

**CATHAY LIFE INSURANCE CO., LTD.
FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
AS OF JUNE 30, 2003 AND 2002**

Name of the company: Cathay Life 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	6-7
Statements of Cash Flows for the six Months ended June 30, 2003 and 2002	8-9
Notes to Financial Statements	10-48



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Independent Auditors' Report

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

We have audited the accompanying balance sheets of Cathay Life 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 Life 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.
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 jurisdictions. The standards, procedures and practices to audit 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 June 30, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current Assets						
Cash and cash equivalents (Notes 2, 4)	\$79,093,972	\$2,285,292	5.82	\$150,252,243	\$4,490,503	12.42
Short-term investments (Notes 2, 5)	326,980,899	9,447,584	24.06	287,726,078	8,599,105	23.78
Notes receivable	15,595,611	450,610	1.15	19,252,768	575,397	1.59
Notes receivable-related parties (Note 19)	91,651	2,648	0.01	19,039	569	0.00
Accounts receivable-related parties (Note 19)	9,806	283	0.00	0	0	0.00
Tax refund receivable	15,029	434	0.00	15,029	449	0.00
Interest receivable	10,508,444	303,625	0.77	10,630,251	317,700	0.88
Other accounts receivable	4,007,444	115,789	0.30	5,334,144	159,419	0.44
Prepayments	236,930	6,846	0.02	559,509	16,722	0.04
Automatic premium loan (Note 6)	13,623,162	393,619	1.00	13,391,285	400,218	1.11
Sub-total	<u>450,162,948</u>	<u>13,006,730</u>	<u>33.13</u>	<u>487,180,346</u>	<u>14,560,082</u>	<u>40.26</u>
Exchange Bills Negotiated, Discounted and Loans (Notes 2, 7)						
Policy loans	168,981,027	4,882,434	12.43	171,137,157	5,114,679	14.14
Short-term secured loans	95,883	2,770	0.01	79,598	2,379	0.01
Medium-term secured loans	10,141,008	293,008	0.75	11,568,922	345,754	0.96
Long-term secured loans	299,832,130	8,663,165	22.06	304,539,827	9,101,608	25.17
Sub-total	<u>479,050,048</u>	<u>13,841,377</u>	<u>35.25</u>	<u>487,325,504</u>	<u>14,564,420</u>	<u>40.28</u>
Funds, Long-Term Investments, and Receivable						
Long-term investments in stocks (Notes 2, 8)						
Under the equity method	2,057,668	59,453	0.15	2,062,654	61,645	0.17
Under the cost method	57,343,556	1,656,849	4.22	9,136,060	273,045	0.75
Allowance for valuation loss on long-term investments in stocks	(19,419)	(561)	0.00	(9,458)	(283)	0.00
Long-term investments in bonds (Notes 2, 9)	237,865,837	6,872,749	17.51	97,877,551	2,925,211	8.09
Investments in real estate (Notes 2, 10)	93,958,349	2,714,775	6.91	91,552,802	2,736,186	7.57
Sub-total	<u>391,205,991</u>	<u>11,303,265</u>	<u>28.79</u>	<u>200,619,609</u>	<u>5,995,804</u>	<u>16.58</u>
Property and Equipment (Notes 2,11)						
Land	5,490,876	158,650	0.40	5,849,141	174,810	0.49
Buildings and Structures	10,851,095	313,525	0.80	11,030,954	329,676	0.91
Communication and transportation equipment	140,280	4,053	0.01	150,118	4,487	0.01
Other equipment	4,180,562	120,791	0.31	3,724,172	111,302	0.31
Sub-total	<u>20,662,813</u>	<u>597,019</u>	<u>1.52</u>	<u>20,754,385</u>	<u>620,275</u>	<u>1.72</u>
Less: Accumulated depreciation	(5,333,010)	(154,089)	(0.39)	(4,775,161)	(142,713)	(0.40)
Construction in progress and prepayment for equipment	656,719	18,975	0.05	321,998	9,624	0.03
Sub-total	<u>15,986,522</u>	<u>461,905</u>	<u>1.18</u>	<u>16,301,222</u>	<u>487,186</u>	<u>1.35</u>
Other Assets						
Non-operating assets (Notes 2, 24)	3,054,076	88,243	0.22	4,036,260	120,629	0.33
Guarantee deposits paid (Notes 2, 20)	249,798	7,217	0.02	279,402	8,350	0.02
Overdue receivables (Notes 2, 12)	2,817,993	81,421	0.21	4,220,361	126,132	0.35
Temporary payments and suspense accounts	119,915	3,465	0.01	315,206	9,420	0.03
Securities serving as deposits paid-bonds (Notes 2, 9,20)	7,719,351	223,038	0.57	9,226,628	275,751	0.76
Deferred income tax assets (Notes 2, 17)	535,968	15,486	0.04	343,123	10,255	0.03
Investment-linked products assets (Note 2)	7,952,269	229,768	0.58	52,060	1,556	0.01
Sub-total	<u>22,449,370</u>	<u>648,638</u>	<u>1.65</u>	<u>18,473,040</u>	<u>552,093</u>	<u>1.53</u>
Total Assets	<u>\$1,358,854,879</u>	<u>\$39,261,915</u>	<u>100.00</u>	<u>\$1,209,899,721</u>	<u>\$36,159,585</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 LIFE INSURANCE CO., LTD.
BALANCE SHEETS - (Continued)
(Expressed in thousands of dollars)
As of June 30, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Liabilities & Stockholders' Equity						
Current Liabilities						
Notes payable	\$1,518	\$44	0.00	\$35,810	\$1,070	0.00
Accounts payable-related parties (Note 19)	53,415	1,543	0.00	160,002	4,782	0.01
Collections for others	158,223	4,572	0.01	188,926	5,646	0.01
Accrued expenses	1,770,960	51,169	0.13	2,012,705	60,153	0.17
Taxes payable	1,666,705	48,157	0.12	788,279	23,559	0.06
Commissions payable	805,743	23,281	0.06	802,034	23,970	0.07
Dividends payable	5,589,535	161,500	0.41	305,209	9,122	0.02
Life insurance proceeds payable	3,453	100	0.00	1,984	59	0.00
Other payable	406,618	11,749	0.03	2,252,913	67,331	0.19
Deferred tax liabilities- current (Notes 2,17)	1,277,192	36,902	0.10	1,050,608	31,399	0.09
Accounts collected in advance	285,612	8,252	0.02	208,162	6,221	0.02
Sub-total	12,018,974	347,269	0.88	7,806,632	233,312	0.64
Long-term Liabilities						
Reserve for land revaluation increment tax	3,726	107	0.00	3,726	112	0.00
Accrued pension liability (Note 2)	327,688	9,468	0.02	0	0	0.00
Sub-total	331,414	9,575	0.02	3,726	112	0.00
Other Liabilities						
Reserve for operations and liabilities(Note 2)						
Unearned premium reserve	9,011,535	260,374	0.66	13,771,846	411,591	1.14
Reserve for life insurance	1,241,573,069	35,873,246	91.37	1,099,115,000	32,848,625	90.84
Special claim reserve	12,211,750	352,839	0.90	17,018,278	508,616	1.41
Claims reserve	321,733	9,296	0.02	272,859	8,155	0.02
Miscellaneous liabilities						
Guarantee deposits received	1,282,133	37,045	0.10	1,282,522	38,330	0.11
Temporary receipts and suspense accounts	557,588	16,111	0.04	433,019	12,941	0.04
Investment-linked products liabilities (Note 2)	7,952,269	229,768	0.59	52,060	1,556	0.00
Sub-total	1,272,910,077	36,778,679	93.68	1,131,945,584	33,829,814	93.56
Total Liabilities	1,285,260,465	37,135,523	94.58	1,139,755,942	34,063,238	94.20
Stockholders' Equity						
Capital stock						
Common stock (Note 13)	50,686,158	1,464,495	3.73	58,386,158	1,744,954	4.83
Capital surplus	5,200	150	0.00	3,048	91	0.00
Retained earnings (Notes 14,17)						
Legal reserve	14,552,065	420,458	1.07	13,254,705	396,136	1.10
Special reserve	6,249,135	180,559	0.46	0	0	0.00
Unappropriated retained earnings	9,444,176	272,874	0.70	5,838,765	174,500	0.48
Equity adjustment (Notes 2, 8)						
Unrealized valuation losses on long-term equity investment	(19,419)	(561)	0.00	(9,458)	(283)	0.00
Cumulative translation adjustments	10,962	317	0.00	4,424	132	0.00
Treasury stock (Notes 2, 15)	(7,333,863)	(211,900)	(0.54)	(7,333,863)	(219,183)	(0.61)
Total Stockholders' Equity	73,594,414	2,126,392	5.42	70,143,779	2,096,347	5.80
Total Liabilities and Stockholders' Equity	\$1,358,854,879	\$39,261,915	100.00	\$1,209,899,721	\$36,159,585	100.00

(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 LIFE 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	\$119,885,604	\$3,463,901	54.46	\$138,629,814	\$4,143,151	65.32
Reinsurance commission earned	74,528	2,153	0.03	146,752	4,386	0.07
Claims recovered from reinsures	88,204	2,549	0.04	234,579	7,011	0.11
Recovered premiums reserve	58,958,174	1,703,501	26.78	44,423,684	1,327,665	20.93
Handling fee earned	324,524	9,377	0.15	2,465	74	0.00
Interest Income	22,540,190	651,262	10.24	21,659,153	647,315	10.20
Gain on disposal of investments	2,903,032	83,878	1.32	2,600,964	77,733	1.23
Gain on long-term equity investments	19,833	573	0.01	0	0	0.00
Gain on investments-real estate	2,314,452	66,872	1.05	2,224,728	66,489	1.05
Gain on foreign exchange	278,853	8,057	0.13	0	0	0.00
Other operating Income	4,654,603	134,487	2.12	2,244,885	67,092	1.06
Investment-linked products revenues (Note 2)	8,088,133	233,694	3.67	55,316	1,653	0.03
Sub-total	<u>220,130,130</u>	<u>6,360,304</u>	<u>100.00</u>	<u>212,222,340</u>	<u>6,342,569</u>	<u>100.00</u>
Operating Costs(Note 2)						
Insurance expenses	(97,605)	(2,820)	(0.04)	(340,732)	(10,183)	(0.16)
Brokerage expenses	(10,777,550)	(311,400)	(4.90)	(11,472,827)	(342,882)	(5.40)
Commissions expenses	(149,847)	(4,329)	(0.07)	(39,469)	(1,180)	(0.02)
Insurance claims payment	(65,234,319)	(1,884,840)	(29.63)	(57,875,096)	(1,729,680)	(27.27)
Provision for premiums reserve	(116,793,893)	(3,374,571)	(53.06)	(125,994,389)	(3,765,523)	(59.37)
Provision for special claim reserve	(1,056,428)	(30,524)	(0.48)	(900,630)	(26,917)	(0.42)
Contribution to the stabilization funds	(119,910)	(3,465)	(0.05)	(138,589)	(4,142)	(0.07)
Provision for claims reserve	(43,653)	(1,261)	(0.02)	(6,538)	(195)	0.00
Handling fee paid	(1,236,885)	(35,738)	(0.56)	(1,089,873)	(32,573)	(0.51)
Interest expenses	(12,487)	(361)	(0.01)	(15,603)	(466)	(0.01)
Loss on long-term equity investments	0	0	0.00	(3,988)	(119)	0.00
Loss on foreign exchange	0	0	0.00	(472,171)	(14,111)	(0.22)
Provisions expenses	(503,048)	(14,535)	(0.23)	(1,984,875)	(59,321)	(0.94)
Investment-linked products expenses (Note 2)	(8,088,133)	(233,693)	(3.67)	(55,316)	(1,653)	(0.03)
Sub-total	<u>(204,113,758)</u>	<u>(5,897,537)</u>	<u>(92.72)</u>	<u>(200,390,096)</u>	<u>(5,988,945)</u>	<u>(94.42)</u>
Operating Gross Profit	<u>16,016,372</u>	<u>462,767</u>	<u>7.28</u>	<u>11,832,244</u>	<u>353,624</u>	<u>5.58</u>
Operating Expenses (Note 2)						
Marketing expenses	(1,400,817)	(40,474)	(0.64)	(1,890,022)	(56,486)	(0.89)
Administrative and general expenses	(4,131,787)	(119,381)	(1.88)	(3,731,363)	(111,517)	(1.76)
Operating Income	<u>10,483,768</u>	<u>302,912</u>	<u>4.76</u>	<u>6,210,859</u>	<u>185,621</u>	<u>2.93</u>
Non-Operating Revenues						
Gain on disposal of property and equipment	1,592	46	0.00	2,225	66	0.00
Miscellaneous income	541,023	15,632	0.25	187,129	5,593	0.08
Sub-total	<u>542,615</u>	<u>15,678</u>	<u>0.25</u>	<u>189,354</u>	<u>5,659</u>	<u>0.08</u>
Non-Operating Expenses						
Loss on disposal of property and equipment	(617)	(18)	0.00	(2,111)	(63)	0.00
Miscellaneous expenses	(7,341)	(212)	0.00	(1,399)	(42)	0.00
Sub-total	<u>(7,958)</u>	<u>(230)</u>	<u>0.00</u>	<u>(3,510)</u>	<u>(105)</u>	<u>0.00</u>
Income from Continuing						
Operations before income taxes	11,018,425	318,360	5.01	6,396,703	191,175	3.01
Income Taxes (Notes 2, 17)	(1,574,249)	(45,486)	(0.72)	(685,384)	(20,484)	(0.32)
Net Income	<u>\$9,444,176</u>	<u>\$272,874</u>	<u>4.29</u>	<u>\$5,711,319</u>	<u>\$170,691</u>	<u>2.69</u>
Before income taxes Earnings Per Share (expressed in dollars) (Note 18)	<u>\$2.24</u>	<u>\$0.06</u>		<u>\$1.13</u>	<u>\$0.03</u>	
After income taxes Earnings Per Share (expressed in dollars) (Note 18)	<u>\$1.92</u>	<u>\$0.06</u>		<u>\$1.01</u>	<u>\$0.03</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 LIFE 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	Retained Earnings										Equity Adjustments							
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Unrealized valuation losses on long-term equity investment		Cumulative conversion adjustments		Treasury Stock		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2002	\$58,386,158	\$1,744,954	\$130,494	\$3,900	\$12,195,156	\$364,470	\$0	\$0	\$11,461,899	\$342,555	\$0	\$0	\$6,657	\$199	(\$7,333,863)	(\$219,183)	\$74,846,501	\$2,236,895
Appropriations and Distributions for 2001																		
Legal reserve					1,059,549	31,666			(1,059,549)	(31,666)							0	0
Cash dividends									(10,254,383)	(306,467)							(10,254,383)	(306,467)
Remuneration paid to directors and supervisors									(8,100)	(242)							(8,100)	(242)
Bonus paid to employees									(139,867)	(4,180)							(139,867)	(4,180)
Cumulative translation adjustments													(2,233)	(67)			(2,233)	(67)
Unrealized valuation losses on long-term equity investment												(9,458)	(283)				(9,458)	(283)
Net Income after tax for the six months ended June 30, 2002									5,711,319	170,691							5,711,319	170,691
Capital surplus from disposal of property and equipment turn into retained earnings			(127,446)	(3,809)					127,446	3,809							0	0
Balance on June 30, 2002	\$58,386,158	\$1,744,954	\$3,048	\$91	\$13,254,705	\$396,136	\$0	\$0	\$5,838,765	\$174,500	(\$9,458)	(\$283)	\$4,424	\$132	(\$7,333,863)	(\$219,183)	\$70,143,779	\$2,096,347

(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 LIFE INSURANCE CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)
(Expressed in thousands of dollars)
For the six Months Ended June 30, 2003 and 2002

Summary	Retained Earnings										Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Unrealized valuation losses on long-term equity investment		Cumulative conversion adjustments				Treasury Stock	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2003	\$50,686,158	\$1,464,495	\$3,048	\$88	\$13,254,705	\$382,973	\$0	\$0	\$12,973,603	\$374,851	(\$935,733)	(\$27,036)	\$10,829	\$313	(\$7,333,863)	(\$211,900)	\$68,658,747	\$1,983,784
Appropriations and Distributions for 2002																		
Legal reserve					1,297,360	37,485			(1,297,360)	(37,485)							0	0
Special reserve							6,249,135	180,559	(6,249,135)	(180,559)							0	0
Cash dividends									(5,369,406)	(155,140)							(5,369,406)	(155,140)
Remuneration paid to directors and supervisors									(8,100)	(234)							(8,100)	(234)
Bonus paid to employees									(49,602)	(1,433)							(49,602)	(1,433)
Capital surplus-long-term equity investment				2,152	62												2,152	62
Cumulative translation adjustments													133	4			133	4
Unrealized valuation losses on long-term equity investment											916,314	26,475					916,314	26,475
Net Income after tax for the six months ended June 30, 2003									9,444,176	272,874							9,444,176	272,874
Balance on June 30, 2003	\$50,686,158	\$1,464,495	\$5,200	\$150	\$14,552,065	\$420,458	\$6,249,135	\$180,559	\$9,444,176	\$272,874	(\$19,419)	(\$561)	\$10,962	\$317	(\$7,333,863)	(\$211,900)	\$73,594,414	\$2,126,392

(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 LIFE INSURANCE CO., LTD.
STATEMENTS OF CASH FLOWS
(Expressed in thousands of dollars)
For the six Months Ended June 30, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Period	\$9,444,176	\$272,874	\$5,711,319	\$170,691
Adjustments:				
Loss (gain) on bad debt	503,048	14,535	1,984,875	59,321
Depreciation	1,101,925	31,838	1,103,742	32,987
Provision for reserve for operations	117,893,975	3,406,356	126,901,556	3,792,635
Recovered unearned premium reserve	(5,068,928)	(146,458)	0	0
Recovered reserve for life insurance	(52,498,720)	(1,516,866)	(43,540,325)	(1,301,265)
Applicant terminates the insurance contract income	(1,390,525)	(40,177)	(884,328)	(26,429)
Provision loss (gain) on short-term investments	(4,654,603)	(134,487)	(2,244,885)	(67,092)
Loss (gain) on disposal of property and equipment	(975)	(28)	(115)	(3)
Loss (gain) on disposal of investments	(2,341,479)	(67,653)	(13,330)	(398)
Loss (gain) on disposal of real estate	(112,061)	(3,238)	14,868	444
Amortization long-term investments in bonds	20,580	595	5,504	164
Unrealized loss (gain) on long-term investments	19,270	557	20,372	609
Effects of exchange rate changes	450	13	(26)	(1)
Decrease (increase) in short-term investments	(40,255,592)	(1,163,120)	(69,775,500)	(2,085,340)
Decrease (increase) in notes receivable	4,068,282	117,546	82,985	2,480
Decrease (increase) in notes and accounts receivable-related parties	(65,347)	(1,888)	4,568	137
Decrease (increase) in prepayments	67,783	1,958	(181,258)	(5,417)
Decrease (increase) in prepaid pension	76,930	2,223	360,809	10,783
Decrease (increase) in other current assets	369,921	10,688	(606,348)	(18,122)
Decrease (increase) in temporary payments and suspense accounts	(14,959)	(432)	(189,771)	(5,672)
Decrease (increase) in deferred income tax assets	(102,590)	(2,964)	68,888	2,059
Increase (decrease) in notes payable	(1,159)	(34)	34,136	1,020
Increase (decrease) in accounts payable-related parties	20,143	582	128,005	3,826
Increase (decrease) in accrued expenses	(3,047,633)	(88,057)	(479,720)	(14,337)
Increase (decrease) in other accounts payable	(1,183,771)	(34,203)	1,330,042	39,750
Increase (decrease) in accounts collected in advance	83,275	2,406	(9,693)	(290)
Increase (decrease) in other current liabilities	(22,228)	(642)	27,844	832
Increase (decrease) in accrued pension liability	327,688	9,468	0	0
Increase (decrease) in temporary receipts and suspense accounts	108,605	3,138	18,285	546
Increase (decrease) in deferred income tax liabilities	61,185	1,768	(68,422)	(2,045)
Net Cash Provided by (Used in) Operating Activities	<u>23,406,666</u>	<u>676,298</u>	<u>19,804,077</u>	<u>591,873</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivable	(793,471)	(22,926)	(2,873,642)	(85,883)
Decrease (increase) in policy loans	1,858,711	53,704	2,314,678	69,177
Decrease (increase) in secured loans	8,254,491	238,500	(8,417,613)	(251,572)
Acquisition of long-term investments	(103,064,248)	(2,977,875)	(16,248,100)	(485,598)
Proceeds from disposal of long-term investments	14,992,964	433,197	116,530	3,483
Disposal of investments in real estate	122,599	3,542	27,313	816
Acquisition of investments in real estate	(609,496)	(17,610)	(5,911,275)	(176,667)
Disposal of property and equipment	8,227	238	12,887	385
Acquisition of property and equipment	(336,662)	(9,727)	(611,482)	(18,275)
Decrease (increase) in non-operating assets	306,395	8,853	(1,958,875)	(58,544)
Decrease (increase) in guarantee deposits paid	13,024	376	1,001,202	29,922
Decrease (increase) in overdue receivables	(105,962)	(3,061)	(92,196)	(2,755)
Net Cash Provided by (Used in) Investing Activities	<u>(79,353,428)</u>	<u>(2,292,789)</u>	<u>(32,640,573)</u>	<u>(975,511)</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 LIFE INSURANCE CO., LTD.
STATEMENTS OF CASH FLOWS-(Continued)
(Expressed in thousands of dollars)
For the six Months Ended June 30, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	(12,268)	(355)	425	13
Remuneration paid to directors and supervisors	(8,100)	(234)	(8,100)	(242)
Bonus to employees	0	0	(139,867)	(4,180)
Cash dividends	0	0	(10,254,383)	(306,467)
Net Cash Provided by (Used in) Financing Activities	<u>(20,368)</u>	<u>(589)</u>	<u>(10,401,925)</u>	<u>(310,876)</u>
Effects of Exchange Rate Changes	(450)	(13)	26	1
Increase(decrease) in Cash and Cash Equivalents	(55,967,580)	(1,617,093)	(23,238,395)	(694,513)
Cash and Cash Equivalents at the Beginning of Period	135,061,552	3,902,385	173,490,638	5,185,016
Cash and Cash Equivalents at the End of Period	<u>\$79,093,972</u>	<u>\$2,285,292</u>	<u>\$150,252,243</u>	<u>\$4,490,503</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the period	\$3,794	\$110	\$4,805	144
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	<u>\$3,794</u>	<u>\$110</u>	<u>\$4,805</u>	<u>\$144</u>
Income tax paid	<u>\$2,500,376</u>	<u>\$72,244</u>	<u>\$535,273</u>	<u>\$15,997</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 LIFE 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 LIFE INSURANCE CO., LTD. (the "Company") was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Law (the "Company Law") of the Republic of China ("ROC"). The Company mainly engaged in the business of life insurance. On December 31, 2001, the Company became the subsidiary of CATHAY FINANCIAL HOLDING CO., LTD. by adopting the stock conversion method under the ROC Financial Holding Company Act and other pertinent laws of the ROC.

2. Summary of Significant Accounting Policies

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

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

Current assets 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 within period of one year; debts do not belong to current liabilities called non-current liabilities.

(2) Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with insignificant rate of risk and with original maturities of three months or less from the date of acquisition.

(3) 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.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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.

(4) Allowance for Bad and Doubtful Debts

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

(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 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 shareholding of interest, adjustments will be made 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.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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) 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 ROC (the "Executive Yuan Depreciation Table").

Real estate investment primarily is building lease and all are intended for business leasing; rents can be paid yearly, semi-yearly, quarter and lump sum.

(7) Property and Equipment

Property and equipment are carried at cost or cost plus appreciation. Improvement 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. The gain or loss resulting from disposal of property and equipment is classified as non-operating gain or loss.

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

(8) Deferred Charges

According to the regulation set by the ROC Ministry of Finance (the "MOF), 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 June 30, 2003, the amount of NT\$1,873,000 (US\$54,117) has been appropriated to this fund.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(9) Guaranteed Depository Insurance Payment

According to Article 141 of the ROC Insurance Law (the "Insurance Law"), an amount equal to 15% of the Company's capital stock should be deposited in the Central Bank (the "Central Bank"). Such deposit is the "Guaranteed Depository Insurance". The amount was deposited in the form of bonds.

(10) Reserve for Operations

Reserve for the operations are organized according to the Insurance Law. These reserves include the Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. Actuaries provide the figures of the reserve in the financial statements.

The MOF passed a new regulation on December 24, 2002. Under this regulation, stating 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 MOF regulation passed on December 30, 2002, the surplus from the "Special Reserve for the Loss Movement" should be placed as Special Reserve under proprietary equity after the Board of Directors has approved the surplus appropriation act. This amount may not be allocated or used for other purposes unless approved by the MOF.

The Company has a surplus of NT \$6,249,135(US\$180,559) from the "Special Reserve for the Loss Movement" in 2002.

(11) Insurance Premiums Income and Expenses

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

Reinsurance premiums income 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. Adjustments are made at year-end and are based on past experience.

(12) 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.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company follows the ROC Statement of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed 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.

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 SFAS No. 18 “Accounting for Pensions”.

(13) Foreign currency Transactions

A. Conversion of foreign currency transactions

Foreign currency transactions are recorded in New Taiwan Dollars (“NT dollars”) at the rate of exchange when the 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 year-end exchange rate, and exchange gains or losses are credited or charged to current income.

B. Conversion of foreign subsidiaries’ statements

Financial statements of foreign subsidiaries accounted for by the equity method are converted into NT dollars as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders’ equity items are converted on the historical rate basis except for the beginning balance of retained earnings, which is posted directly from the balance of the last year. Income Statements items are converted by the weighted-average exchange rate for the year. Differences arising from above conversion are reported as “cumulative conversion adjustments” under stockholders’ equity as a separate item.

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements should first be 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 directly affects the cash flows of the foreign operation.

CATHAY LIFE 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 tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences on deferred income tax liabilities, and 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 should be estimated, if needed. The 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 non-current in accordance with 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 Company adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with 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.

(15) Distinguish between Capital Expenditure and Revenue Expenditure

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) Treasury Stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is charged to 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 capital surplus is insufficient to cover the excess of the cost over the price, the difference is charged to retained earnings. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retired 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. If the capital surplus is

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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.

(17) Derivative Financial Products Transaction

A. Forward exchange contract for hedging

The purpose of the forward exchange contracts held by the Company is to hedge the risks that may result from changes in currency rates. Transactions on forward 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 contact period. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are credited or charged to current income.

B. Currency swap (CS)

The purpose of the CS held by the Company is to hedging the risks that may result from changes in currency rates. CS transactions are recognized based on the spot rate at the contact date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate on 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 to hedging the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contact date. Interests are calculated according to the agreed period, and interest rate. The difference is credited or charged to the current income.

D. Interest rate swap agreements (IRS)

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(18) 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 requested by the insurers. The value of these specific accounts is determined based on the market value of that day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.

The Company sets special journals for assets, liabilities, revenue and expenses accounts in accordance with accounting regulation of "Personal Insurance Accounting Standards in Sale-Investment-Linked Insurance Products". The above accounts can be recorded under items "investment-linked products assets", "investment-linked products liabilities", "investment-linked products revenues", and "investment-linked products expenses", respectively.

(19) 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 is 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 in effect 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

	June 30,			
	2003 NT\$	2003 US\$	2002 NT\$	2002 US\$
Cash on hand	\$384,492	\$11,109	\$541,881	\$16,195
Cash in banks	5,370,207	155,163	7,027,959	210,040
Time deposits	56,333,391	1,627,662	125,064,873	3,737,743
Cash equivalents	17,005,882	491,358	17,617,530	526,525
Total	<u>\$79,093,972</u>	<u>\$2,285,292</u>	<u>\$150,252,243</u>	<u>\$4,490,503</u>

5. Short-Term Investments

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Parent stock	\$856,726	\$24,754	\$856,726	\$25,604
Less: Allowance for				
valuation loss	(417,662)	(12,068)	(350,898)	(10,487)
Sub-Total	439,064	12,686	505,828	15,117
Common stock and				
Beneficiary certificates	105,304,992	3,042,618	119,085,247	3,559,033
Oversea investments	121,183,985	3,501,415	75,912,727	2,268,761
Appoint purpose trust fund	45,226,503	1,306,747	58,946,699	1,761,706
Corporate bonds	11,403,412	329,483	9,542,643	285,195
Government bonds	14,134,599	408,396	13,831,188	413,365
Financial debentures	15,099,766	436,283	13,000,000	388,524
Short-term notes	31,194,460	901,313	18,929,974	565,749
Sub-Total	343,547,717	9,926,255	309,248,478	9,242,333
Less: Cash equivalents	(17,005,882)	(491,357)	(17,617,530)	(526,525)
Allowance for				
valuation loss	0	0	(4,410,698)	(131,820)
Sub-Total	326,541,835	9,434,898	287,220,250	8,583,988
Total	<u>\$326,980,899</u>	<u>\$9,447,584</u>	<u>\$287,726,078</u>	<u>\$8,599,105</u>

6. Automatic Premium Loan

Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment 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 writing instead of paying such installments.

7. Loans

(1) Policy Loans

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(2) *Secured Loans*

	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$96,501	\$2,788	\$80,402	\$2,403
Less: Allowance for bad debts	(618)	(18)	(804)	(24)
Sub-total	<u>95,883</u>	<u>2,770</u>	<u>79,598</u>	<u>2,379</u>
Medium-term secured loans	10,207,486	294,929	11,685,780	349,246
Less: Allowance for bad debts	(66,478)	(1,921)	(116,858)	(3,492)
Sub-total	<u>10,141,008</u>	<u>293,008</u>	<u>11,568,922</u>	<u>345,754</u>
Long-term secured loans	301,919,861	8,723,486	307,615,987	9,193,544
Less: Allowance for bad debts	(2,087,731)	(60,321)	(3,076,160)	(91,936)
Sub-total	<u>299,832,130</u>	<u>8,663,165</u>	<u>304,539,827</u>	<u>9,101,608</u>
Total	<u>\$310,069,021</u>	<u>\$8,958,943</u>	<u>\$316,188,347</u>	<u>\$9,449,741</u>

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

8. Long-Term Investments

(1) Long -term Investments in Stocks

	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
<u>Investee</u>	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$10,848	\$380,209	\$11,363
Vista Technology Venture Capital Corp.	68,181	1,970	82,994	2,480
Omnitek Venture Capital Corp.	150,572	4,351	152,693	4,564
Wa Tech Venture Capital Co., Ltd.	179,871	5,197	180,078	5,382
IBT Venture Capital Corp.	565,288	16,333	595,228	17,789

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Cathay Insurance				
(Bermuda) Co., Ltd.	54,764	1,582	47,938	1,433
Symphox Information Co., Ltd.	256,843	7,421	268,966	8,038
Cathay Securities				
Investment Trust Co., Ltd.	200,879	5,804	193,267	5,776
Cathay Venture Capital Crop.	143,526	4,147	151,823	4,537
Lin Yuan Property Management Co., Ltd.	31,778	918	0	0
Cathay Securities Investment Co., Ltd.	11,107	321	0	0
Sub-total	2,038,249	58,892	2,053,196	61,362
B. Under the cost method:				
Cathay Financial Holding Co., Ltd.	12,888,129	372,382	0	0
Chunghwa Telecom Co., Ltd.	34,418,548	994,468	0	0
WK Technology Fund Co., Ltd.	100,000	2,889	100,000	2,989
Taiwan Aerospace Company	260,000	7,512	260,000	7,771
Koo Group Telecommunications Co., Ltd.	749,998	21,670	749,998	22,415
Concord III Venture Capital Co., Ltd.	89,280	2,580	89,280	2,668
Taipei Financial Center Corp.	1,441,591	41,652	1,441,591	43,084
InveStar Dayspring V.C. Inc.	200,000	5,779	200,000	5,977
FAT Venture Capital Co., Ltd.	50,000	1,445	50,000	1,494
Concord IV Venture Capital Co., Ltd.	50,000	1,445	50,000	1,494
WK Technology Fund V Co., Ltd.	150,000	4,334	150,000	4,483
WK Technology Fund IV Co., Ltd.	127,200	3,675	127,200	3,802
Century Venture Capital Co., Ltd.	100,000	2,889	100,000	2,989
China Power Venture Capital Co., Ltd.	190,000	5,490	0	0
Super Tech Venture Capital Corp.	100,000	2,889	100,000	2,989

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

CDIB & Partners				
Investment Holding Corp.	500,000	14,447	500,000	14,943
Alex-Tech Machinery				
Industrial Co., Ltd.	21,000	607	21,000	628
Quanta Display Inc.	0	0	1,027,167	30,698
R.O.C. Venture Capital Co., Ltd.				
	151,970	4,391	151,970	4,542
National Venture Capital Co., Ltd.				
	100,000	2,889	100,000	2,989
WK Technology Fund VII Co., Ltd.				
	200,000	5,779	200,000	5,977
Capital Venture Fund II Corp.				
	50,000	1,445	50,000	1,494
Fu Yu Venture Capital Investment Corp.				
	200,000	5,779	200,000	5,977
Concord VII Venture Capital Co., Ltd.				
	100,000	2,889	100,000	2,989
Allied Material Technology Corp.				
	98,400	2,843	98,400	2,941
New Century InfoComm Tech Co., Ltd.				
	1,268,000	36,637	1,268,000	37,896
Srsuntour Co., Ltd.	62,000	1,791	62,000	1,853
Titan I Venture Capital Co., Ltd.				
	150,000	4,334	150,000	4,483
Harbinger Venture Capital Crop.				
	200,000	5,779	200,000	5,977
Prosperity Venture Capital Corp.				
	100,000	2,889	100,000	2,989
KGEx.com Co., Ltd.	175,000	5,056	175,000	5,230
United Venture Corp.	50,000	1,445	50,000	1,494
BioCare Corp.	12,000	347	12,000	359
Megic Corp.	18,000	520	18,000	538
WK Technology Fund VIII Co., Ltd.				
	200,000	5,779	200,000	5,977
Hua Chih Venture Capital Corp.				
	60,000	1,733	60,000	1,793
Jih Sun Venture Capital Investment Co., Ltd.				
	80,000	2,311	80,000	2,391
Formosa Epitaxy Inc.	0	0	20,500	613
Win Semiconductors Corp.	50,949	1,472	50,949	1,523
Sintek Photronic Corp.	0	0	75,000	2,241
Kinik Precision Grinding Co., Ltd.				
	6,000	173	6,000	179
Vita Genomics Inc.	87,500	2,528	87,500	2,615
Tong Hsing Electronic Inc. Co., Ltd.				
	27,144	784	27,144	811

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

China Technology Venture Capital Corp.	50,000	1,445	50,000	1,494
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,489	259,200	7,747
Applied Vacuum Coating Technologies Co., Ltd.	6,661	192	6,661	199
TaiGen Biotechnology Co., Ltd.	16,500	477	16,500	493
Cdid BioScience venture I Inc.	285,000	8,235	285,000	8,518
Maxima Venture I, Inc, Taiwan	126,630	3,659	0	0
Parawin Venture Capital Co., Ltd.	50,000	1,445	0	0
Darly 3 Venture Co., Ltd.	20,000	578	10,000	299
Top Taiwan IV Venture Capital Co., Ltd.	50,000	1,445	0	0
Cash Box Audio and Video Co., Ltd.	200,000	5,779	0	0
Richtech Technology Co., Ltd.	28,806	832	0	0
Hua VI Venture Capital Corp.	50,000	1,445	0	0
Shin Sheng Venture Capital Investment Corp.	50,000	1,445	0	0
Centillion III Venture Capital Corp.	50,000	1,445	0	0
Harbinger III Venture Capital Corp.	100,000	2,889	0	0
Unitive Semiconductor Taiwan Corp.	46,800	1,352	0	0
Honey Hope Honesty Co.	55,000	1,589	0	0
Taiwan High Speed Rail Co.	1,000,000	28,893	0	0
Formosa Petro Chemical Co.	16,250	469	0	0
Sub-total	57,343,556	1,656,849	9,136,060	273,045
Total	\$59,381,805	\$1,715,741	\$11,189,256	\$334,407

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	June 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Balance at January 1	\$2,065,196	\$59,671	\$2,010,259	\$60,079
Add: Investment gains				
(losses) by equity method recognized	19,833	573	(3,988)	(119)
Increment of investments	0	0	75,000	2,242
Cumulative Conversion adjustments	133	4	(2,233)	(67)
Unrealized valuation losses on long-term equity investment	(9,962)	(288)	(9,458)	(283)
Capital surplus long-term equity investment	2,152	62	0	0
Less: Cash dividends	(39,103)	(1,130)	(16,384)	(490)
Balance of June 30,	<u>\$2,038,249</u>	<u>\$58,892</u>	<u>\$2,053,196</u>	<u>\$61,362</u>

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

<u>Investee</u>	For the six months ended June 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
WK Technology Fund VI Co., Ltd.	(\$142)	(\$4)	\$1,807	\$54
Vista Technology Venture Capital Corp.	(17,319)	(500)	(15,044)	(450)
Omnitek Venture Capital Corp.	2,979	86	2,280	68
Wa Tech Venture Capital Co., Ltd.	22,192	641	7,163	214
IBT Venture Capital Corp	(12,043)	(348)	5,237	157
Cathay Insurance (Bermuda) Co., Ltd.	1,588	46	1,925	58
Symphox Information Co., Ltd.	8,893	257	(12,566)	(376)
Cathay Securities Investment Trust Co., Ltd.	2,153	62	4,363	131

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Cathay Venture Capital Corp.	1,232	36	847	25
Lin Yuan Property Management Co., Ltd.	8,620	249	0	0
Cathay Securities Investment Co., Ltd.	1,680	48	0	0
Total	<u>\$19,833</u>	<u>\$573</u>	<u>(\$3,988)</u>	<u>(\$ 119)</u>

a. 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, and doesn't have significant influence or controlling power, the recognition investment gains or losses for those investees shall be deferred to next year. That is, the Company will recognize its investment gains or losses in proportion to its equivalent stock ownership in the following year.

The Company owns less than 50% voting share and the recognition investment gains or losses shall be deferred to next year of the following investees: The WK Technology Fund VI Co., Ltd. Visa Technology Venture Capital Corp., Omnitek Venture Capital Corp., Wa Tech Venture Capital Corp., and IBT Venture Capital Corp.

b. The investment gains (losses) were based on the current year's audited financial statements for the six months ended June 30, 2003 are Cathay Insurance (Bermuda) Co., Ltd. Lin Yuan Property Management Co., Ltd. Cathay Securities Investment Co., Ltd. and Symphox Information Co., Ltd.

c. The investment gains (losses) were based on the current year's audited financial statements for the six months ended June 30, 2002 are Cathay Insurance (Bermuda) Co., Ltd. and Symphox Information Co., Ltd.

d. The investment gains (losses) of investee companies for the six months ended June 30, 2003 and 2002 were recognized based on unaudited financial statements. Those investee companies are Cathay Securities Investments Trust Co., Ltd. and Cathay Venture Capital Corp.

9. Long-Term Investments in Bonds

Long-term investments in bonds consist mainly of government bonds as of June 30, 2003 and 2002. Partitive Bonds are deposited in the Central Bank as capital guarantee deposits. As of June 30, 2003 and 2002, the capital guarantee deposits amounted to NT\$7,719,351 (US\$223,038) and NT\$9,226,628 (US\$275,751), respectively, categorized under securities serving as deposits paid-bonds of other assets. Please See note 20, "pledged assets" for details.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

10. Investments in Real Estate

Item	June 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,124,549	\$2,719,577	\$5,010	\$145	(11,138,618)	(321,832)	\$82,990,941	\$2,397,890
Construction	10,966,994	316,873	0	0	0	0	10,966,994	316,873
Prepayments for buildings and Land	414	12	0	0	0	0	414	12
Total	\$105,091,957	\$3,036,462	\$5,010	\$145	(\$11,138,618)	(\$321,832)	\$93,958,349	\$2,714,775

Item	June 30, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$85,524,660	\$2,556,027	\$5,132	\$153	(\$9,861,349)	(\$294,721)	\$75,668,443	\$2,261,459
Construction	15,884,359	474,727	0	0	0	0	15,884,359	474,727
Total	\$101,409,019	\$3,030,754	\$5,132	\$153	(\$9,861,349)	(\$294,721)	\$91,552,802	\$2,736,186

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Real estate investment's rents can be paid yearly, semi-yearly, quarter and lump sum.
- (3) No investments in real estate were pledged as collateral. The insurance coverage on investments in real estate was stated at book value.

11. Property and Equipment

Item	June 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,489,112	\$158,599	\$1,764	\$51	\$0	\$0	\$5,490,876	\$158,650
Buildings and structures	10,851,095	313,525	0	0	(3,035,577)	(87,708)	7,815,518	225,817
Communication and transportation equipment	140,280	4,053	0	0	(55,795)	(1,612)	84,485	2,441
Other equipment	4,180,562	120,791	0	0	(2,241,638)	(64,769)	1,938,924	56,022
Sub-total	20,661,049	596,968	1,764	51	(5,333,010)	(154,089)	15,329,803	442,930
Construction in progress	427,814	12,361	0	0	0	0	427,814	12,361
Prepayment for equipment	228,905	6,614	0	0	0	0	228,905	6,614
Total	\$21,317,768	\$615,943	\$1,764	\$51	(\$5,333,010)	(\$154,089)	\$15,986,522	\$461,905

CATHAY LIFE 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, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,847,498	\$174,761	\$1,643	\$49	\$0	\$0	\$5,849,141	\$174,810
Buildings and structures	11,030,954	329,676	0	0	(2,861,652)	(85,525)	8,169,302	244,151
Communication and transportation equipment	150,118	4,487	0	0	(47,943)	(1,433)	102,175	3,054
Other equipment	3,724,172	111,302	0	0	(1,865,566)	(55,755)	1,858,606	55,547
Sub-total	20,752,742	620,226	1,643	49	(4,775,161)	(142,713)	15,979,224	477,562
Construction in progress	254,128	7,595	0	0	0	0	254,128	7,595
Prepayment for equipment	67,870	2,029	0	0	0	0	67,870	2,029
Total	\$21,074,740	\$629,850	\$1,643	\$49	(\$4,775,161)	(\$142,713)	\$16,301,222	\$487,186

No property and equipment were pledged as collateral. The insurance coverage on property and equipment are stated at book value.

12. Overdue Receivables

	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$5,635,986	\$162,843	\$6,039,441	\$180,497
Less: Allowance for bad and doubtful debts	(2,817,993)	(81,422)	(1,819,080)	(54,365)
Total	\$2,817,993	\$81,421	\$4,220,361	\$126,132

Overdue receivables meant overdue interest or overdue payment from customers.

13. Capital Stock

As of June 30, 2003 and 2002 the total authorized shares were 5,068,615,765 and 5,838,615,765, respectively, with par value of NT\$10 each.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
 (Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

14. Retained Earnings

(1) Legal Reserve

Pursuant to the ROC 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 deficit and cannot be used for the purpose of 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 the Board of Directors.

(2) Unappropriated Retained Earnings

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. After distributing stock interests and 2% of the total remaining distribution as bonus for employees, the remainder shall be allocated in accordance with a resolution in the Board of Directors' 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 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 ROC Revised Tax Law of 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

15. TREASURY STOCK

The company's treasury stock variation for six-month on June 30, 2003 are as follows:

(Unit: thousand shares)

Reason for transfer	Jan. 1, 2003	Increase	Decrease	June 30, 2003
Transferred it to employees	156,927	0	0	156,927
Total	156,927	0	0	156,927

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

- (1) Pursuant to the ROC Securities and Exchange Law, the outstanding issued shares, which a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 30, 2001, the Company had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$211,900).
- (2) Treasury stock of the Company was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. As a result of this conversion, Cathay Financial Holding Co., Ltd. owned 100% of the Company's shares.

16. 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	9,274,643	1,734,839	11,009,482	9,948,307	1,902,275	11,850,582
Labor & health Insurance expenses	610,690	111,671	722,361	562,447	107,462	669,909
Pension expenses	466,116	85,234	551,350	428,920	81,950	510,870
Other expenses	525,932	111,243	637,175	532,953	101,500	634,453
Depreciation	—	1,101,925	1,101,925	—	1,103,742	1,103,742
Depletion	—	—	—	—	—	—
Amortizations	—	—	—	—	—	—

Item	For the three months ended June 30,2003 (US\$)			For the three months ended June 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	267,976	\$50,125	318,101	297,320	56,852	354,172
Labor & health Insurance expenses	17,645	3,226	20,871	16,809	3,212	20,021
Pension expenses	13,467	2,463	15,930	12,819	2,449	15,268
Other expenses	15,196	3,214	18,410	15,928	3,034	18,962
Depreciation	—	31,838	31,838	—	32,987	32,987
Depletion	—	—	—	—	—	—
Amortizations	—	—	—	—	—	—

The total number of employees is 30,519 on June 30, 2003.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

17. Estimated Income Taxes

Income tax expenses include the following:

	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Income before Taxes	\$11,018,425	\$318,360	\$ 6,396,703	\$ 191,175
Adjustments				
Interest income of tax on a separate basis	(499,182)	(14,423)	(471,174)	(14,082)
Loss (gain) on disposal of investments	247,553	7,153	(1,001,378)	(29,928)
Unrealized exchange loss (gain)	(278,403)	(8,044)	473,395	14,148
Loss (gain) on market price loss (recovery) of short-term investments	(4,654,603)	(134,487)	(2,244,885)	(67,092)
Bad debts exceeding legal limit	56,948	1,645	(618,019)	(18,470)
Cash Dividend	(58,750)	(1,697)	(629,433)	(18,811)
Decrease in payment pension expense	404,673	11,692	360,809	10,783
Others	(138,119)	(3,991)	(9,142)	(273)
Taxable Income	6,098,542	176,208	2,256,876	67,450
Times : Taxes Rate; Less:				
Progressive difference	25% – 10	—	25% – 10	—
Add: Extra 10% Income Tax on Undistributed Retained Earnings	0	0	136,605	4,083
Sub-Total	1,524,626	44,052	700,814	20,946
Add: Tax on a separate basis	99,836	2,885	94,235	2,816
Beginning deferred income tax assets	649,565	18,768	892,355	26,669
Ending deferred income tax liabilities	1,311,618	37,897	1,382,838	41,328
Less: Income tax credit	(8,808)	(254)	(110,130)	(3,291)
Beginning deferred income tax liabilities	(1,432,194)	(41,381)	(1,599,375)	(47,800)
Ending deferred income tax assets	(570,394)	(16,481)	(675,353)	(20,184)
Total Income Tax expenses	<u>\$1,574,249</u>	<u>\$45,486</u>	<u>\$685,384</u>	<u>\$20,484</u>

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

The Company's income tax returns, except for the year 1994、1995、1997 and 1999, had been filed and assessed by the Tax Authorities as the end of the year 2000. Due to the bond interest argument, the Company had filed a counterclaim through Administrative proceedings against its prior bondholders. In the meantime, the tax authority is still seeking appropriated amended procedures for 1994、1995、1997 income tax returns of the Company. However, the Company disagreed with the assessments for 1998, and petitioned the Administrative Court.

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

	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
A. Total deferred tax liabilities	\$1,311,618	\$37,897	\$1,382,838	\$41,328
Total deferred tax assets	\$570,394	16,481	\$675,353	\$20,184
B. Temporary differences:				
Employee benefits	\$50,606	\$1,462	\$ 92,522	\$ 2,765
Taxable temporary difference from recognition of pension expense	327,688	9,468	(436,798)	(13,054)
Unrealized exchange gains (Losses)	(5,012,571)	(144,830)	(4,067,634)	(121,567)
Bad debts exceeding limit	1,637,250	47,306	1,565,967	46,801
Other	32,133	928	16,002	478
C. Deferred tax assets-current	\$15,193	\$439	\$132,828	\$ 3,970
Deferred tax liabilities- current	(1,292,385)	(37,341)	(1,183,436)	(35,369)
Net offset balance of deferred tax assets (liabilities)-current	<u>(\$1,277,192)</u>	<u>(\$36,902)</u>	<u>(\$1,050,608)</u>	<u>(\$31,399)</u>
D. Deferred tax				
assets-noncurrent	\$555,201	\$16,042	\$ 542,525	\$ 16,214
Deferred tax Liabilities- noncurrent	(19,233)	(556)	(199,402)	(5,959)
Net offset balance of deferred tax assets (liabilities) - noncurrent	<u>\$535,968</u>	<u>\$15,486</u>	<u>\$343,123</u>	<u>\$10,255</u>

(2) Information related to imputation

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$25,735	\$744	\$3,415,945	\$ 102,090

	2003	2002
Imputation credit account ratio- Actual June 2, 2003	30.17%	--
Imputation credit account ratio- Actual February 4, 2002		33.33%

(3) Related Information on Undistributed Earnings

Year	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$105,651	\$3,158
After 1998	0	0	21,795	651
Total	\$0	\$0	\$127,446	\$3,809

Net income after tax for the six months ended June 30, 2003 and 2002 was not included in unappropriated earnings computation since 1998.

(4) 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
		NT\$	US\$	NT\$	US\$	
		Statute for Upgrading Industries	Education training	\$5,882	\$170	
	Invest	2,926	85	0	0	2007
	Total	\$8,808	\$255	\$0	\$0	

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

18. Earning Per Share

	For the six months ended June 30			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	\$11,018,425	\$318,360	\$6,396,703	\$191,175
Net income (b)	9,444,176	272,874	5,711,319	170,691
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
Adjusted weighted average outstanding number of shares (d)	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>\$2.24</u>	<u>\$0.06</u>	<u>\$1.13</u>	<u>\$0.03</u>
After income taxes				
Earnings per share (b) / (c) (dollars)	<u>\$1.92</u>	<u>\$0.06</u>	<u>\$1.01</u>	<u>\$0.03</u>
Before income taxes				
Adjusted earnings per share (a) / (d) (dollars)	<u>\$2.24</u>	<u>\$0.06</u>	<u>\$1.13</u>	<u>\$0.03</u>
After income taxes				
Adjusted earnings per share (b) / (d) (dollars)	<u>\$1.92</u>	<u>\$0.06</u>	<u>\$1.01</u>	<u>\$0.03</u>

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

	For the six months ended June 30,	
	2003	2002
Shares at the beginning of year	5,068,615,765	5,838,615,765
Treasury stock	(156,927,000)	(156,927,000)
Total	4,911,688,765	5,681,688,765

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 a 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 Bao Development Co., Ltd.	Their chairman is a 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):

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(A). Significant Transactions with Related Parties for the six months end June 30, 2003 and 2002 are list below:

Name	For the six months ended June 30, 2003		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Tainmu jungcheng	\$6,930	\$200
	Hsinyi District Base-D	440,633	12,732
	Cathay Information Building	21,610	624
	Taitung Building	2,776	80
	Yungdang Building	125	4
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	2,678	77
	Tucheng office Building	582	17
	Ban ciao Building	524	15
	Total	<u>\$475,858</u>	<u>\$13,749</u>

Name	For the six months ended June 30, 2002		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Lin Yuan Finance building	\$568,611	\$16,994
	Hsinyi District Base	319,994	9,563
	Tainan Shopping Center	1,775,729	53,070
	Cathay General Hospital of Hsinchu	332,704	9,943
	Kaohsing International Business Building	6,629	198
	Tainmu jungcheng	7,075	211
	Taitung Building	90,431	2,703
	YungKang Building	38,147	1,140
	Cathay Real Estate Development Co., Ltd.	Other	263
Total	<u>\$3,139,583</u>	<u>\$93,830</u>	

- a. The total amount of construction contracts for real estate on June 30, 2003 and 2002 between the Company and San Ching Engineering Co., Ltd. are NT\$12,267,825 (US\$354,459) and NT\$19,862,922 (US\$593,632) respectively. Up to June 30 in 2003 and 2002, NT\$9,709,113 (US\$280,529) and NT\$14,223,596 (US\$425,093) had been paid according to the schedule of construction contracts.
- b. For the six months ended June 30, 2003 and 2002, the Company did not repurchase any property or investments it had previously sold.

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(B). We didn't recognize the gain (loss) of real estate which sold to Cathay General Hospital for the six months ended June 30, 2003, because it's unfinished process.

(C) Real-Estate Rental Income (From related parties)

Name	Rental income			
	For the six months ended June 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Financial Holding Co., Ltd.	\$3,908	\$113	\$3,908	\$117
Cathay Real Estate Development Co., Ltd.	14,932	431	15,475	462
Cathay United Bank	89,734	2,593	62,003	1,853
Cathay Century Insurance Co., Ltd.	26,007	751	22,339	668
Cathay General Hospital	81,529	2,356	60,448	1,807
San Ching Engineering Co., Ltd.	9,920	287	10,001	299
Symphox Information Co., Ltd.	15,023	434	15,259	456
Lin Ynan Investment Co., Ltd.	89	3	52	1
Cathay Securities Investment Trust Co., Ltd.	4,543	131	4,550	136
Cathay Securities Investments Co., Ltd.	2,070	60	0	0
Lin Yuan Property Management Co., Ltd.	209	6	0	0
Total	<u>\$247,964</u>	<u>\$7,165</u>	<u>\$194,035</u>	<u>\$5,799</u>

Name	Guarantee deposits received			
	June 30,2003	June 30,2003	June 30,2002	June 30,2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$358	\$12,386	\$370
Cathay United Bank	52,900	1,529	30,168	902
Cathay Century Insurance Co., Ltd.	13,053	377	11,546	345
Cathay General Hospital	1,983	57	1,983	59
San Ching Engineering Co., Ltd.	6,779	196	6,828	204
Symphox Information Co., Ltd.	1,421	41	70	2
Cathay Securities Investment Trust Co., Ltd.	2,144	62	2,060	62
Other	65	2	16	0
Total	<u>\$90,731</u>	<u>\$2,622</u>	<u>\$65,057</u>	<u>\$1,944</u>

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

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 six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate				
Development Co., Ltd.	\$15,182	\$439	\$11,899	\$356
Lin Yuan Investment Co.,				
Ltd.	1,673	48	0	0
Total	<u>\$16,855</u>	<u>\$487</u>	<u>\$11,899</u>	<u>\$356</u>

Name	Guarantee Deposits paid			
	June 30,2003	June 30,2003	June 30,2002	June 30,2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate				
Development Co., Ltd.	\$9,352	\$270	\$9,352	\$279
Lin Yuan Investment Co.,				
Ltd.	1,650	48	0	0
Total	<u>\$11,002</u>	<u>\$318</u>	<u>\$9,352</u>	<u>\$279</u>

Lease period and payment is 3-year in average according to contract except for those buildings agreed by Cathay Real Estate Development Co., Ltd. to use deposit and interest to offset rent fee which are paid on monthly basis.

(E). Acquisition of Property and Equipment Information:

Name	Item	For the six months ended June 30,			
		<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
		NT\$	US\$	NT\$	US\$
Symphox	Communication and transportation equipment	\$1,560	\$45	\$0	\$0
Information Co., Ltd.	Other equipment	0	0	21,424	640
		<u>\$1,560</u>	<u>\$45</u>	<u>\$21,424</u>	<u>\$640</u>

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

B. Cash In Bank

		For the six months ended June 30, 2003			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
Cathay United Bank	Time Deposit	\$12,646,150	\$6,521,050	0.90% ~ 2.65%	\$60,785
	Cash In Bank	\$16,261,196	3,456,420	0.00% ~ 0.50%	2,713
Total			<u>\$9,977,470</u>		<u>\$63,498</u>

		For the six months ended June 30, 2003			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
United World Chinese Commercial Bank	Time Deposit	\$21,950,000	\$3,475,000	0.90% ~ 2.35%	\$170,688
	Cash In Bank	\$5,435,600	589,865	0.00% ~ 0.15%	438
Total			<u>\$4,064,865</u>		<u>\$171,126</u>

		For the six months ended June 30, 2003			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
Cathay United Bank	Time Deposit	\$365,390	\$188,415	0.90% ~ 2.65%	\$1,756
	Cash In Bank	\$469,841	99,868	0.00% ~ 0.50%	79
Total			<u>\$288,283</u>		<u>\$1,835</u>

		For the six months ended June 30, 2003			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
United World Chinese Commercial Bank	Time Deposit	\$634,210	\$100,405	0.90% ~ 2.35%	\$4,932
	Cash In Bank	\$157,053	17,043	0.00% ~ 0.15%	12
Total			<u>\$117,448</u>		<u>\$4,944</u>

		For the six months ended June 30, 2002			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
Cathay United Bank	Time Deposit	\$12,079,350	\$7,648,850	2.35%~5.20%	\$116,796
	Cash In Bank	\$18,003,331	3,632,230	0.00%~2.00%	15,571
Total			<u>\$11,281,080</u>		<u>\$132,367</u>

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Name	Item	For the six months ended June 30, 2002			
		Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
Cathay United Bank	Time Deposit	\$361,009	\$228,597	2.35% ~ 5.20%	\$3,491
	Cash In Bank	\$538,055	108,554	0.00%~2.00%	465
Total			\$337,151		\$3,956

C. Secured Loans

Name	For the six months ended June 30, 2003			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General				
Hospital	\$1,173,912	\$1,173,552	3.67%~4.25%	\$23,626

Name	For the six months ended June 30, 2003			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General				
Hospital	\$33,918	\$33,908	3.67%~4.25%	\$683

Name	For the six months ended June 30, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General				
Hospital	\$1,174,594	\$1,174,261	4.36%~5.21%	\$28,931

Name	For the six months ended June 30, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General				
Hospital	\$35,104	\$35,094	4.36%~5.21%	\$865

D. Beneficiary Certificates:

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Name	Transaction type	June 30,			
		<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	Equity Fund	\$473,910	\$13,693	\$378,930	\$11,325
	Bond Fund	3,147,073	90,929	1,793,554	53,603
		<u>\$3,620,983</u>	<u>\$104,622</u>	<u>\$2,172,484</u>	<u>\$64,928</u>

E. Notes (Account) Receivable

Name	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Notes Receivable				
Cathay General Hospital	\$36,999	\$1,069	\$19,039	\$569
Cathay Century Insurance Co., Ltd.	53,930	1,558	0	0
Symphox Information Co., Ltd.	583	17	0	0
Cathay Securities Investment Co., Ltd.	139	4	0	0
Sub-Total	<u>91,651</u>	<u>2,648</u>	<u>19,039</u>	<u>569</u>
Account Receivable				
Cahtay Insurance (Bermuda) Co., Ltd.	9,806	283	0	0
Total	<u>\$101,457</u>	<u>\$2,931</u>	<u>\$19,039</u>	<u>\$569</u>

F. Accounts Payable-Related Parties

Name	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$9,121	\$263	\$13,508	\$404
Symphox Information Co., Ltd.	27,931	807	113,686	3,397
Lin Yuan Property Management Co., Ltd.	14,127	408	32,146	961
Other	2,236	65	662	20
Total	<u>\$53,415</u>	<u>\$1,543</u>	<u>\$160,002</u>	<u>\$4,782</u>

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

G. Accounts Collected in Advance

Name	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,178	\$63	\$2,048	\$61
Cathay General Hospital	118,833	3,434	197	6
Other	212	6	296	9
Total	<u>\$121,223</u>	<u>\$3,503</u>	<u>\$2,541</u>	<u>\$76</u>

H. Prepayment

Name	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$21,392	\$618	\$72,014	\$2,152

I. Guarantee Deposit Paid

Name	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$55,000	\$1,589	\$0	\$0

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

J. Insurance Expense

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$142,227	\$4,109	\$114,921	\$3,435

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on June 30, 2003 and 2002 amounts of \$6,512(US\$188) and \$5,503(US\$164) were paid for employees' fidelity guarantee insurance.

K. Indemnity Income

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$7,095	\$205	\$826	\$ 25

Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received in June 30, 2003 and 2002, \$0 (US\$0) and \$128 (US\$4), represented claims for employees' fidelity guarantee insurance.

L. Reinsurance Income

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$41,248	\$1,192	\$42,472	\$1,269

Cathay Insurance (Bermuda) Co., Ltd reinsurance effective April 1, 2000, assumed damage reinsurance from RCA and CRC and re-direct 90% of reinsurance to this company.

M. Reinsurance Expense

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$22,074	\$638	\$20,513	\$613

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Reinsurance is at this company's expense to pay Cathay Insurance (Bermuda) Co., Ltd.

N. Miscellaneous Income

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$87,237	\$2,521	\$0	\$0

Loan commission with free of charge fire and earthquake insurances and income from market integration.

O. Commissions Expense

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$14,450	\$418	\$6,225	\$186
Seaward Insurance Agent Corp.	28,830	833	0	0
Total	\$43,280	\$1,251	\$6,225	\$186

P. Marketing Expense

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$291,565	\$8,424	\$110,786	\$3,311

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

Q. Administrative and general expense

Name	For the six months ended June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$375,734	\$10,857	\$491,456	\$14,688
Cathay Securities Investment Co., Ltd.	12,500	361	0	0
Cathay Real Estate Development Co., Ltd.	10,426	301	0	0
Total	<u>\$398,660</u>	<u>\$11,519</u>	<u>\$491,456</u>	<u>\$14,688</u>

20. Pledged Assets

As of June 30, 2003 and 2002, the Company pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, the Company agreed 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 of the Insurance Law, the Company should deposit Government bonds in an amount equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	June 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,719,351	\$223,038	\$9,226,628	\$275,751
Time Deposits	1,002,550	28,967	9,000	269
Total	<u>\$8,721,901</u>	<u>\$252,005</u>	<u>\$9,235,628</u>	<u>\$276,020</u>

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

21. Other Important Matters and Contingent Liabilities

Up to the date of June 30, 2003, signed sales contracts and construction contracts of approximately NT\$800 million (US\$23 million), are either not completed or still in progress and remain open projects. About NT\$131 (US\$4) had been paid as of June 30, 2003.

22.Serious Damages: None

23.Subsequent Events: None

24.Other Important Events

(1) Pension Related Information

Pension funded status:

With respect to the accounting for pensions, we performed the amount based on minimum pension liability and net periodic pension cost. We expect net periodic pension cost to be NT\$551,350 (US\$15,930), and we have allotted NT\$146,732 (US\$4,240) to pension fund.

(2) Financial Instruments Related Information

A. Derivative Financial Instruments related information

(A). Purpose

Effective June 30, 2003, Cathay Life Insurance hold derivative financial instruments: Futures, Forward Contracts and Interest Rate Swap Agreement. Futures hedge risk against stock price fluctuation; forward contracts hedge risk against foreign currency and exchange rate fluctuation; interest rate swap agreement hedges risk against interest rate fluctuation. These are tradable activities categorize as non-trade.

(B). Credit and Market Risk

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(C). Cash Flow and Demand

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

a. Futures

All futures transaction was automatically offset against each other on June 30, 2003.

b. Forward Contract

(a). 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.

(b). As of June 30, 2003 and 2002, the Company had forward exchange contracts of approximately US\$7,722,800 and US\$3,086,000, respectively, in national value.

The 1st half 2003 forward contracts are due from the period of July 3, 2003 to June 28, 2004. In addition, the 2002 forward contracts are due from period July 1, 2002 to August 23, 2003.

June 30, 2003

Item	Contract Amount	Fair Value (NT\$)	Fair Value (US\$)	Due Value (NT\$)	Due Value (US\$)
Forward & CCS	US\$10,342,800	\$358,050,573	\$10,345,292	\$358,142,736	\$10,347,955

June 30, 2002

Item	Contract Amount	Fair Value (NT\$)	Fair Value (US\$)	Due Value (NT\$)	Due Value (US\$)
Forward & CCS	US\$5,776,000	\$195,841,071	\$5,852,991	\$199,139,099	\$5,951,557

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

The above-mentioned forward contracts agreement hedges against risk in association with net capital exchange rate fluctuation.

Net capital	June 30,	
	<u>2003</u>	<u>2002</u>
Short-term investment	USD10,342,800	USD5,776,000

The forward contacts agreement listed gain-loss amount is not significant to this company for the period of year 2003 and 1st half year of 2002.

c. Interest Rate Swap Agreement (IRSA)

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 June 30, 2003. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRSA	NT	2002.09.03~2010.02.18	\$12,800,000

B. Non Derivative Financial Instruments related information :

Item	June 30,			
	<u>2003</u>		<u>2003</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term Investment	\$ 326,980,899	\$335,428,145	\$9,447,584	\$9,691,654

Item	June 30,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Short-term Investment	\$ 287,726,078	\$287,726,078	\$8,599,105	\$8,599,105

(3) Discretionary Account Management

CATHAY LIFE 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			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$1,033,068	\$29,849	\$1,052,998	\$30,425
Repurchase bonds	5,863,913	169,428	5,864,624	169,449
Convertible bond	323,050	9,334	324,202	9,367
Governmental Bonds	1,734,833	50,125	1,820,273	52,594
Cash in bank	217,727	6,291	217,727	6,291
Net other assets less liabilities	(139,218)	(4,022)	(139,218)	(4,023)
Total	\$9,033,373	\$261,005	\$9,140,606	\$264,103

Item	June 30, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$2,945,860	\$88,041	\$2,588,744	\$77,368
Repurchase bonds	2,357,668	70,462	2,357,668	70,462
Short-term securities	99,968	2,988	99,968	2,988
Governmental Bonds	3,143,793	93,957	3,165,998	94,620
Cash in bank	765,490	22,878	765,490	22,878
Net other assets less liabilities	(10,061)	(301)	(10,061)	(301)
Total	\$9,302,718	\$278,025	\$ 8,967,807	\$268,015

As of June 30, 2003 and 2002, the securities investment and trust company had recorded that the Company had discretionary account management contracts in the amount of NT\$8,500,000(US\$245,594) and NT\$9,000,000(US\$268,978), respectively.

(4) Material Contract: None

(5) PRESENTATION OF FINANCIAL STATEMENTS :

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

CATHAY LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS - (Continued)
(Expressed in thousands of dollars unless otherwise stated)
As of June 30, 2003 and 2002

(6) Other:

On December 25, 2002, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 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