

**CATHAY LIFE INSURANCE CO., LTD.  
FINANCIAL STATEMENTS  
TOGETHER WITH  
REVIEW REPORT  
AS OF SEPTEMBER 30, 2003 AND 2002**

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

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## Review Report

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

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. as of September 30, 2003 and 2002, and related statements of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue reports based on our review.

Except as explained in the following paragraph, we conducted our reviews in accordance with generally accepted auditing standards in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries to persons responsible for financial, accounting and operational matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Note 7 to the financial statements, we did not review the financial statements of the investee companies. The related amount (thousands of dollars) of long-term investments under the equity method were NT\$785,230(US\$23,245) and NT\$695,895 (US\$19,928) as of September 30, 2003 and 2002. The related investment gain (loss) were NT\$36,797(US\$1,089) and NT\$(5,656)(-US\$162) for the period ended September 30 2003 and 2002.

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

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

### Notice to Readers

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

**CATHAY LIFE INSURANCE CO., LTD.**

**BALANCE SHEETS**

**(Expressed in thousands of dollars)**

**As of September 30, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Notes 2, 4)	\$129,687,214	\$3,839,172	9.25	\$136,497,613	\$3,908,866	11.04
Short-term investments(Notes 2, 5)	326,942,272	9,678,575	23.32	300,638,871	8,609,361	24.30
Notes receivable	14,317,429	423,843	1.02	16,720,130	478,812	1.35
Notes receivable-related parties (Note 18)	93,136	2,757	0.01	51,003	1,461	0.00
Accounts receivable-related parties(Note 18)	2,124	63	0.00	0	0	0.00
Tax refund receivable	15,029	445	0.00	15,029	430	0.00
Interest receivable	10,486,953	310,449	0.75	11,086,117	317,472	0.90
Other accounts receivable	10,248,202	303,381	0.73	2,345,803	67,176	0.19
Prepayments	664,856	19,682	0.05	350,128	10,027	0.03
Sub-total	<u>492,457,215</u>	<u>14,578,367</u>	<u>35.13</u>	<u>467,704,694</u>	<u>13,393,605</u>	<u>37.81</u>
<b>Exchange Bills Negotiated, Discounted and Loans (Notes 2, 6)</b>						
Policy loans	184,377,919	5,458,198	13.15	185,491,968	5,311,912	14.99
Short-term secured loans	61,107	1,809	0.00	121,871	3,490	0.01
Medium-term secured loans	10,478,198	310,189	0.75	11,313,578	323,986	0.92
Long-term secured loans	290,935,926	8,612,668	20.75	308,740,753	8,841,373	24.95
Sub-total	<u>485,853,150</u>	<u>14,382,864</u>	<u>34.65</u>	<u>505,668,170</u>	<u>14,480,761</u>	<u>40.87</u>
<b>Funds, Long-Term Investments, and Receivable</b>						
Long-term investments in stocks (Notes 2, 7)						
Under the equity method	2,144,001	63,470	0.15	14,823,780	424,507	1.20
Under the cost method	43,694,632	1,293,506	3.12	8,349,022	239,090	0.67
Allowance for valuation loss on long-term investments in stocks	(19,419)	(575)	(0.00)	(9,458)	(271)	(0.00)
Long-term investments in bonds (Notes 2, 8)	241,571,193	7,151,308	17.23	114,469,430	3,278,048	9.25
Investments in real estate (Notes 2, 9)	93,831,327	2,777,718	6.69	92,709,750	2,654,918	7.49
Sub-total	<u>381,221,734</u>	<u>11,285,427</u>	<u>27.19</u>	<u>230,342,524</u>	<u>6,596,292</u>	<u>18.61</u>
<b>Property and Equipment (Notes 2, 10)</b>						
Land	5,491,228	162,559	0.39	5,514,507	157,918	0.45
Buildings and Structures	11,330,504	335,420	0.81	10,723,741	307,095	0.87
Communication and transportation equipment	138,315	4,095	0.01	141,734	4,059	0.01
Other equipment	4,298,515	127,250	0.31	3,771,090	107,992	0.30
Sub-total	<u>21,258,562</u>	<u>629,324</u>	<u>1.52</u>	<u>20,151,072</u>	<u>577,064</u>	<u>1.63</u>
Less: Accumulated depreciation	(5,441,036)	(161,073)	(0.39)	(4,843,064)	(138,690)	(0.39)
Construction in progress and prepayment for equipment	68,361	2,024	0.00	415,305	11,893	0.03
Sub-total	<u>15,885,887</u>	<u>470,275</u>	<u>1.13</u>	<u>15,723,313</u>	<u>450,267</u>	<u>1.27</u>
<b>Other Assets</b>						
Non-operating assets (Notes 2, 23)	3,726,712	110,323	0.27	4,060,013	116,266	0.33
Guarantee deposits paid (Notes 2, 19)	277,826	8,224	0.02	217,058	6,216	0.02
Overdue receivables(Notes 2, 11)	1,472,106	43,579	0.10	3,781,313	108,285	0.30
Temporary payments and suspense accounts	176,493	5,225	0.01	176,765	5,062	0.01
Securities serving as deposits paid-bonds (Notes 2, 8,19)	7,951,632	235,395	0.57	9,214,378	263,871	0.74
Deferred income tax assets (Notes 2, 16)	261,430	7,739	0.02	340,209	9,743	0.03
Investment-linked products assets(Note 2)	12,699,045	375,934	0.91	162,668	4,658	0.01
Sub-total	<u>26,565,244</u>	<u>786,419</u>	<u>1.90</u>	<u>17,952,404</u>	<u>514,101</u>	<u>1.44</u>
<b>Total Assets</b>	<u><u>\$1,401,983,230</u></u>	<u><u>\$41,503,352</u></u>	<u><u>100.00</u></u>	<u><u>\$1,237,391,105</u></u>	<u><u>\$35,435,026</u></u>	<u><u>100.00</u></u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**BALANCE SHEETS - (Continued)**  
**(Expressed in thousands of dollars)**  
**As of September 30, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
<b>Liabilities &amp; Stockholders' Equity</b>						
<b>Current Liabilities</b>						
Notes payable	\$1,586	\$47	0.00	\$1,656	\$47	0.00
Accounts payable-related parties(Note 18)	69,415	2,055	0.01	195,745	5,606	0.02
Collections for others	171,845	5,087	0.01	163,116	4,671	0.01
Accrued expenses	2,508,915	74,272	0.17	2,777,115	79,528	0.22
Taxes payable	694,089	20,548	0.05	1,713,579	49,072	0.14
Commissions payable	680,133	20,134	0.05	800,403	22,921	0.07
Dividends payable	4,847,438	143,500	0.35	338,985	9,707	0.03
Life insurance proceeds payable	1,971	58	0.00	2,244	64	0.00
Other payable	664,008	19,657	0.05	2,877,190	82,394	0.23
Deferred tax liabilities- current (Notes 2,16)	987,861	29,244	0.07	1,164,140	33,337	0.09
Accounts collected in advance	307,002	9,088	0.02	206,224	5,906	0.02
Sub-total	10,934,263	323,690	0.78	10,240,397	293,253	0.83
<b>Long-term Liabilities</b>						
Reserve for land revaluation increment tax	3,726	110	0.00	3,726	107	0.00
Accrued pension liability (Note 2)	525,028	15,543	0.03	0	0	0.00
Sub-total	528,754	15,653	0.03	3,726	107	0.00
<b>Other Liabilities</b>						
<b>Reserve for operations and liabilities(Note 2)</b>						
Unearned premium reserve	9,661,910	286,025	0.69	13,519,969	387,170	1.09
Reserve for life insurance	1,273,403,222	37,696,957	90.83	1,130,868,768	32,384,558	91.39
Special claim reserve	12,770,112	378,038	0.91	17,321,239	496,026	1.40
Claims reserve	322,334	9,542	0.02	272,374	7,800	0.02
<b>Miscellaneous liabilities</b>						
Guarantee deposits received	1,290,735	38,210	0.09	1,275,011	36,512	0.10
Temporary receipts and suspense accounts	2,881,707	85,308	0.20	531,785	15,229	0.04
Investment-linked products liabilities(Note 2)	12,699,045	375,934	0.91	162,668	4,658	0.02
Sub-total	1,313,029,065	38,870,014	93.65	1,163,951,814	33,331,953	94.06
Total Liabilities	1,324,492,082	39,209,357	94.46	1,174,195,937	33,625,313	94.89
<b>Stockholders' Equity</b>						
<b>Capital stock</b>						
Common stock (Note 12)	50,686,158	1,500,478	3.62	50,686,158	1,451,494	4.10
Capital surplus	5,200	154	0.00	3,048	87	0.00
<b>Retained earnings(Notes 13,16)</b>						
Legal reserve	14,552,065	430,789	1.04	13,254,705	379,573	1.07
Special reserve	6,249,135	184,995	0.45	0	0	0.00
Unappropriated retained earnings	13,346,847	395,111	0.95	6,587,437	188,644	0.53
<b>Equity adjustment (Notes 2, 7)</b>						
equity investment	(19,419)	(574)	(0.00)	(9,458)	(271)	(0.00)
Cumulative translation adjustments	5,025	149	0.00	7,141	205	0.00
Treasury stock (Notes 2, 14)	(7,333,863)	(217,107)	(0.52)	(7,333,863)	(210,019)	(0.59)
Total Stockholders' Equity	77,491,148	2,293,995	5.54	63,195,168	1,809,713	5.11
<b>Total Liabilities and Stockholders' Equity</b>	\$1,401,983,230	\$41,503,352	100.00	\$1,237,391,105	\$35,435,026	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF INCOME**  
**(Expressed in thousands of dollars, except earning per share)**  
**For the nine Months Ended September 30, 2003 and 2002**

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues(Note 2)						
Premiums income	\$183,679,694	\$5,437,528	54.11	\$204,238,444	\$5,848,754	64.76
Reinsurance commission earned	84,395	2,498	0.03	110,927	3,176	0.03
Claims recovered from reinsurers	139,558	4,131	0.04	408,690	11,704	0.13
Recovered premiums reserve	88,331,135	2,614,895	26.02	70,945,611	2,031,661	22.50
Handling fee earned	450,950	13,350	0.13	7,420	212	0.00
Interest Income	34,899,012	1,033,126	10.28	32,879,528	941,567	10.43
Gain on disposal of investments	8,593,033	254,382	2.53	3,235,142	92,644	1.03
Gain on long-term equity investments	32,464	961	0.01	0	0	0.00
Gain on investments-real estate	3,342,033	98,935	0.99	3,319,148	95,050	1.05
Other operating Income	5,072,265	150,156	1.49	54,062	1,548	0.02
Investment-linked products revenues(Note 2)	14,831,904	439,074	4.37	161,853	4,635	0.05
Sub-total	339,456,443	10,049,036	100.00	315,360,825	9,030,951	100.00
Operating Costs (Note 2)						
Insurance expenses	(266,338)	(7,884)	(0.08)	(413,761)	(11,849)	(0.13)
Brokerage expenses	(17,841,776)	(528,176)	(5.26)	(17,977,134)	(514,809)	(5.70)
Commissions expenses	(228,637)	(6,768)	(0.07)	(230,229)	(6,593)	(0.07)
Insurance claims payment	(101,423,141)	(3,002,461)	(29.88)	(90,984,480)	(2,605,512)	(28.85)
Provision for premiums reserve	(178,647,380)	(5,288,555)	(52.63)	(184,024,853)	(5,269,898)	(58.35)
Provision for special claim reserve	(1,614,790)	(47,803)	(0.47)	(1,203,590)	(34,467)	(0.38)
Contribution to the stabilization funds	(183,268)	(5,425)	(0.05)	(204,256)	(5,849)	(0.07)
Provision for claims reserve	(44,254)	(1,310)	(0.01)	(6,053)	(173)	(0.00)
Handling fee paid	(1,618,386)	(47,910)	(0.48)	(1,561,561)	(44,718)	(0.50)
Interest expenses	(17,648)	(522)	(0.00)	(18,191)	(521)	(0.01)
Loss on long-term equity investments	(0)	(0)	(0.00)	(11,295)	(323)	(0.00)
Provisions expenses	(574,563)	(17,009)	(0.17)	(2,389,920)	(68,440)	(0.76)
Investment-linked products expenses (Note 2)	(14,831,904)	(439,074)	(4.37)	(161,853)	(4,635)	(0.05)
Sub-total	(317,292,085)	(9,392,897)	(93.47)	(299,187,176)	(8,567,787)	(94.87)
Operating Gross Profit	22,164,358	656,139	6.53	16,173,649	463,164	5.13
Operating Expenses (Note 2)						
Marketing expenses	(1,986,855)	(58,817)	(0.58)	(2,654,863)	(76,027)	(0.84)
Administrative and general expenses	(5,758,978)	(170,486)	(1.70)	(5,521,885)	(158,130)	(1.75)
Operating Income	14,418,525	426,836	4.25	7,996,901	229,007	2.54
Non-Operating Revenues & Gains						
Gain on foreign exchange	0	0	0.00	2,411	69	0.00
Gain on disposal of property and equipment	2,485	74	0.00	2,727	78	0.00
Miscellaneous income	961,833	28,473	0.28	320,367	9,174	0.10
Sub-total	964,318	28,547	0.28	325,505	9,321	0.10
Non-Operating Expenses & Losses						
Loss on foreign exchange	(870,603)	(25,773)	(0.26)	(0)	(0)	(0.00)
Loss on disposal of property and equipment	(934)	(28)	(0.00)	(5,906)	(169)	(0.00)
Miscellaneous expenses	(8,636)	(255)	(0.00)	(32,263)	(924)	(0.01)
Sub-total	(880,173)	(26,056)	(0.26)	(38,169)	(1,093)	(0.01)
Income from Continuing						
Operations before income taxes	14,502,670	429,327	4.27	8,284,237	237,235	2.63
Income Taxes(Notes 2, 16)	(1,155,823)	(34,216)	(0.34)	(1,824,246)	(52,241)	(0.58)
Net Income	\$13,346,847	\$395,111	3.93	\$6,459,991	\$184,994	2.05
(expressed in dollars) (Note 17)	\$2.95	\$0.09		\$1.49	\$0.04	
(expressed in dollars) (Note 17)	\$2.72	\$0.08		\$1.17	\$0.03	

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 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 nine Months Ended September 30, 2003 and 2002**

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

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

**CATHAY LIFE INSURANCE CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)**  
**(Expressed in thousands of dollars)**  
**For the nine Months Ended September 30, 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		Total	
	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	\$1,500,478	\$3,048	\$90	\$13,254,705	\$392,383	\$0	\$0	\$12,973,603	\$384,062	(\$935,733)	(\$27,701)	\$10,829	\$321	(\$7,333,863)	(\$217,107)	\$68,658,747	\$2,032,526
Appropriations and Distributions for 2002																		
Legal reserve					1,297,360	38,406			(1,297,360)	(38,406)							0	0
Special reserve							6,249,135	184,995	(6,249,135)	(184,995)							0	0
Cash dividends									(5,369,406)	(158,953)							(5,369,406)	(158,953)
Remuneration paid to directors and supervisors									(8,100)	(240)							(8,100)	(240)
Bonus paid to employees									(49,602)	(1,468)							(49,602)	(1,468)
Capital surplus-long-term equity investment			2,152	64													2,152	64
Cumulative conversion adjustments term equity investment													(5,804)	(172)			(5,804)	(172)
Net Income after tax for the nine months ended September 30, 2003									13,346,847	395,111			916,314	27,127			13,346,847	395,111
Balance on September 30, 2003	\$50,686,158	\$1,500,478	\$5,200	\$154	\$14,552,065	\$430,789	\$6,249,135	\$184,995	\$13,346,847	\$395,111	(\$19,419)	(\$574)	\$5,025	\$149	(\$7,333,863)	(\$217,107)	\$77,491,148	\$2,293,995

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 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 September 30, 2003 and 2002**

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income for the Period	\$13,346,847	\$395,111	\$6,459,991	\$184,994
Adjustments:				
Loss (gain) on bad debt	574,563	17,009	2,389,920	68,440
Depreciation	1,654,917	48,991	1,663,360	47,634
Provision for reserve for operations	180,306,425	5,337,668	185,234,496	5,304,539
Recovered unearned premium reserve	(4,418,554)	(130,804)	(7,673)	(220)
Recovered reserve for life insurance	(81,652,917)	(2,417,197)	(69,575,730)	(1,992,432)
Applicant terminates the insurance contract income	(2,259,664)	(66,894)	(1,362,208)	(39,009)
Provision loss (gain) on short-term investments	(5,072,265)	(150,156)	(54,062)	(1,548)
Loss (gain) on disposal of property and equipment	(1,551)	(46)	3,179	91
Loss (gain) on disposal of investments	(3,242,717)	(95,995)	(13,778)	(394)
Loss (gain) on disposal of real estate	(107,293)	(3,176)	15,786	452
Amortization long-term investments in bonds	41,698	1,234	25,424	728
Unrealized loss (gain) on long-term investments	6,639	197	27,679	793
Effects of exchange rate changes	1,316	39	(59)	(2)
Decrease (increase) in short-term investments	(39,799,302)	(1,178,191)	(96,451,309)	(2,762,065)
Decrease (increase) in notes receivable	5,346,465	158,273	2,615,623	74,903
Decrease (increase) in notes and accounts receivable-related parties	(59,150)	(1,751)	(27,396)	(785)
Decrease (increase) in prepayments	(360,143)	(10,661)	28,123	805
Decrease (increase) in prepaid pension	76,930	2,277	540,843	15,488
Decrease (increase) in other current assets	(29,037)	(860)	(674,125)	(19,305)
Decrease (increase) in temporary payments and suspense accounts	(71,537)	(2,118)	(51,330)	(1,470)
Decrease (increase) in deferred income tax assets	171,949	5,090	71,802	2,056
Increase (decrease) in notes payable	(1,091)	(32)	(18)	(1)
Increase (decrease) in accounts payable-related parties	36,143	1,070	163,748	4,689
Increase (decrease) in accrued expenses	(3,409,387)	(100,929)	1,208,619	34,611
Increase (decrease) in other accounts payable	(926,381)	(27,424)	(158,597)	(4,542)
Increase (decrease) in accounts collected in advance	104,665	3,098	(11,630)	(333)
Increase (decrease) in other current liabilities	(8,606)	(255)	2,034	58
Increase (decrease) in accrued pension liability	525,028	15,543	0	0
Increase (decrease) in temporary receipts and suspense accounts	2,432,724	72,017	117,051	3,352
Increase (decrease) in deferred income tax liabilities	(228,146)	(6,754)	45,109	1,292
Net Cash Provided by (Used in) Operating Activities	<u>62,978,568</u>	<u>1,864,374</u>	<u>32,224,872</u>	<u>922,819</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivable	(6,572,814)	(194,577)	0	0
Increase (decrease) in forward exchange payable	0	0	2,146,692	61,475
Decrease (increase) in policy loans	44,014	1,303	1,077,763	30,864
Decrease (increase) in secured loans	16,905,731	500,466	(12,445,749)	(356,408)
Acquisition of long-term investments -Subsidiary	(75,000)	(2,220)	0	0
Acquisition of long-term investments - Non Subsidiary	(108,037,998)	(3,198,283)	(33,262,602)	(952,537)
Proceeds from disposal of long-term investments	30,553,484	904,484	117,830	3,374
Disposal of investments in real estate	124,811	3,695	31,857	912
Acquisition of investments in real estate	(756,954)	(22,409)	(6,910,046)	(197,882)
Disposal of property and equipment	14,152	419	18,329	525
Acquisition of property and equipment	(526,869)	(15,597)	(765,565)	(21,924)
Decrease (increase) in non-operating assets	(366,241)	(10,842)	(2,162,663)	(61,932)
Decrease (increase) in guarantee deposits paid	(15,004)	(444)	1,063,546	30,457
Decrease (increase) in overdue receivables	1,110,960	32,888	(17,912)	(513)
Net Cash Provided by (Used in) Investing Activities	<u>(67,597,728)</u>	<u>(2,001,117)</u>	<u>(51,108,520)</u>	<u>(1,463,589)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 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 September 30, 2003 and 2002**

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Financing Activities				
Increase (decrease) in guarantee deposits received	(3,665)	(108)	(7,086)	(203)
Remuneration paid to directors and supervisors	(8,100)	(240)	(8,100)	(232)
Bonus to employees	0	0	(139,867)	(4,005)
Cash dividends	(742,097)	(21,969)	(10,254,383)	(293,654)
Increase (decrease) in capital stock	0	0	(7,700,000)	(220,504)
Net Cash Provided by (Used in) Financing Activities	<u>(753,862)</u>	<u>(22,317)</u>	<u>(18,109,436)</u>	<u>(518,598)</u>
Effects of Exchange Rate Changes	(1,316)	(39)	59	2
Increase(decrease) in Cash and Cash Equivalents	(5,374,338)	(159,098)	(36,993,025)	(1,059,365)
Cash and Cash Equivalents at the Beginning of Period	135,061,552	3,998,270	173,490,638	4,968,231
Cash and Cash Equivalents at the End of Period	<u>\$129,687,214</u>	<u>\$3,839,172</u>	<u>\$136,497,613</u>	<u>\$3,908,866</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the period	\$4,610	\$136	\$1,757	\$50
Less: Capitalization of interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Interest paid (excluding capitalized interest)	<u>\$4,610</u>	<u>\$136</u>	<u>\$1,757</u>	<u>\$50</u>
Income tax paid	<u>\$3,814,105</u>	<u>\$112,910</u>	<u>\$861,232</u>	<u>\$24,663</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2003 and 2002 were NT\$33.78 and NT\$34.92 to US\$1.00)

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

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

Improvement and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

Upon disposal of an item of investments in real estate, the related cost and accumulated depreciation are removed from the accounts.

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 stated at cost or cost plus appreciation. Land and asset depreciation, according to law, should be reevaluated separately, the appreciation should be listed under “capital surplus”, according to related regulation, The capital surplus is merely used for making up for the loss and for the increase of capital.

Major additions, renewals and betterment are capitalized, while repairs and maintenance are expensed currently.

Upon sale or disposal of properties and equipments, 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 is calculated using the straight-line method over, the estimated service 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.

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

*(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 September 30, 2003, the amount of NT\$1,928,608(US\$57,093) has been appropriated to this fund.

*(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 is 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\$184,995) 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.

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

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.

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

*(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. Adjustments of prior year’s tax liabilities are added to or deducted from the current year’s tax provision.

In Accordance with article 49 of Financial Holding Company Act, the company and its parent company jointly filed corporation income tax returns and 10% surcharge on its inappropriate retained earnings effectively since year 2002 under the Integrated Income Tax Systems. If there is any tax effects due to adopt forgoing Integrated Income Tax System, parent company can proportion to allocate the effects on tax expense(benefit) 、 deferred income tax and tax payable(tax refund receivable) among the company .

A deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, then it will be classified as current or non-current based on the expected reversal date of the temporary difference.

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.



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

*(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 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 contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheets date are recognized 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

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

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 contract 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.

*(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 establishes special journals for assets, liabilities, and 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 September 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\$33.78 and NT\$34.92 to US\$1.00 in effect on September 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.

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

**3. Changes in Accounting and its Effects:** None

**4. Cash and Cash Equivalents**

	September 30,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Cash on hand	\$404,159	\$11,965	\$491,588	\$14,078
Cash in banks	54,735,585	1,620,355	7,057,593	202,107
Time deposits	17,511,599	518,401	111,302,622	3,187,360
Cash equivalents	57,035,871	1,688,451	17,645,810	505,321
Total	<u>\$129,687,214</u>	<u>\$3,839,172</u>	<u>\$136,497,613</u>	<u>\$3,908,866</u>

**5. Short-Term Investments**

	September 30,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Parent stock	\$0	\$0	\$856,726	\$24,534
Less: Allowance for valuation loss	(0)	(0)	(446,158)	(12,776)
Sub-Total	<u>0</u>	<u>0</u>	<u>410,568</u>	<u>11,758</u>
Listed stocks	41,550,475	1,230,032	41,294,582	1,182,548
Beneficiary certificates	66,156,548	1,958,453	58,038,584	1,662,044
Overseas investments	126,663,522	3,749,660	90,552,564	2,593,144
Appoint purpose trust funds	46,894,926	1,388,245	59,383,075	1,700,546
Corporate bonds	9,948,198	294,500	14,357,643	411,158
Governmental bonds	14,584,796	431,758	14,482,730	414,740
Financial debentures	15,099,766	447,003	14,500,000	415,235
Short-term notes	63,079,912	1,867,375	31,771,196	909,828
Sub-Total	<u>383,978,143</u>	<u>11,367,026</u>	<u>324,380,374</u>	<u>9,289,243</u>
Less: Cash equivalents	(57,035,871)	(1,688,451)	(17,645,810)	(505,321)
Allowance for valuation loss	(0)	(0)	(6,506,261)	(186,319)
Sub-Total	<u>326,942,272</u>	<u>9,678,575</u>	<u>300,228,303</u>	<u>8,597,603</u>
Total	<u>\$326,942,272</u>	<u>\$9,678,575</u>	<u>\$300,638,871</u>	<u>\$8,609,361</u>

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

**6. Loans**

*(1) Policy Loans*

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

*(2) Secured Loans*

	September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$61,501	\$1,821	\$123,102	\$3,525
Less: Allowance for bad debts	(394)	(12)	(1,231)	(35)
Sub-total	<u>61,107</u>	<u>1,809</u>	<u>121,871</u>	<u>3,490</u>
Medium-term secured loans	10,546,716	312,217	11,427,857	327,258
Less: Allowance for bad debts	(68,518)	(2,028)	(114,279)	(3,272)
Sub-total	<u>10,478,198</u>	<u>310,189</u>	<u>11,313,578</u>	<u>323,986</u>
Long-term secured loans	292,964,392	8,672,717	311,859,346	8,930,680
Less: Allowance for bad debts	(2,028,466)	(60,049)	(3,118,593)	(89,307)
Sub-total	<u>290,935,926</u>	<u>8,612,668</u>	<u>308,740,753</u>	<u>8,841,373</u>
Total	<u>\$301,475,231</u>	<u>\$8,924,666</u>	<u>\$320,176,202</u>	<u>\$9,168,849</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.

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

**7. Long-Term Investments**

Long -term Investments in Stocks

<u>Investee</u>	September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
	Book Value	Book Value	Book Value	Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$11,114	\$380,209	\$10,888
Vista Technology Venture Capital Corp.	68,181	2,018	82,994	2,377
Omnitek Venture Capital Corp.	150,572	4,458	152,693	4,373
Wa Tech Venture Capital Co., Ltd.	179,871	5,325	180,078	5,157
IBT Venture Capital Corp.	565,288	16,735	590,214	16,902
Cathay Insurance (Bermuda) Co., Ltd.	53,511	1,584	51,854	1,485
Symphox Information Co., Ltd.	256,198	7,584	265,944	7,616
Cathay Securities Investment Trust Co., Ltd.	202,962	6,008	194,556	5,571
Cathay Venture Capital Crop.	220,656	6,532	151,967	4,352
Lin Yuan Property Management Co., Ltd.	37,059	1,097	31,574	904
Cathay Securities Investment Co., Ltd.	14,844	440	0	0
United World Chinese Commercial Bank Co., Ltd.	0	0	12,732,239	364,611
Sub-total	<u>2,124,582</u>	<u>62,895</u>	<u>14,814,322</u>	<u>424,236</u>
B. Under the cost method:				
Chunghwa Telecom Co., Ltd.	33,581,819	994,133	0	0
WK Technology Fund Co., Ltd.	100,000	2,960	100,000	2,864
Taiwan Aerospace Company	260,000	7,697	260,000	7,446
Koo Group Telecommunications Co., Ltd.	749,998	22,202	749,998	21,478
Concord Venture Capital Co., Ltd.	89,280	2,643	89,280	2,557
Taipei Financial Center Corp.	1,441,591	42,676	1,441,590	41,283

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InveStar Dayspring V.C. Inc.	200,000	5,921	200,000	5,727
FAT Venture Capital Co., Ltd.	50,000	1,480	50,000	1,432
Concord Venture Capital Co., Ltd.	50,000	1,480	50,000	1,432
WK Technology Fund Co., Ltd.	150,000	4,440	150,000	4,295
WK Technology Fund Co., Ltd.	127,200	3,766	127,200	3,643
Century Venture Capital Co., Ltd.	100,000	2,960	100,000	2,864
China Power Venture Capital Co., Ltd.	190,000	5,625	0	0
Super Tech Venture Capital Corp.	100,000	2,960	100,000	2,864
CDIB & Partners Investment Holding Corp.	500,000	14,802	500,000	14,318
Alex-Tech Machinery Industrial Co., Ltd.	21,000	622	21,000	601
R.O.C. Venture Capital Co., Ltd.	151,970	4,499	151,970	4,352
National Venture Capital Co., Ltd.	100,000	2,960	100,000	2,864
WK Technology Fund Co., Ltd.	200,000	5,921	200,000	5,727
Capital Venture Fund Corp.	50,000	1,480	50,000	1,432
Fu Yu Venture Capital Investment Corp.	200,000	5,921	200,000	5,727
Concord Venture Capital Co., Ltd.	100,000	2,960	100,000	2,864
Allied Material Technology Corp.	98,400	2,913	98,400	2,818
New Century InfoComm Tech Co., Ltd.	1,268,000	37,537	1,268,000	36,312
Srsuntour Co., Ltd.	62,000	1,836	62,000	1,775
Titan Venture Capital Co., Ltd.	150,000	4,440	150,000	4,295
Harbinger Venture Capital Corp.	200,000	5,921	200,000	5,727
Prosperity Venture Capital Corp.	100,000	2,960	100,000	2,864
KGEx.com Co., Ltd.	175,000	5,181	175,000	5,011
United Venture Corp.	50,000	1,480	50,000	1,432
BioCare Corp.	12,000	355	12,000	344
Megic Corp.	18,000	533	18,000	515
WK Technology Fund Co., Ltd.	200,000	5,921	200,000	5,727
Hua Chih Venture Capital Corp.	60,000	1,776	60,000	1,718

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Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,368	80,000	2,291
Formosa Epitaxy Inc.	0	0	20,500	587
Win Semiconductors Corp.	50,949	1,508	50,949	1,459
Kinik Precision Grinding Co., Ltd.	6,000	178	6,000	172
Vita Genomics Inc.	87,500	2,590	87,500	2,506
Tong Hsing Electronic Inc. Co., Ltd.	27,144	804	27,144	777
China Technology Venture Capital Corp.	50,000	1,480	50,000	1,432
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,673	259,200	7,423
Applied Vacuum Coating Technologies Co., Ltd.	6,661	197	6,661	191
TaiGen Biotechnology Co., Ltd.	16,500	489	16,500	472
Cdid BioScience venture Inc.	285,000	8,437	285,000	8,161
Maxima Venture , Inc, Taiwan	126,630	3,749	126,630	3,626
Parawin Venture Capital Co., Ltd.	50,000	1,480	50,000	1,432
Darly 3 Venture Co., Ltd.	20,000	592	20,000	573
Top Taiwan Venture Capital Co., Ltd.	50,000	1,480	50,000	1,432
Cash Box Audio and Video Co., Ltd.	200,000	5,921	50,000	1,432
Richtech Technology Co., Ltd.	26,140	774	28,500	816
Hua Venture Capital Corp.	50,000	1,480	0	0
Shin Sheng Venture Capital Investment Corp.	50,000	1,480	0	0
Centillion Venture Capital Corp.	50,000	1,480	0	0
Harbinger Venture Capital Corp.	100,000	2,960	0	0
Unitive Semiconductor Taiwan Corp.	46,800	1,386	0	0
Honey Hope Honesty Co.	55,000	1,628	0	0
Taiwan High Speed Rail Co. – Preferred Stock	1,000,000	29,603	0	0
Formosa Petro Chemical Co.	16,250	481	0	0
Chang Wah Electro Materials Co., Ltd.	31,000	918	0	0
Enermax Technology Co.	47,600	1,409	0	0
Sub-total	43,694,632	1,293,506	8,349,022	239,090
Total	\$45,819,214	\$1,356,401	\$23,163,344	\$663,326

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

	September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Balance at January 1	\$2,065,196	\$61,137	\$2,010,259	\$57,567
Add: Investment gains				
(losses) by equity method				
recognized	32,464	961	(11,295)	(323)
Increment of investments	75,000	2,220	135,332	3,875
Transfer short-term investment to long-term investment	0	0	12,705,384	363,843
Cumulative Conversion adjustments	(1,165)	(34)	484	14
Unrealized valuation losses on long-term equity investment	(9,962)	(295)	(9,458)	(271)
Capital surplus long-term equity investment	2,152	64	0	0
Less: Cash dividends	(39,103)	(1,158)	(16,384)	(469)
Balance of September 30,	<u>\$2,124,582</u>	<u>\$62,895</u>	<u>\$14,814,322</u>	<u>\$424,236</u>

- (2). The investment gains (losses) recognized by the equity method for the nine months ended September 30, 2003 and 2002 are listed below:



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<u>Investee</u>	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
WK Technology Fund Co., Ltd.	(\$142)	(\$4)	\$1,807	\$52
Vista Technology Venture Capital Corp.	(17,319)	(513)	(15,044)	(430)
Omnitek Venture Capital Corp.	2,979	88	2,280	65
Wa Tech Venture Capital Co., Ltd.	22,192	657	7,163	205
IBT Venture Capital Corp	(12,043)	(356)	5,237	150
Cathay Insurance (Bermuda) Co., Ltd.	1,633	48	(1,286)	(37)
Symphox Information Co., Ltd.	8,248	244	(15,587)	(446)
Cathay Securities Investment Trust Co., Ltd.	4,236	125	5,653	162
Cathay Venture Capital Corp.	3,362	100	990	28
Lin Yuan Property Management Co., Ltd.	13,901	412	4,574	131
Cathay Securities Investment Co., Ltd.	5,417	160	0	0
United World Chinese Commercial Bank Co., Ltd.	0	0	(7,082)	(203)
Total	<u>\$32,464</u>	<u>\$ 961</u>	<u>(\$11,295)</u>	<u>(\$ 323)</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.

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- B. The investment gains (losses) of investee companies for the nine months ended September 30, 2003 was recognized based on unreviewed financial statements. Those investee companies are Cathay Insurance (Bermuda) Co., Ltd. 、 Symphox Information Co., Ltd. 、 Cathay Securities Investments Trust Co., Ltd., Cathay Venture Capital Corp., Lin Yuan Property Management Co., Ltd. and Cathay Securities Investments Co., Ltd
- C. The investment gains (losses) of investee companies for the nine months ended September 30, 2002 was recognized based on unreviewed financial statements. Those investee companies are Cathay Insurance (Bermuda) Co., Ltd. 、 Symphox Information Co., Ltd. 、 Cathay Securities Investments Trust Co., Ltd., Cathay Venture Capital Corp. and Lin Yuan Property Management Co., Ltd
- D. The Company has invested in United World Chinese Commercial Bank (UWCCB) with owns of 14.49%. However, since as of September 26, 2002, the Company and its parent company own the investment of more than 20% interest of UWCCB, the transfer of short-term investment to long-term investment is estimated under the equity method. The investment gains and losses are recognized based on year 2002 auditor's review report of the first three quarters.
- E. We did not review the financial statements for the nine months ended September 30, 2002 of UWCCB, UWCCB reviewed by other CPAs with qualified opinions due to the potential adjustments, except for the long-term investments in the amount of NT\$6,260,563(US\$179,283) under the equity method, and investment gains in the amount of 146,383(US\$4,192) which were in accordance with unreviewed report of its investee companies. However, as the Company evaluated there is no significant influence on the potential adjustments, it recognized its income/ loss on investments in accordance with the financial statements of UWCCB previously reviewed by CPAs

## **8. Long-Term Investments in Bonds**

Long-term investments in bonds consist mainly of government bonds as of September 30, 2003 and 2002. Partitive Bonds are deposited in the Central Bank as capital guarantee deposits. As of September 30, 2003 and 2002, the capital guarantee deposits amounted to NT\$7,951,632 (US\$235,395) and NT\$9,214,378 (US\$263,871), respectively, categorized under securities serving as deposits paid-bonds of other assets. Please see note 19, "pledged assets" for details.

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**9. Investments in Real Estate**

Item	September 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,247,100	\$2,790,027	\$5,010	\$148	(\$11,529,698)	(\$341,317)	\$82,722,412	\$2,448,858
Construction	11,108,501	328,848	0	0	0	0	11,108,501	328,848
Prepayments for buildings and								
Land	414	12	0	0	0	0	414	12
<b>Total</b>	<b>\$105,356,015</b>	<b>\$3,118,887</b>	<b>\$5,010</b>	<b>\$148</b>	<b>(\$11,529,698)</b>	<b>(\$341,317)</b>	<b>\$93,831,327</b>	<b>\$2,777,718</b>

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

- (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.

**10. Property and Equipment**

Item	September 30, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,489,464	\$162,507	\$1,764	\$52	(\$0)	(\$0)	\$5,491,228	\$162,559
Buildings and structures	11,330,504	335,420	0	0	(3,090,279)	(91,483)	8,240,225	243,937
Communication and transportation equipment	138,315	4,095	0	0	(56,374)	(1,669)	81,941	2,426
Other equipment	4,298,515	127,250	0	0	(2,294,383)	(67,921)	2,004,132	59,329
Sub-total	21,256,798	629,272	1,764	52	(5,441,036)	(161,073)	15,817,526	468,251
Construction in progress	22,170	656	0	0	(0)	(0)	22,170	656
Prepayment for equipment	46,191	1,368	0	0	(0)	(0)	46,191	1,368
<b>Total</b>	<b>\$21,325,159</b>	<b>\$631,296</b>	<b>\$1,764</b>	<b>\$52</b>	<b>(\$5,441,036)</b>	<b>(\$161,073)</b>	<b>\$15,885,887</b>	<b>\$470,275</b>

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Item	September 30, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,512,864	\$157,871	\$1,643	\$47	(\$0)	(\$0)	\$5,514,507	\$157,918
Buildings and structures	10,723,741	307,095	0	0	(2,838,528)	(81,287)	7,885,213	225,808
Communication and transportation equipment	141,734	4,059	0	0	(50,057)	(1,433)	91,677	2,626
Other equipment	3,771,090	107,992	0	0	(1,954,479)	(55,970)	1,816,611	52,022
Sub-total	20,149,429	577,017	1,643	47	(4,843,064)	(138,690)	15,308,008	438,374
Construction in progress	332,617	9,525	0	0	(0)	(0)	332,617	9,525
Prepayment for equipment	82,688	2,368	0	0	(0)	(0)	82,688	2,368
Total	\$20,564,734	\$588,910	\$1,643	\$47	(\$4,843,064)	(\$138,690)	\$15,723,313	\$450,267

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

## 11. Overdue Receivables

	September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,944,212	\$87,158	\$5,411,152	\$154,959
Less: Allowance for bad and doubtful debts	(1,472,106)	(43,579)	(1,629,839)	(46,674)
Total	\$1,472,106	\$43,579	\$3,781,313	\$108,285

Overdue receivables meant overdue interest or overdue payment from customers.

## 12. Capital Stock

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

## 13. 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.

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(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 exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

C. According to the 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.

**14. Treasury Stock**

(1) The company's treasury stock variation for nine-month on September 30, 2003 are as follows:

(Unit: thousand shares)

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

(2) Pursuant to the ROC Securities and Exchange Law, the outstanding issued shares, which a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 30, 2001, the Company had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$217,107).

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(3) Treasury stock of the Company was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. As a result of this conversion, Cathay Financial Holding Co., Ltd. owned 100% of the Company's shares.

**15. Personnel, Depreciation, Depletion and Amortizations**

Item	For the nine months ended Sep. 30, 2003 (NT\$)			For the nine months ended Sep. 30, 2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	15,310,952	2,217,654	17,528,606	15,514,753	2,395,763	17,910,516
Labor & health Insurance expenses	928,323	156,209	1,084,532	860,431	142,966	1,003,397
Pension expenses	707,905	119,120	827,025	657,120	109,184	766,304
Other expenses	831,876	167,549	999,425	895,284	161,464	1,056,748
Depreciation	-	1,654,917	1,654,917	-	1,663,360	1,663,360
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

Item	For the nine months ended Sep. 30,2003 (US\$)			For the nine months ended Sep. 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	453,255	65,650	518,905	444,294	68,607	512,901
Labor & health Insurance expenses	27,482	4,624	32,106	24,640	4,094	28,734
Pension expenses	20,956	3,527	24,483	18,818	3,127	21,945
Other expenses	24,626	4,960	29,586	25,638	4,624	30,262
Depreciation	-	48,991	48,991	-	47,633	47,633
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

The total number of employees is 29,014 on September 30, 2003.

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**16. Estimated Income Taxes**

Income tax expenses include the following:

	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Income before Taxes	\$14,502,670	\$429,327	\$8,284,237	\$237,235
Adjustments				
Interest income of tax on a separate basis	(666,834)	(19,740)	(673,153)	(19,277)
Loss (gain) on disposal of investments	(2,759,960)	(81,704)	36,473	1,044
Unrealized exchange loss (gain)	869,287	25,734	(2,242)	(64)
Loss (gain) on market price loss (recovery) of short-term investments	(5,072,265)	(150,156)	(54,062)	(1,548)
Bad debts exceeding legal limit	(1,220,113)	(36,120)	(775,970)	(22,221)
Cash Dividend	(1,731,598)	(51,261)	(1,127,991)	(32,302)
Unfunded pension expense	601,958	17,820	540,843	15,488
Others	(157,213)	(4,654)	(5,768)	(166)
Taxable Income	4,365,932	129,246	6,222,367	178,189
Times: Taxes Rate; Less:				
Progressive difference	25% - 10	-	25% - 10	-
Add: Extra 10% Income Tax on Undistributed Retained Earnings	130,971	3,877	136,605	3,912
Less: Tax Effects under Integrated Income Tax Systems	(130,971)	(3,877)	(0)	(0)
Sub-Total	1,091,473	32,311	1,692,187	48,459
Add: Tax on a separate basis	133,368	3,949	134,630	3,855
Beginning deferred income tax assets	649,565	19,229	892,355	25,554
Ending deferred income tax liabilities	1,238,806	36,673	1,377,147	39,437
Less: Income tax credit	(12,820)	(380)	(119,482)	(3,421)
Beginning deferred income tax liabilities	(1,432,194)	(42,398)	(1,599,375)	(45,801)
Ending deferred income tax assets	(512,375)	(15,168)	(553,216)	(15,842)
Total Income Tax expenses	<u>\$1,155,823</u>	<u>\$34,216</u>	<u>\$1,824,246</u>	<u>\$52,241</u>

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(1) 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

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

	September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
A. Total deferred tax liabilities	\$1,238,806	\$36,673	\$1,377,147	\$39,437
Total deferred tax assets	512,375	15,168	553,216	15,842
B. Temporary differences:				
Employee benefits	\$41,874	\$1,240	\$80,296	\$2,299
Taxable temporary difference from recognition of pension expense	525,028	15,543	(256,764)	(7,353)
Unrealized exchange gains (Losses)	(3,864,881)	(114,413)	(4,543,270)	(130,105)
Bad debts exceeding limit	360,188	10,663	1,408,016	40,321
Other	32,067	949	16,001	458
C. Deferred tax assets-current	\$231,713	\$6,860	\$13,605	\$390
Deferred tax liabilities-				
Current	(1,219,574)	(36,104)	(1,177,745)	(33,727)
Net offset balance of deferred tax assets (liabilities)-current	(987,861)	(29,244)	(1,164,140)	(33,337)
D. Deferred tax				
assets-noncurrent	\$280,662	\$8,308	\$539,611	\$15,453
Deferred tax Liabilities- noncurrent	(19,232)	(569)	(199,402)	(5,710)
Net offset balance of deferred tax assets (liabilities) - noncurrent	\$261,430	\$7,739	\$340,209	\$9,743



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(3) Information related to imputation

	September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$82,872	\$2,453	\$3,465,270	\$99,235
		2003		2002
Imputation credit account ratio- Actual June 2, 2003		30.17%		-
Imputation credit account ratio- Actual February 4, 2002		-		33.33%

(4) Related Information on Undistributed Earnings

Year	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$105,651	\$3,026
After 1998	0	0	21,795	624
Total	\$0	\$0	\$127,446	\$3,650

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

(5) 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\$	
			Education training	\$9,894	\$293	
	Invest	2,926	87	0	0	2007
	Total	\$12,820	\$380	\$0	\$0	

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**17. Earning Per Share**

	For the nine months ended September 30			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Income from continuing operations before income taxes (a)	\$14,502,670	\$429,327	\$8,284,237	\$237,235
Net income (b)	13,346,847	395,111	6,459,991	184,994
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,068,615,765	5,068,615,765
Weighted average outstanding number of shares (c)	4,911,688,765	4,911,688,765	5,543,483,637	5,543,483,637
Before income taxes				
Earnings per share (a) / (c) (dollars)	<u>\$2.95</u>	<u>\$0.09</u>	<u>\$1.49</u>	<u>\$0.04</u>
After income taxes				
Earnings per share (b) / (c) (dollars)	<u>\$2.72</u>	<u>\$0.08</u>	<u>\$1.17</u>	<u>\$0.03</u>

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

	For the nine months ended September 30,	
	<u>2003</u>	<u>2002</u>
(Shares)		
Shares at the beginning of year	5,068,615,765	5,838,615,765
Treasury stock	(156,927,000)	(156,927,000)
Capital decrease	0	(138,205,128)
Total	<u>4,911,688,765</u>	<u>5,543,483,637</u>

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**18. Related Party Transactions**

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Lin Yuan Property Management Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay 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
Cathay Venture Capital Corp.	The investee is accounted for using equity method
Seaward Insurance Agent Corp.	The investee of United World Chinese Commercial Bank
KG Telecommunication LTD.,	The Company is to occupy the supervisor for KG Telecommunication LTD.,

(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.

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

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For the nine months ended September 30, 2003			
Name	Item	NT\$	US\$
	The construction build or extend:		
San Ching Engineering Co., Ltd.	Tainmu jungcheng	\$9,241	\$274
	Cathay Information Building	22,122	655
	Hsinyi District Base-D	571,197	16,909
	Tucheng office Building	14,897	441
	Other	2,901	86
	Sub-total	620,358	18,365
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	3,749	111
	Other	2,240	66
	Sub-total	5,989	177
	Total	\$626,347	\$18,542

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

- a. The total amount of construction contracts for real estate on September 30, 2003 and 2002 between the Company and San Ching Engineering Co., Ltd. are NT\$10,139,651 (US\$300,167) and NT\$19,695,495 (US\$564,018) respectively. Up to September 30 in 2003 and 2002, NT\$9,440,322 (US\$279,465) and NT\$15,719,726 (US\$450,164) had been paid according to the schedule of construction contracts.
- b. For the nine months ended September 30, 2003 and 2002, the Company did not repurchase any property or investments it had previously sold.

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

Name	Rental income			
	For the nine months ended September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Financial Holding Co., Ltd.	\$5,862	\$173	\$5,862	\$168
Cathay Real Estate Development Co., Ltd.	22,010	652	23,182	664
Cathay United Bank	135,010	3,997	97,824	2,801
Cathay Century Insurance Co., Ltd.	37,489	1,110	34,473	987
Cathay General Hospital	171,193	5,068	90,579	2,594
San Ching Engineering Co., Ltd.	14,439	427	14,930	428
Symphox Information Co., Ltd.	22,536	667	22,888	655
Lin Ynan Investment Co., Ltd.	98	3	77	2
Cathay Securities Investment Trust Co., Ltd.	6,684	198	6,834	196
Cathay Securities Investments Co., Ltd.	3,105	92	0	0
Lin Yuan Property Management Co., Ltd.	324	10	0	0
KG Telecommunication Co., Ltd.	5,854	173	0	0
Total	<u>\$424,604</u>	<u>\$12,570</u>	<u>\$296,649</u>	<u>\$8,495</u>

Name	Guarantee deposits received			
	Sep. 30, 2003 NT\$	Sep. 30, 2003 US\$	Sep. 30, 2002 NT\$	Sep. 30, 2002 US\$
	Cathay Real Estate Development Co., Ltd.	\$12,386	\$367	\$12,386
Cathay United Bank	52,234	1,546	38,629	1,106
Cathay Century Insurance Co., Ltd.	13,078	387	11,546	331
Cathay General Hospital	1,985	59	1,983	57
San Ching Engineering Co., Ltd.	6,779	201	6,828	195
Symphox Information Co., Ltd.	1,421	42	70	2
Lin Yuan Investment Co., Ltd.	16	0	16	1
Cathay Securities Investment Trust Co., Ltd.	2,144	64	2,144	61
Lin Yuan Property Management Co., Ltd.	49	1	0	0
KG Telecommunication Co., Ltd.	8,354	247	0	0
Total	<u>\$98,446</u>	<u>\$2,914</u>	<u>\$73,602</u>	<u>\$2,108</u>

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

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

Name	Rental Expense			
	For the nine months ended September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Real Estate Development Co., Ltd.	\$22,772	\$674	\$19,498	\$558
Lin Yuan Investment Co., Ltd.	3,345	99	0	0
Total	<u>\$26,117</u>	<u>\$773</u>	<u>\$19,498</u>	<u>\$558</u>

Name	Guarantee Deposits paid			
	Sep. 30,2003 NT\$	Sep. 30,2003 US\$	Sep. 30,2002 NT\$	Sep. 30,2002 US\$
	Cathay Real Estate Development Co., Ltd.	\$9,352	\$277	\$9,352
Lin Yuan Investment Co., Ltd.	1,650	49	0	0
Total	<u>\$11,002</u>	<u>\$326</u>	<u>\$9,352</u>	<u>\$268</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.

(D). Acquisition of Property and Equipment Information:

Name	Item	For the nine months ended September 30,			
		<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
		Symphox Information Co., Ltd.	Communication and transportation equipment	\$1,560	\$46
	Other equipment	0	0	26,874	770
		<u>\$1,560</u>	<u>\$46</u>	<u>\$26,874</u>	<u>\$770</u>

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**B. Cash In Banks**

For the nine months ended September 30, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
Cathay United Bank	Time Deposit	\$17,767,150	\$9,539,050	0.80% ~ 2.50%	\$89,505
	Cash In Bank	\$16,514,460	4,014,369	0.15%~0.50%	3,227
Total			<u>\$13,553,419</u>		<u>\$92,732</u>

For the nine months ended September 30, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
United World Chinese Commercial Bank	Time Deposit	\$6,750,000	\$3,275,000	0.90% ~ 1.65%	\$26,263
	Cash In Bank	\$5,959,331	749,693	0.10%	438
Total			<u>\$4,024,693</u>		<u>\$26,701</u>

For the nine months ended September 30, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
Cathay United Bank	Time Deposit	\$525,966	\$282,387	0.80% ~ 2.50%	\$2,650
	Cash In Bank	\$488,883	118,839	0.15%~0.50%	95
Total			<u>\$401,226</u>		<u>\$2,745</u>

For the nine months ended September 30, 2003					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
United World Chinese Commercial Bank	Time Deposit	\$199,822	\$96,951	0.90% ~ 1.65%	\$777
	Cash In Bank	\$176,416	22,193	0.10%	13
Total			<u>\$119,144</u>		<u>\$790</u>

For the nine months ended September 30, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
Cathay United Bank	Time Deposit	\$12,985,850	\$7,649,850	2.35%~5.20%	\$164,160
	Cash In Bank	\$20,161,693	4,800,192	1.00%~2.00%	19,393
Total			<u>\$12,450,042</u>		<u>\$183,553</u>

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For the nine months ended September 30, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		NT\$
United World Chinese Commercial Bank	Time Deposit	\$23,500,000	\$21,700,000	1.90% ~ 3.15%	\$412,356
	Cash In Bank	\$262,250	184,557	0.50%~1.30%	172
Total			<u>\$21,884,557</u>		<u>\$412,528</u>

For the nine months ended September 30, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
Cathay United Bank	Time Deposit	\$371,874	\$219,068	2.35%~5.20%	\$4,701
	Cash In Bank	\$577,368	137,463	1.00%~2.00%	555
Total			<u>\$356,531</u>		<u>\$5,256</u>

For the nine months ended September 30, 2002					
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		US\$
United World Chinese Commercial Bank	Time Deposit	\$672,967	\$621,420	1.90% ~ 3.15%	\$11,809
	Cash In Bank	\$7,510	5,285	0.50%~1.30%	5
Total			<u>\$626,705</u>		<u>\$11,814</u>

**C. Secured Loans**

For the nine months ended September 30, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General Hospital	\$1,173,912	\$1,173,368	3.67%~4.25%	\$34,345

For the nine months ended September 30, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General Hospital	\$34,752	\$34,736	3.67%~4.25%	\$1,017



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

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

**D. Marketable Securities-Stock**

There wasn't such transaction in the nine months ended September 30, 2003

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

**E. Beneficiary Certificates:**

Name	Transaction type	September 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	\$714,911	\$21,164	\$460,452	\$13,186
	Bond Fund	3,159,601	93,534	2,055,064	58,851
	Total	<u>\$3,874,512</u>	<u>\$114,698</u>	<u>\$2,515,516</u>	<u>\$72,037</u>

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F. Notes (Account) Receivable

Name	September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Notes Receivable				
Cathay General Hospital	\$57,192	\$1,693	\$47,597	\$1,363
Cathay Century Insurance Co., Ltd.	35,362	1,047	2,055	59
Symphox Information Co., Ltd.	582	17	1,351	39
Sub-Total	<u>93,136</u>	<u>2,757</u>	<u>51,003</u>	<u>1,461</u>
Account Receivable				
Cahtay Insurance (Bermuda) Co., Ltd.	2,124	63	0	0
Total	<u>\$95,260</u>	<u>\$2,820</u>	<u>\$51,003</u>	<u>\$1,461</u>

G. Accounts Payable-Related Parties

Name	September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Century Insurance Co., Ltd.	\$3,802	\$112	\$6,547	\$188
Symphox Information Co., Ltd.	24,855	736	131,443	3,764
Lin Yuan Property Management Co., Ltd.	39,341	1,165	55,667	1,594
Cathay Real Estate Development Co., Ltd.	1,417	42	2,088	60
Total	<u>\$69,415</u>	<u>\$2,055</u>	<u>\$195,745</u>	<u>\$5,606</u>

H. Accounts Collected in Advance

Name	September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay General Hospital	\$119,205	\$3,529	\$295	\$8
San Ching Engineering Co., Ltd.	0	0	26	1
Cathay United Bank	720	21	107	3
Total	<u>\$119,925</u>	<u>\$3,550</u>	<u>\$428</u>	<u>\$12</u>

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I. Prepayment

Name	September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Symphox Information Co., Ltd.	\$23,553	\$697	\$145,275	\$4,160

Prepayment is to set up the Internet.

J. Guarantee Deposit Paid

Name	September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay United Bank	\$55,000	\$1,628	\$0	\$0

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

K. Insurance Expense

Name	For the nine months ended September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Century Insurance Co., Ltd.	\$159,762	\$4,729	\$133,104	\$3,812

Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on September 30, 2003 and 2002 amounts of \$10,422(US\$309) and \$10,064(US\$288) were paid for employees' fidelity guarantee insurance.

L. Indemnity Income

Name	For the nine months ended September 30,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Century Insurance Co., Ltd.	\$7,613	\$225	\$6,408	\$184

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Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received in September 30, 2003 and 2002, \$0 (US\$0) and \$193 (US\$6), represented claims for employees' fidelity guarantee insurance.

**M. Reinsurance Income**

Name	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$50,530	\$1,496	\$64,228	\$1,839

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.

**N. Reinsurance Expense**

Name	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$31,048	\$919	\$41,448	\$1,187

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

**O. Miscellaneous Income**

Name	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$194,846	\$5,768	\$3,023	\$87

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

**P. Commissions Expense**

Name	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance				
Agent Co., Ltd.	\$35,425	\$1,049	\$25,234	\$723
Seaward Insurance				
Agent Corp.	72,939	2,159	63,051	1,805
Total	<u>\$108,364</u>	<u>\$3,208</u>	<u>\$88,285</u>	<u>\$2,528</u>

**Q. Marketing Expense**

	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information				
Co., Ltd.	<u>\$291,565</u>	<u>\$8,631</u>	<u>\$181,970</u>	<u>\$5,211</u>

**R. Administrative and general expense**

Name	For the nine months ended September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property				
Management Co.,				
Ltd.	\$542,787	\$16,068	\$726,606	\$20,808
Cathay Securities				
Investment Co., Ltd.	25,000	740	0	0
Cathay Real Estate				
Development Co.,				
Ltd.	14,725	436	1,429	41
Total	<u>\$582,512</u>	<u>\$17,244</u>	<u>\$728,035</u>	<u>\$20,849</u>

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**19. Pledged Assets**

As of September 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	September 30,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,951,632	\$235,395	\$9,214,378	\$263,871
Time Deposits	1,013,750	30,010	712,950	20,417
Total	<u>\$8,965,382</u>	<u>\$265,405</u>	<u>\$9,927,328</u>	<u>\$284,288</u>

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

Up to the date of September 30, 2003, signed sales contracts and construction contracts of approximately NT\$2,946 million (US\$87 million), are either not completed or still in progress and remain open projects. About NT\$2,020 million (US\$60 million) had been paid as of September 30, 2003.

**21. Serious Damages: None**

**22. Subsequent Events:**

As of September 30, 2003, the Company held treasury stock total of 156,927 thousand shares, please see note 14 "Treasury Stock", among which 105,376 thousand shares had been transferred to Company's employees at transferred price NT\$40.54/share (US\$1.2/share), the Company's treasury stock holding has been reduce to 51,551 thousand shares as a result of this transfer.

**CATHAY LIFE INSURANCE CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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**23. 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\$827,025 (US\$24,483), and we have allotted NT\$225,067 (US\$6,663) to pension fund.

**(2) Financial Instruments Related Information**

**A. Derivative Financial Instruments related information**

**(A). Purpose**

Effective September 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 counterpart of future contract buy & sell, forward exchange trade, interest swap was an international financial organization with superior creditability; in addition, the Company worked with several other financial institutions to diversify risks; possibility of breaching contact, as a result, was quite low. And if they did, the Company would not encounter major loss due to the nature of risk avoidance the trading had. Further, the Company was exposed to varied exchange rate market risk but the possible loss can be balanced out by gain/loss, which derived from risk avoidance foreign credits and debts exchange rate assessment.

**(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.

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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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(D). Product type and condition

a. Futures

		September 30, 2003		
TX	Selling out	Lot	Contract amount	Net Gain of Fair Value Estimated
		150	NT\$169,230	NT\$3,455
			US\$5,010	US\$102

All futures transaction had offset on September 30, 2002.

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 September 30, 2003 and 2002, the Company had forward exchange contracts of approximately US\$9,235,800 and US\$3,702,000, respectively, in national value.

The nine months ended September 30, 2003 forward contracts are due from the period of October 1, 2003 to December 2, 2004. In addition, the 2002 forward contracts are due from period October 1, 2002 to October 29, 2003.

		September 30, 2003			
Item	Contract Amount	Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$11,274,800	\$382,423,730	\$11,321,010	\$388,168,512	\$11,491,075

		September 30, 2002			
Item	Contract Amount	Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$6,392,000	\$221,873,164	\$6,353,756	\$219,306,083	\$6,280,243



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

Net capital	September 30,	
	2003	2002
Short-term investment	USD11,274,800	USD6,392,000

The forward contacts agreement listed loss amount is about NT\$713,846 (US\$21,132) to this company for the nine months ended September 30, 2003.

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

Category	Period	Amount
IRSA	2002.09.03~2010.08.28	NT\$35,500,000 US\$1,050,918

B. Non Derivative Financial Instruments related information :

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of September 30, 2003 and 2002, is the same as the estimated fair market value:

Item	September 30,2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Short-term Investment	\$326,942,272	\$9,678,575	\$333,696,751	\$9,878,530

  

Item	September 30,2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Short-term Investment	\$300,638,871	\$8,609,361	\$300,638,871	\$8,609,361

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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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**(3) Discretionary Account Management**

For the periods September 30, 2002 and 2003, the company fully authorized security investment trust at own expense to handle discretionary account management operation, items invested are:

Item	September 30, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,068,292	\$31,625	\$1,055,747	\$31,254
Repurchase bonds	5,591,046	165,514	5,592,124	165,545
Convertible bonds	543,464	16,088	578,541	17,127
Governmental bonds	1,185,010	35,080	1,180,976	34,961
Cash in banks	205,480	6,083	205,480	6,083
Net other assets less				
liabilities	(8,576)	(254)	(8,576)	(254)
Total	<u>\$8,584,716</u>	<u>\$254,136</u>	<u>\$8,604,292</u>	<u>\$254,716</u>

  

Item	September 30, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,794,489	\$51,389	\$1,628,543	\$46,636
Repurchase bonds	3,052,469	87,413	3,052,469	87,413
Convertible bonds	260,257	7453	260,257	7,453
Short-term securities	572,077	16,383	572,077	16,383
Governmental bonds	2,993,524	85,725	3,017,337	86,407
Cash in banks	304,819	8,729	304,819	8,729
Net other assets less				
liabilities	60,727	1,739	60,727	1,739
Total	<u>\$9,038,362</u>	<u>\$258,831</u>	<u>\$8,896,229</u>	<u>\$254,760</u>

As of September 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\$7,800,000 (US\$230,906) and NT\$9,000,000 (US\$257,732), respectively.

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**NOTES TO FINANCIAL STATEMENTS - (Continued)**  
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**(4) Material Contract:** None

**(5) Presentation of Financial Statements :**

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

**(6) Other:**

On December 25, 2002 and July 24, 2003, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 and US\$27,150, that total is US\$50,000 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.

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

**25. Segment Information:** None