)
Sub-total	144,965	4,188	167,028	4,992
Common stock and				
beneficiary certificates	1,123,123	32,450	1,007,345	30,106
Appoint purpose trust fund	72,535	2,096	0	0
Financial debentures	200,000	5,779	200,000	5,977
Corporate bonds	667,407	19,284	563,670	16,846
Short-term notes	69,612	2,012	119,218	3,563
Subtotal	2,132,677	61,621	1,890,233	56,492
Less: Allowance for				
valuation loss	0	0	0	0
Cash equivalents	(69,612)	(2,012)	(119,218)	(3,563)
Subtotal	2,063,065	59,609	1,771,015	52,929
Total	\$2,208,030	\$63,797	\$1,938,043	\$57,921

**6. Premiums receivable**

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$642,338	\$18,559	\$635,516	\$18,993
Less: Allowance for bad				
debts	(4,133)	(119)	(4,097)	(122)
Net	\$638,205	\$18,440	\$631,419	\$18,871

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

**7. Secured loans**

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$0	\$0	\$22,000	\$658
Less: Allowance for bad debts	(0)	(0)	(2,730)	(82)
Subtotal	0	0	19,270	576
Medium-term secured loans	582,323	16,825	660,171	19,730
Less: Allowance for bad debts	(88,911)	(2,569)	(81,914)	(2,448)
Sub-total	493,412	14,256	578,257	17,282
Long-term secured loans	499,587	14,435	508,382	15,193
Less: Allowance for bad debts	(76,279)	(2,204)	(63,080)	(1,885)
Sub-total	423,308	12,231	445,302	13,308
Total	<u>\$916,720</u>	<u>\$26,487</u>	<u>\$1,042,829</u>	<u>\$31,166</u>
Interest rate	<u>3.21%~7.00%</u>	<u>3.21%~7.00%</u>	<u>4.36%~7.375%</u>	<u>4.36%~7.375%</u>

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

**8. Long –term investments**

A. Long-term investments in stocks (Book value):

Investee	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$143,562	\$4,148	\$151,823	\$4,537
Vista Technology Venture Capital Corp.	13,637	394	-	-
Subtotal	<u>157,199</u>	<u>4,542</u>	<u>151,823</u>	<u>4,537</u>

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

b. Under the cost method:

Quanta Display Inc.	-	-	205,434	6,140
Koo Group Telecommunication Co., Ltd.	150,000	4,334	150,000	4,483
Vista Technology Venture Capital Corp.	-	-	20,000	598
KGEX. Com Co., Ltd.	75,000	2,167	75,000	2,241
Subtotal	<u>225,000</u>	<u>6,501</u>	<u>450,434</u>	<u>13,462</u>
Total	<u><u>\$382,199</u></u>	<u><u>\$11,043</u></u>	<u><u>\$602,257</u></u>	<u><u>\$17,999</u></u>

c. The changes under equity method are summarized as follows:

	For the six months ended June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$158,893	\$4,591	\$150,976	\$4,512
Investment income (loss) by equity method recognized	(2,196)	(63)	847	25
Cumulative conversion adjustments by equity method recognized	71	2	0	0
Capital surplus by equity method recognized	431	12	0	0
Balance on June 30	<u><u>\$157,199</u></u>	<u><u>\$4,542</u></u>	<u><u>\$151,823</u></u>	<u><u>\$4,537</u></u>

d. The investment gains (losses) recognized by the equity method for the six months ended June 30, 2003 and 2002 are listed below :

Investee	For the six months ended June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$1,268	\$37	\$847	\$25
Vista Technology Venture Capital Corp.	(3,464)	(100)	0	0
Total	<u><u>(\$2,196)</u></u>	<u><u>(\$63)</u></u>	<u><u>\$847</u></u>	<u><u>\$25</u></u>



**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

- e. The investment gains of Cathay Venture Capital Corp. for the six months ended June 30, 2003 were recognized by the equity method based on un-audited financial statements in the same period.
- f. If the Company holds less than 50% of an investee company's outstanding common stock and is not able to obtain the investee's financial statements for the current year when the Company closed its books, the investee's investment gains (losses) for the year can be deferred to recognize till the following year. As the treatment for investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investment loss of Vista Technology Venture Capital Corp. for the six months ended June 30, 2003 were recognized by the equity method based on last year's audited financial statements.

**B. Long-term investments in bonds**

Investee	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Oversea investments in bonds	\$907,748	\$26,228	\$0	\$0
Interest rate	5.00%~6.00%	5.00%~6.00%	-	-

**9. Property and equipment**

Item	June 30, 2003					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$14,930	\$431	\$6,569	\$190	\$8,361	\$241
Other equipment	145,688	4,210	92,652	2,677	53,036	1,533
Total	<u>\$160,618</u>	<u>\$4,641</u>	<u>\$99,221</u>	<u>\$2,867</u>	<u>\$61,397</u>	<u>\$1,774</u>

Item	June 30, 2002					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$15,855	\$474	\$4,962	\$148	\$10,893	\$326
Other equipment	104,053	3,110	74,023	2,213	30,030	897
Total	<u>\$119,908</u>	<u>\$3,584</u>	<u>\$78,985</u>	<u>\$2,361</u>	<u>\$40,923</u>	<u>\$1,223</u>

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

The insurance of insured property and equipment were NT\$100,982(US\$2,918) and NT NT\$73,921(US\$2,209) as of June 30, 2003 and 2002, respectively.

**10. Securities serving as deposits paid**

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government bonds	\$362,762	\$10,481	\$367,677	\$10,989
Interest rate	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%

Government bonds is according to Article 141 of the Insurance Law of the ROC, amount equal to 15% of the Company's stockholder's equity should be deposited in the Central Bank of China as the "Guarantee Depository Insurance Payment".

**11. Reserve for operations and liabilities**

	January 1, 2003		Provision		Recovered		June 30, 2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$3,352,667	\$96,870	\$3,606,324	\$104,199	\$3,352,667	\$96,870	\$3,606,324	\$104,199
Special reserve	2,037,684	58,876	203,238	5,872	201,248	5,815	2,039,674	58,933
Claims reserve	530,815	15,337	563,275	16,275	512,595	14,811	581,495	16,801
Total	\$5,921,166	\$171,083	\$4,372,837	\$126,346	4,066,510	\$117,496	\$6,227,493	\$179,933

**12. Capital stock and capital increment**

As of June 30, 2003 and 2002, the numbers of issued shares, par value of NT\$10, were 231,700,560 and 231,700,560, respectively.

**13. 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 only be used to offset deficit but not for cash dividend 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 its stockholders.

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

(2) Unappropriate retained earnings

A. According to the Company Law 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 added to the legal reserve. In addition to distributing stock interest and 2% as bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

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

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

**14. Personnel, depreciation, depletion and amortizations**

Item	For the six months ended June 30,2003 (NT\$)			For the six months ended June 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	278,279	278,279	-	258,846	258,846
Labor & health Insurance expenses	-	16,979	16,979	-	12,870	12,870
Pension expenses	-	15,152	15,152	-	12,758	12,758
Other expenses	-	98,670	98,670	-	78,647	78,647
Depreciation	-	12,066	12,066	-	8,347	8,347
Depletion	-	-	-	-	-	-
Amortizations	-	1,990	1,990	-	2,270	2,270

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

Item	For the six months ended June 30,2003 (US\$)			For the six months ended June 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	8,040	8,040	-	7,736	7,736
Labor & health Insurance expenses	-	491	491	-	385	385
Pension expenses	-	438	438	-	381	381
Other expenses	-	2,851	2,851	-	2,350	2,350
Depreciation	-	349	349	-	249	249
Depletion	-	-	-	-	-	-
Amortizations	-	57	57	-	68	68

The total number of employees is 788 on June 30, 2003

## 15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the six months ended June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$303,363	\$8,766	\$232,213	\$6,940
Adjustments				
Interest income of tax on a separate basis	(2,782)	(80)	(4,394)	(131)
Losses (gains) on market price loss (recovery) of short-term investments	(22,600)	(653)	56,994	1,703
Bad debts exceeding legal limit (recovery)	8,579	248	36,414	1,088
Investment losses (gains) recognized by equity method	2,196	63	(847)	(25)
Losses (gains) on trading securities	(1,127)	(33)	3,618	108
Others	(157)	(5)	(12,398)	(371)
Taxable Income	287,472	8,306	311,600	9,312
Time; Taxes Rate; Less:				
Progressive difference	25% - 10	-	25% - 10	-
Subtotal	71,858	2,077	77,890	2,328
Tax on a separate basis	556	16	879	26
Extra 10% income tax on undistributed retained earnings	0	0	3,684	110
Income tax credit	(270)	(8)	(477)	(14)
Deferred income tax expenses (benefits)	(1,788)	(52)	(9,043)	(270)
Adjustment of prior year's income tax	(216)	(6)	2,826	84
Total income tax expenses	\$70,140	\$2,027	\$75,759	\$2,264

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

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

	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$46,748	\$1,351	\$42,063	\$1,257
Total deferred income tax liabilities	\$0	\$0	\$0	\$0
B. Temporary differences:				
Employee benefits	\$310	\$9	\$741	\$22
Bad debts exceeding legal limit	186,624	5,392	167,452	5,005
Others	57	2	57	2
Total	\$186,991	\$5,403	\$168,250	\$5,029
C. Deferred income tax assets-current	\$46,717	\$1,350	\$41,971	\$1,254
Deferred income tax liabilities-current	0	0	0	0
Net deferred income tax-current	\$46,717	\$1,350	\$41,971	\$1,254
D. Deferred income tax assets – non-current	\$31	\$1	\$92	\$3
Deferred income tax liabilities –non-current	0	0	0	0
Net deferred income tax – non-current	\$31	\$1	\$92	\$3

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$270 ( US\$8 )	\$0	2007

(4) The Company's income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2001.

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

(5) Information related to tax imputation:

	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$248,744	\$7,187	\$113,178	\$3,382
		June 30, 2003 (Estimate)	June 30, 2002 (Actual)	
Imputation credit account ratio		33.33%	33.33%	

(6) Information relating of undistributed earnings:

Year	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$0	\$0
After 1998	0	0	0	0
Total	\$0	\$0	\$0	\$0

Net income for the six months ended June 30, 2003 and 2002 were not included in undistributed earnings computation since 1998.

## 16. Earnings per share

	For the six months ended June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$303,363	\$8,766	\$232,213	\$6,940
Net income after taxes (B)	\$233,223	\$6,739	\$156,454	\$4,676
Outstanding number of shares at year-end	231,700,560	231,700,560	231,700,560	231,700,560
Adjusted weighted average outstanding number of shares(C)	231,700,560	231,700,560	231,700,560	231,700,560
Earnings per share before tax (A)/(C) (dollars)	\$1.31	\$0.04	\$1.00	\$0.03
Earnings per share (B)/(C) (dollars)	\$1.01	\$0.03	\$0.68	\$0.02

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

**17. Related party transactions**

*(1) Related parties*

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank Co., Ltd.	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Cathay Life Charity Foundation	Affiliate
United World Chinese Commercial Bank	Affiliate
Po Han Investment Co., Ltd.	Affiliate
Wu Ming-Yang	Senior Manager

*(2) Transactions with related parties*

**A. Premium Revenues**

Name	For the six months ended June 30, 2003			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$142,227	\$4,109	\$9,121	\$264
United World Chinese Commercial Bank	11,506	332	302	9
Cathay United Bank Co., Ltd.	4,245	123	628	18
Cathay Real Estate Development Co., Ltd.	758	22	222	6
Cathay General Hospital	2,318	67	505	14
Others	1,178	34	474	14
Total	<u>\$162,232</u>	<u>\$4,687</u>	<u>\$11,252</u>	<u>\$325</u>

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

Name	For the six months ended June 30, 2002			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$114,921	\$3,435	\$13,507	\$404
United World Chinese Commercial Bank	4	0	0	0
Cathay United Bank Co., Ltd.	7,598	227	32	1
Cathay Real Estate Development Co., Ltd.	930	28	556	17
Cathay General Hospital	2,013	60	249	7
Others	1,567	47	626	19
Total	\$127,033	\$3,797	\$14,970	\$448

**B. Insurance claims payment**

Name	For the six months ended June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$7,095	\$205	\$826	\$25
United World Chinese Commercial Bank	441	13	0	0
Cathay United Bank Co., Ltd.	406	12	7	0
Total	\$7,942	\$230	\$833	\$25

**C. Rents (To related parties)**

Name	For the six months ended June 30, 2003					
	Rents		Guarantee deposits		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$26,008	\$751	\$13,053	\$377	\$2,177	\$63

Name	For the six months ended June 30, 2002					
	Rents		Guarantee deposits		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$23,359	\$698	\$11,546	\$345	\$2,150	\$64



**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

D. Cash in bank

Name	Nature	June 30, 2003		
		Ending balance	Rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$197,758	0.15%~0.25%	\$116
	Time Deposit	\$480,000	1.85%~2.30%	\$4,560
United World Chinese Commercial Bank	Cash in Bank	\$128,118	0.10%~0.20%	\$54
	Time Deposit	\$284,000	1.35%~2.10%	\$2,856

Name	Nature	June 30, 2003		
		Ending balance	Rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$5,714	0.15%~0.25%	\$3
	Time Deposit	\$13,869	1.85%~2.30%	\$132
United World Chinese Commercial Bank	Cash in Bank	\$3,702	0.10%~0.20%	\$2
	Time Deposit	\$8,206	1.35%~2.10%	\$83

Name	Nature	June 30, 2002		
		Ending balance	Rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$106,207	0.8%	\$559
	Time Deposit	\$460,000	2.65%~4%	\$6,432
United World Chinese Commercial Bank	Cash in Bank	\$70,903	0.5%~0.8%	\$132
	Time Deposit	\$295,000	3.25%	\$4,858

Name	Nature	June 30, 2002		
		Ending balance	Rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$3,174	0.8%	\$17
	Time Deposit	\$13,748	2.65%~4%	\$192
United World Chinese Commercial Bank	Cash in Bank	\$2,119	0.5%~0.8%	\$4
	Time Deposit	\$8,816	3.25%	\$145

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

E. Secured loans

Name	For the six months ended June 30, 2003			
	Maximum amount	Ending balance	Rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$3,189	\$2,443	3.67%	\$49

Name	For the six months ended June 30, 2003			
	Maximum amount	Ending balance	Rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$92	\$71	3.67%	\$1

Name	For the six months ended June 30, 2002			
	Maximum amount	Ending balance	Rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$3,309	\$3,270	4.36%	\$37

Name	For the six months ended June 30, 2002			
	Maximum amount	Ending balance	Rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$99	\$98	4.36%	\$1

F. Handling fee paid

Name	For the six months ended June 30,			
	2003		2002	
	Handling Fee Paid		Handling Fee Paid	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$1,414	\$41	\$0	\$0

G. Integrated marketing expense and accrued expense

Name	For the six months ended June 30, 2003			
	Integrated marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$85,823	\$2,480	\$53,930	\$1,558

2002: no

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

H.Short-term investment-beneficiary certificates

Name	Transaction type	June 30,			
		2003		2002	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Security fund	\$110,000	\$3,178	\$90,000	\$2,690
Investment	Bond fund	202,355	5,847	157,859	4,718
Trust Co., Ltd.	Total	\$312,355	\$9,025	\$247,859	\$7,408

**18.Pledged assets**

Item	June 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government bonds	\$362,762	\$10,481	\$367,677	\$10,989

- (1) 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 guarantee deposit.
- (2) The pledged assets are disclosed at their net carrying values.

**19.Other important matters and contingent liabilities**

- A. The Company's income tax returns, except 1999, had been filed and assessed by the Tax Authorities in the year of 2001. In year 2000 and 2002, the Company was imposed income tax in the amount of NT\$7,690 (US\$222) and NT\$2,474 (US\$71) respectively by the Tax Authorities. The Company has appealed to re-verify.
- B. By the date June 30, 2003, the Company had signed some significant rental contracts, and based on which, we estimate that the rents for the following 5 years are as below:

Year	Amount (NT\$)	Amount (US\$)
July 01, 2003 ~ June 30,2004	\$52,921	\$1,529
July 01, 2004 ~ June 30, 2005	54,463	1,574
July 01, 2005 ~ June 30, 2006	56,052	1,619
July 01, 2006 ~ June 30, 2007	57,689	1,667
July 01, 2007 ~ June 30, 2008	59,374	1,716
Total	\$280,499	\$8,105

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

**20.Serious damages:** None

**21.Subsequent events :** None

**22.Other important events**

**A. Pension related 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. 18 "Accounting for Pensions".

**B. Financial instruments related information**

(a) Derivative financial instruments related information :

1.Credit and market risk

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

2.Cash flow and demand

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

3.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 June 30, 2003 and 2002, the Company has forward exchange contracts of approximately US\$28,000 and \$0 respectively in notional value.

(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 June 30, 2003 and 2002, is the same as the estimated fair market value:

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

Item	June 30,2003			
	NT\$		US\$	
	Book value	Fair value	Book value	Fair value
Shot-term investment	\$ 2,208,030	\$2,268,358	\$63,797	\$65,541

Item	June 30,2002			
	NT\$		US\$	
	Book value	Fair value	Book value	Fair value
Shot-term investment	\$1,938,043	\$1,941,516	\$57,921	\$58,025

**C. Discretionary account management**

Item	June 30,2003			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$21,502	\$621	\$21,740	\$628
Cash in bank	28,821	833	28,821	833
Net other assets less liabilities	(4,427)	(128)	(4,427)	(128)
Total	\$45,896	\$1,326	\$46,134	\$1,333

Item	June 30,2002			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$23,863	\$713	\$23,676	\$707
Cash in bank	26,022	778	26,022	778
Net other assets less liabilities	(7)	0	(7)	0
Total	\$49,878	\$1,491	\$49,691	\$1,485

As of June 30, 2003 and 2002, the securities investment had recorded that the Company had discretionary account management contracts in the amount of NT\$50,000(US\$1,445) and NT\$50,000(US\$1,494), respectively.

**D. Material Contract:** None

**E. Presentation of Financial Statements:**

Certain accounts in financial statements for the six months ended June 30,2002 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30,2003.

**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements-(Continued)**  
**(Expressed in thousands of dollars unless otherwise stated)**  
**As of June 30, 2003 and 2002**

**23.Information for investment in Mainland China:** None

**24.Segment information:**

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