

Cathay Century Insurance Co., Ltd.
Financial Statements
Together With
Independent Auditors' Report
As of December 31, 2003 and 2002

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

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Independent Auditors' Report

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

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China
January 16, 2004

Notice to Readers

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

Cathay Century Insurance Co., Ltd.
Balance Sheets
(Expressed in thousands of dollars)
As of December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current Assets						
Cash and cash equivalents (Notes 2, 4)	\$3,589,751	\$105,612	34.86	\$4,156,774	\$119,792	43.97
Short-term investments (Notes 2, 5)	2,065,103	60,756	20.06	2,063,054	59,454	21.82
Notes receivable (Note 2)	187,896	5,528	1.82	170,988	4,928	1.81
Interest receivable	26,298	774	0.26	31,352	904	0.33
Premiums receivable (Notes 2, 6)	525,251	15,453	5.10	425,789	12,271	4.50
Claims recoverable from reinsurers (Note 2)	209,135	6,153	2.03	235,541	6,788	2.49
Due from reinsurers and ceding companies	91,880	2,703	0.89	168,817	4,865	1.79
Other accounts receivable (Note 2)	23,430	689	0.23	16,951	488	0.18
Deferred income tax assets-current (Notes 2,15)	51,659	1,520	0.50	44,912	1,294	0.47
Prepayments	2,563	75	0.02	2,864	83	0.03
Sub-total	<u>6,772,966</u>	<u>199,263</u>	<u>65.77</u>	<u>7,317,042</u>	<u>210,867</u>	<u>77.39</u>
Exchange Bills Negotiated, Discounted and Loans (Notes 2, 7)						
Short-term secured loans	0	0	0.00	18,908	545	0.20
Medium-term secured loans	401,799	11,821	3.90	484,906	13,974	5.13
Long-term secured loans	359,968	10,590	3.50	438,582	12,639	4.64
Sub-total	<u>761,767</u>	<u>22,411</u>	<u>7.40</u>	<u>942,396</u>	<u>27,158</u>	<u>9.97</u>
Funds, Long-term Investments, and Receivable (Notes 2, 8)						
Long-term investments in stocks						
Under the equity method	234,892	6,911	2.28	158,893	4,579	1.68
Under the cost method	199,380	5,866	1.94	225,000	6,484	2.38
Long-term investments in bonds	1,836,278	54,024	17.83	280,335	8,079	2.97
Sub-total	<u>2,270,550</u>	<u>66,801</u>	<u>22.05</u>	<u>664,228</u>	<u>19,142</u>	<u>7.03</u>
Property and Equipment (Notes 2, 9)						
Communication and transportation equipment	17,174	505	0.17	14,308	412	0.15
Other equipment	149,437	4,397	1.45	140,432	4,047	1.49
Sub-total	<u>166,611</u>	<u>4,902</u>	<u>1.62</u>	<u>154,740</u>	<u>4,459</u>	<u>1.64</u>
Less: Accumulated depreciation	(111,105)	(3,269)	(1.08)	(87,214)	(2,513)	(0.93)
Sub-total	<u>55,506</u>	<u>1,633</u>	<u>0.54</u>	<u>67,526</u>	<u>1,946</u>	<u>0.71</u>
Intangible Assets						
Computer software cost (Note 2)	7,261	214	0.07	6,143	177	0.07
Sub-total	<u>7,261</u>	<u>214</u>	<u>0.07</u>	<u>6,143</u>	<u>177</u>	<u>0.07</u>
Other Assets						
Guarantee deposits paid	16,821	495	0.16	14,468	417	0.15
Overdue receivables (Note 2)	30,884	909	0.30	57,168	1,647	0.61
Temporary payments and suspense accounts	14,919	439	0.15	14,354	414	0.15
Securities serving as deposits paid-bonds (Notes 10,18)	360,284	10,600	3.50	365,199	10,524	3.86
Funds held by ceding companies	107	3	0.00	145	4	0.00
Deferred charges	6,059	178	0.06	5,542	160	0.06
Deferred income tax assets-noncurrent(Notes2,15)	14	0	0.00	48	1	0.00
Sub-total	<u>429,088</u>	<u>12,624</u>	<u>4.17</u>	<u>456,924</u>	<u>13,167</u>	<u>4.83</u>
Total Assets	<u>\$10,297,138</u>	<u>\$302,946</u>	<u>100.00</u>	<u>\$9,454,259</u>	<u>\$272,457</u>	<u>100.00</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Balance Sheets - (Continued)
(Expressed in thousands of dollars)
As of December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Liabilities & Stockholders' Equity						
Current Liabilities						
Collections for others	\$4,891	\$144	0.05	\$12,601	\$363	0.13
Accrued expenses	235,046	6,915	2.28	172,020	4,957	1.82
Income taxes payable (Notes 2, 15)	33,169	976	0.32	65,579	1,890	0.69
Commissions payable	3,935	116	0.04	8,377	241	0.09
Dividends payable	1,441	42	0.01	3,755	108	0.04
Claims outstanding	4,736	139	0.05	68,002	1,960	0.72
Due to reinsurers and ceding companies	73,494	2,162	0.71	99,008	2,853	1.05
Other payable	392,776	11,556	3.82	339,988	9,798	3.60
Sub-total	749,488	22,050	7.28	769,330	22,170	8.14
Long-term Liabilities						
Accrued pension liabilities (Notes 2, 22)	8,584	253	0.08	7,668	221	0.08
Sub-total	8,584	253	0.08	7,668	221	0.08
Other Liabilities						
Unearned premiums reserve (Notes 2,11)	3,601,016	105,943	34.97	3,352,667	96,619	35.46
Special claim reserve (Notes 2, 11)	2,262,767	66,572	21.98	2,037,684	58,723	21.55
Claims reserve (Notes 2, 11)	585,308	17,220	5.69	530,815	15,297	5.62
Temporary receipts and suspense accounts	16,834	495	0.16	63,696	1,836	0.67
Funds held for reinsurers	283	8	0.00	693	20	0.01
Sub-total	6,466,208	190,238	62.80	5,985,555	172,495	63.31
Total Liabilities	7,224,280	212,541	70.16	6,762,553	194,886	71.53
Stockholders' Equity						
Capital stock						
Common stock (Note 12)	2,317,006	68,167	22.50	2,317,006	66,773	24.51
Capital surplus	430	13	0.00	0	0	0.00
Retained earnings (Note 13)						
Legal reserve	161,475	4,751	1.57	138,025	3,978	1.46
Unappropriated retained earnings	592,660	17,436	5.76	234,503	6,758	2.48
Equity adjustment						
Cumulative translation adjustments	1,287	38	0.01	2,172	62	0.02
Total Stockholders' Equity	3,072,858	90,405	29.84	2,691,706	77,571	28.47
Total Liabilities and Stockholders' Equity	\$10,297,138	\$302,946	100.00	\$9,454,259	\$272,457	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of Income
(Expressed in thousands of dollars, except earning per share)
For the Years Ended December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Operating Revenues (Note 2)						
Premiums income	\$7,044,600	\$207,255	57.49	\$6,183,557	\$178,200	55.45
Reinsurance commission earned	306,983	9,031	2.50	260,928	7,520	2.34
Claims recovered from reinsurers	975,264	28,693	7.96	1,141,819	32,905	10.24
Recovered unearned premium reserve	3,352,667	98,637	27.36	3,186,537	91,831	28.58
Recovered special claim reserve	157,197	4,625	1.28	112,615	3,245	1.01
Recovered claims reserve	36,610	1,077	0.30	38,306	1,104	0.34
Handling fee earned	343	10	0.00	49	1	0.00
Interest income	216,325	6,364	1.77	227,164	6,547	2.04
Gain on trading bills and securities	162,781	4,789	1.33	0	0	0.00
Gain on long-term equity investment	1,453	43	0.01	0	0	0.00
Sub-total	<u>12,254,223</u>	<u>360,524</u>	<u>100.00</u>	<u>11,150,975</u>	<u>321,353</u>	<u>100.00</u>
Operating Costs (Note 2)						
Reinsurance premiums ceded	(2,572,569)	(75,686)	(20.99)	(2,425,485)	(69,899)	(21.75)
Commissions expenses	(134,072)	(3,944)	(1.09)	(195,244)	(5,626)	(1.75)
Insurance claims payment	(3,229,577)	(95,016)	(26.36)	(3,056,376)	(88,080)	(27.41)
Provision for unearned premiums reserve	(3,601,016)	(105,943)	(29.39)	(3,352,667)	(96,618)	(30.07)
Provision for special claim reserve	(382,280)	(11,247)	(3.12)	(339,038)	(9,770)	(3.04)
Contribution to the stabilization funds	(13,329)	(392)	(0.11)	(11,814)	(340)	(0.11)
Provision for claims reserve	(44,553)	(1,311)	(0.36)	(36,610)	(1,055)	(0.33)
Handling fee paid	(185,472)	(5,457)	(1.51)	(140,811)	(4,058)	(1.26)
Interest expenses	(27)	(1)	0.00	(70)	(2)	0.00
Loss on trading bills and securities	0	0	0.00	(89,828)	(2,589)	(0.80)
Loss on Long-term investments in stocks	0	0	0.00	(11,993)	(346)	(0.11)
Agent expenses	(2,488)	(73)	(0.02)	(1,621)	(47)	(0.01)
Sub-total	<u>(10,165,383)</u>	<u>(299,070)</u>	<u>(82.95)</u>	<u>(9,661,557)</u>	<u>(278,430)</u>	<u>(86.64)</u>
Operating Gross Profit	<u>2,088,840</u>	<u>61,454</u>	<u>17.05</u>	<u>1,489,418</u>	<u>42,923</u>	<u>13.36</u>
Operating Expenses (Note 2)						
Marketing expenses	(1,153,637)	(33,940)	(9.42)	(890,951)	(25,676)	(7.99)
Administrative and general expenses	(247,744)	(7,289)	(2.02)	(251,188)	(7,239)	(2.26)
Operating Income	<u>687,459</u>	<u>20,225</u>	<u>5.61</u>	<u>347,279</u>	<u>10,008</u>	<u>3.11</u>
Non-operating Revenues						
Gain on foreign exchange	433	13	0.00	1,886	54	0.02
Gain on disposal of property and equipment	166	5	0.00	593	17	0.00
Miscellaneous income	13,615	400	0.11	2,294	66	0.02
Sub-total	<u>14,214</u>	<u>418</u>	<u>0.11</u>	<u>4,773</u>	<u>137</u>	<u>0.04</u>
Non-operating Expenses						
Loss on foreign exchange	(8,103)	(238)	(0.06)	(1,353)	(39)	(0.01)
Loss on disposal of property and equipment	0	0	0.00	(16)	0	0.00
Sub-total	<u>(8,103)</u>	<u>(238)</u>	<u>(0.06)</u>	<u>(1,369)</u>	<u>(39)</u>	<u>(0.01)</u>
Income from Continuing Operations before income taxes	693,570	20,405	5.66	350,683	10,106	3.14
Income Taxes (Notes 2, 15)	(100,910)	(2,969)	(0.82)	(116,180)	(3,348)	(1.04)
Net Income	<u>\$592,660</u>	<u>17,436</u>	<u>4.84</u>	<u>\$234,503</u>	<u>\$6,758</u>	<u>2.10</u>
Earnings Per Share before tax (expressed in dollars) (Note 16)	<u>\$2.99</u>	<u>\$0.09</u>		<u>\$1.51</u>	<u>\$0.04</u>	
Earnings Per Share after tax (expressed in dollars) (Note 16)	<u>\$2.56</u>	<u>\$0.08</u>		<u>\$1.01</u>	<u>\$0.03</u>	

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of Changes in Stockholders' Equity
(Expressed in thousands of dollars)
For the Years Ended December 31, 2003 and 2002

Summary	Capital Stock		Capital Surplus		Retained Earnings				Cumulative		Total	
	Common Stock				Legal Reserve		Unappropriated		translation adjustments		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2002	\$2,317,006	\$66,773	\$724	\$21	\$102,100	\$2,942	\$361,977	\$10,432	\$2,262	\$65	\$2,784,069	\$80,233
Appropriations and Distributions for 2001												
Legal reserve					35,925	1,036	(35,925)	(1,036)			0	0
Cash dividends							(323,021)	(9,309)			(323,021)	(9,309)
Bonus paid to employees							(3,755)	(108)			(3,755)	(108)
Cumulative translation adjustments									(90)	(3)	(90)	(3)
Capital surplus from disposal of property and equipment												
turn into retained earnings			(724)	(21)			724	21			0	0
Net Income after tax for the year ended December 31, 2002							234,503	6,758			234,503	\$6,758
Balance on December 31, 2002	\$2,317,006	\$66,773	\$0	\$0	\$138,025	\$3,978	\$234,503	\$6,758	\$2,172	\$62	\$2,691,706	\$77,571
Balance on January 1, 2003	\$2,317,006	\$68,167	\$0	\$0	\$138,025	\$4,061	\$234,503	\$6,899	\$2,172	\$64	\$2,691,706	\$79,191
Appropriations and Distributions for 2002												
Legal reserve					23,450	690	(23,450)	(690)			0	0
Cash dividends							(209,612)	(6,167)			(209,612)	(6,167)
Bonus paid to employees							(1,441)	(42)			(1,441)	(42)
Capital surplus-long-term equity investment			430	13							430	13
Cumulative translation adjustments									(885)	(26)	(885)	(26)
Net Income after tax for the year ended December 31, 2003							592,660	17,436			592,660	17,436
Balance on December 31, 2003	\$2,317,006	\$68,167	\$430	\$13	\$161,475	\$4,751	\$592,660	\$17,436	\$1,287	\$38	\$3,072,858	\$90,405

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of Cash Flows
(Expressed in thousands of dollars)
For the Years Ended December 31, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income	\$592,660	\$17,436	\$234,503	\$6,758
Adjustments:				
Loss on bad debt	48,513	1,427	76,077	2,192
Amortizations	4,252	125	4,739	137
Depreciation	24,532	722	17,320	499
Provision for reserve for operations	4,027,849	118,501	3,728,316	107,444
Recovered unearned premium reserve	(3,352,667)	(98,637)	(3,186,537)	(91,831)
Recovered special claim reserve	(157,197)	(4,625)	(112,615)	(3,245)
Recovered claims reserve	(36,610)	(1,077)	(38,306)	(1,104)
Loss on disposal of property and equipment	0	0	16	0
Gain on disposal of property and equipment	(166)	(5)	(593)	(17)
Unrealized loss (gain) on long-term investments	(1,453)	(43)	11,993	346
Effects of exchange rate changes	7,670	225	(533)	(15)
Decrease (increase) in short-term investments	23,569	694	284,816	8,208
Decrease (increase) in notes receivable	(17,079)	(502)	4,779	138
Decrease (increase) in interest receivable	5,054	149	6,610	191
Decrease (increase) in premiums receivable	(100,132)	(2,946)	20,176	581
Decrease (increase) in claims recoverable from reinsurers	26,406	777	(60,230)	(1,736)
Decrease (increase) in due from reinsurers and ceding companies	51,423	1,513	36,196	1,043
Decrease (increase) in other accounts receivable	(6,479)	(191)	33,757	973
Decrease (increase) in prepayments	301	9	(28)	(1)
Decrease (increase) in deferred income tax assets-current	(6,747)	(198)	(12,023)	(346)
Decrease (increase) in deferred income tax assets-non-current	34	1	83	2
Decrease (increase) in overdue receivables	25,227	742	(75,172)	(2,166)
Decrease (increase) in temporary payments and suspense accounts	(565)	(17)	(2,171)	(63)
Increase (decrease) in collections for others	(7,711)	(227)	2,304	66
Increase (decrease) in accrued expenses	63,025	1,854	3,400	98
Increase (decrease) in income taxes payable	(32,410)	(954)	51,489	1,484
Increase (decrease) in commissions payable	(4,442)	(131)	(4,654)	(134)
Increase (decrease) in claims outstanding	(63,266)	(1,861)	67,500	1,945
Increase (decrease) in other payable	69,268	2,038	58,403	1,683
Increase (decrease) in accrued pension liabilities	399	12	2,126	61
Increase (decrease) in temporary receipts and suspense accounts	(46,863)	(1,379)	30,724	885
Increase (decrease) in loss reserve	46,551	1,370	33,018	952
Net Cash Provided by (Used in) Operating Activities	1,182,946	34,802	1,215,483	35,028

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
Statements of Cash Flows - (Continued)
(Expressed in thousands of dollars)
For the Years Ended December 31, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Investing Activities				
Decrease (increase) in short-term secured loans	22,000	647	0	0
Decrease (increase) in medium-term secured loans	56,530	1,663	100,670	2,901
Decrease (increase) in long-term secured loans	55,485	1,632	31,712	914
Acquisition of long-term investments in stocks	(75,000)	(2,206)	0	0
Decrease (increase) in long-term investments in bonds	(1,555,944)	(45,777)	(280,335)	(8,079)
Disposal of property and equipment	674	20	2,258	65
Acquisition of property and equipment	(13,019)	(383)	(23,841)	(687)
Acquisition of intangible assets	(5,370)	(158)	(3,346)	(96)
Decrease (increase) in guarantee deposits paid	(2,353)	(69)	(3,046)	(88)
Decrease (increase) in securities serving as deposits paid-bonds	4,915	145	4,915	142
Decrease (increase) in funds held by ceding companies	38	1	(26)	(1)
Net Cash Provided by (Used in) Investing Activities	(1,512,044)	(44,485)	(171,039)	(4,929)
Cash Flows from Financing Activities				
Paid other payable for acquisition of property and equipment in former period	(16,480)	(485)	(1,777)	(51)
Increase (decrease) in funds held for reinsurers	(410)	(12)	(1,064)	(30)
Bonus to employees	(3,755)	(110)	(1,655)	(48)
Cash dividends	(209,612)	(6,167)	(323,021)	(9,309)
Net Cash Provided by (Used in) Financing Activities	(230,257)	(6,774)	(327,517)	(9,438)
Effects of Exchange Rate Changes	(7,670)	(225)	533	15
Increase (decrease) in Cash and Cash Equivalents	(567,023)	(16,682)	717,460	20,677
Cash and Cash Equivalents at the Beginning of Period	4,156,774	122,294	3,439,314	99,116
Cash and Cash Equivalents at the End of Period	\$3,589,751	\$105,611	\$4,156,774	\$119,792
Supplemental Disclosure of Cash Flows Information				
Interest paid of the period	\$27	\$1	\$70	\$2
Less: capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$27	\$1	\$70	\$2
Income tax paid	\$140,033	\$4,120	\$76,631	\$2,208
Partial Cash Investing and Financing Activities:				
Equipment	\$13,019	\$383	\$40,321	\$1,162
Other payable at the year-end	0	0	(16,480)	(475)
Cash paid	\$13,019	\$383	\$23,841	\$687

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2003 and 2002 were NT\$33.99 and NT\$34.70 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.
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1. Organization of Business Scope

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

2. Summary of Significant Accounting Policies

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

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

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

(2) Cash and Cash Equivalents

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

(3) Short-term Investments

Marketable equity securities are stated at the lower of cost or market. Stock dividends are treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.

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

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

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

The R.O.C. Statements of Financial Accounting Standards (SFAS) No.30 "Treasury stock" considers parent company stock held by a subsidiary to be treasury stock of the consolidated entity. Parent stock held by subsidiary is stated individually at the lower of aggregate cost or market value.

(4) Allowance for Bad and Doubtful Debts

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

(5) Long – Term Investments

A. Long-term Investments in Stocks

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

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

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

B. Long-Term Investments in Bonds

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

(6) Property and Equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed currently. Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the accounts. The gain or loss resulting from disposal of property and equipment is classified as non-operating gain or loss. Depreciation on depreciable assets is recognized on a straight-line method over the estimated service lives prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC (the “Executive Yuan Depreciation Table”). When their economic useful lives have expired, property and equipment still in use are depreciated based on the residual value and new estimated remaining useful lives.

(7) Deferred Charges

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

(8) Reserve for Operating

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

(9) Insurance Premiums

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

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

(10) Contribution to the Stabilization Funds

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

(11) Pension Plan

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

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

(12) Guaranteed depository insurance payment

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

(13) Foreign-currency Transactions

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

(14) Income Taxes

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

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

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

(15) Capital Expenditure Expenses

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

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(16) Derivative Financial Products Transaction

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

(17) Convenience Translation Into US Dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 2003 and 2002 NT dollar amounts into U.S. dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.99 and NT\$34.70 to US\$1.00 effective on December 31, 2003 and 2002, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in Accounting and Its Effects: None

4. Cash and cash equivalents

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$7,475	\$220	\$6,443	\$186
Cash in banks	300,087	8,829	295,303	8,510
Time deposits	3,003,269	88,357	3,651,700	105,236
Cash equivalents	278,920	8,206	203,328	5,860
Total	<u>\$3,589,751</u>	<u>\$105,612</u>	<u>\$4,156,774</u>	<u>\$119,792</u>
Interest rate of time deposits	<u>0.80% ~ 2.00%</u>	<u>0.80% ~ 2.00%</u>	<u>1.45%~2.6%</u>	<u>1.45%~2.6%</u>
Interest rate of cash equivalents	<u>0.975%~1.025%</u>	<u>0.975%~1.025%</u>	<u>1.45%~1.485%</u>	<u>1.45%~1.485%</u>

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5. Short- term investments

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$6,725	\$228,587	\$6,587
Less: Allowance for valuation loss	(52,611)	(1,548)	(106,222)	(3,061)
Sub-total	175,976	5,177	122,365	3,526
Common stock and beneficiary certificates	970,515	28,553	1,019,353	29,376
Financial debentures	203,473	5,986	200,000	5,764
Corporate bonds	667,271	19,632	599,580	17,279
Appoint purpose trust fund	47,868	1,408	121,756	3,509
Short-term notes	278,920	8,206	203,328	5,860
Sub-total	2,168,047	63,785	2,144,017	61,788
Less : Cash equivalents	(278,920)	(8,206)	(203,328)	(5,860)
Sub-total	1,889,127	55,579	1,940,689	55,928
Total	<u>\$2,065,103</u>	<u>\$60,756</u>	<u>\$2,063,054</u>	<u>\$59,454</u>

6. Premiums receivable

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$528,531	\$15,550	\$428,399	\$12,346
Less: Allowance for bad debts	(3,280)	(97)	(2,610)	(75)
Net	<u>\$525,251</u>	<u>\$15,453</u>	<u>\$425,789</u>	<u>\$12,271</u>

7. Secured loans

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$0	\$0	\$21,999	\$634
Less: Allowance for bad debts	(0)	(0)	(3,091)	(89)
Sub-total	0	0	18,908	545
Medium-term secured loans	507,651	14,935	564,182	16,259
Less: Allowance for bad debts	(105,852)	(3,114)	(79,276)	(2,285)
Sub-total	401,799	11,821	484,906	13,974
Long-term secured loans	454,800	13,380	510,284	14,705
Less: Allowance for bad debts	(94,832)	(2,790)	(71,702)	(2,066)
Sub-total	359,968	10,590	438,582	12,639
Total	<u>\$761,767</u>	<u>\$22,411</u>	<u>\$942,396</u>	<u>\$27,158</u>
Interest rate	<u>2.50%~5.00%</u>	<u>2.50%~5.00%</u>	<u>3.91%~7.00%</u>	<u>3.91%~7.00%</u>

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

8. Long- term investments

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

Investee	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$221,256	\$6,510	\$142,294	\$4,101
Vista Technology Venture Capital Corp.	13,636	401	16,599	478
Subtotal	<u>234,892</u>	<u>6,911</u>	<u>158,893</u>	<u>4,579</u>
b. Under the cost method:				
Koo Group Telecommunications Co., Ltd.	124,380	3,659	150,000	4,323
KGEX. Com Co., Ltd.	75,000	2,207	75,000	2,161
Subtotal	<u>199,380</u>	<u>5,866</u>	<u>225,000</u>	<u>6,484</u>
Total	<u><u>\$434,272</u></u>	<u><u>\$12,777</u></u>	<u><u>\$383,893</u></u>	<u><u>\$11,063</u></u>

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

	For the year ended December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Balance of January 1	\$158,893	\$4,675	\$150,976	\$4,351
Increment of investment	75,000	2,206	0	0
The change in treatment for a long-term investment in stock	0	0	20,000	577
Cumulative Translation Adjustments	(884)	(26)	(90)	(3)
Investment income (loss) by equity method recognized	1,453	43	(11,993)	(346)
Capital surplus by equity method recognized	430	13	0	0
Balance of December 31	<u><u>\$234,892</u></u>	<u><u>\$6,911</u></u>	<u><u>\$158,893</u></u>	<u><u>\$4,579</u></u>

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

Investee	For the year ended December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$4,917	\$145	(\$8,592)	(\$248)
Vista Technology Venture Capital Corp.	(3,464)	(102)	(3,401)	(98)
Total	\$1,453	\$43	(\$11,993)	(\$346)

- e. If the Company holds less than 50% of an investee company's outstanding common stock and is not able to obtain the investee's financial statements for the current year when the Company closed its books, the investee's investment gains (losses) for the year can be deferred to recognize till the following year. As the treatment for investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investee could not provide timely audited financial statement for the year ended December 31, 2003. The investee losses for the year ended December 31, 2003 were recognized based on audited financial statements of the prior years.
- f. The investment unrealized gains of Cathay Venture Capital Corp. for the year ended December 31, 2003 and 2002 were recognized by the equity method based on audited financial statements in the same period.
- g. The company invested Koo Group Telecommunications Co., Ltd was signed into contract and merged with Far Eastone Telecommunications Co., Ltd. in October 7, 2003 with the agreement of partial cash and partial stock as value consideration, the company had recognized 25,620 loss for the period as of cash transaction.

B. Long- term investments in bonds

Investee	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$1,836,278	\$54,024	\$280,335	\$8,079
Interest rate	4.0%~6.0%	4.0%~6.0%	5.5%	5.5%

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9. Property and equipment

Item	December 31, 2003					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$17,174	\$505	\$7,280	\$214	\$9,894	\$291
Other equipment	149,437	4,397	103,825	3,055	45,612	1,342
Total	\$166,611	\$4,902	\$111,105	\$3,269	\$55,506	\$1,633

Item	December 31, 2002					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$14,308	\$412	\$5,405	\$156	\$8,903	\$256
Other equipment	140,432	4,047	81,809	2,357	58,623	1,690
Total	\$154,740	\$4,459	\$87,214	\$2,513	\$67,526	\$1,946

10. Securities serving as deposits paid

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government bonds	\$360,284	\$10,600	\$365,199	\$10,524
Interest rate	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%

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

11. Reserves for operations and liabilities

	January 1, 2003		Provision		Recovered		December 31, 2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$3,352,667	\$98,637	\$3,601,016	\$105,943	\$3,352,667	\$98,637	\$3,601,016	\$105,943
Special claim reserve	2,037,684	59,950	382,280	11,247	157,197	4,625	2,262,767	66,572
Claims reserve	530,815	15,616	585,308	17,220	530,815	15,616	585,308	17,220
Total	\$5,921,166	\$174,203	\$4,568,604	\$134,410	\$4,040,679	\$118,878	\$6,449,091	\$189,735

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12. Capital stock and capital increment

As of December 31, 2003 and 2002, the numbers of issued shares, par value of NT\$10, were 231,700,560.

13. Retained Earnings

(1) Legal reserve

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

(2) Unappropriate retained earnings

A. According to the Company Law and the Company's articles of incorporations, 10 % of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. In addition to distributing stock interest and 2% as bonus for employees, the remainder shall be allocated in accordance with the resolutions passed at the stockholders' meeting.

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

C. According to the regulations issued by Securities and Futures Commission, the Company should assume the dividends of year 2002 would be appropriated to the employees, directors and supervisors, and pro-forma earnings per share for the current year.

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	For the year ended December 31,	
	2002	
	NT\$	US\$
A. Distribution		
Bonus paid to employees-Cash	\$1,441	\$42
Bonus paid to employees-Stock	0	0
Remuneration paid to directors and supervisors	0	0
B. After income tax earnings per share (expressed in dollars)	\$1.01	\$0.03
Pro-forma earnings per share (expressed in dollars)	\$1.01	\$0.03

$$\text{Pro-forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

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

14. Personnel, depreciation, depletion and amortizations

Item	For the year ended December 31,2003 (NT\$)			For the year ended December 31,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	503,152	503,152	-	543,664	543,664
Labor & health insurance expenses	-	34,491	34,491	-	27,507	27,507
Pension expenses	-	30,304	30,304	-	25,516	25,516
Other expenses	-	192,687	192,687	-	157,278	157,278
Depreciation	-	24,532	24,532	-	17,320	17,320
Depletion	-	-	-	-	-	-
Amortizations	-	4,252	4,252	-	4,739	4,739

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Item	For the year ended December 31,2003			For the year ended December 31,2003		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	14,803	14,803	-	15,667	15,667
Labor & health Insurance expenses	-	1,015	1,015	-	793	793
Pension expenses	-	892	892	-	735	735
Other expenses	-	5,669	5,669	-	4,533	4,533
Depreciation	-	722	722	-	499	499
Depletion	-	-	-	-	-	-
Amortizations	-	125	125	-	137	137

The total number of employees is 789 on December 31, 2003.

15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the year ended December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$693,570	\$20,405	\$350,683	\$10,106
Adjustments				
Interest income of tax on a separate basis	(5,107)	(150)	(8,597)	(248)
Losses (gains) on market price loss (recovery) of short-term investments	(53,611)	(1,577)	101,656	2,930
Bad debts exceeding legal limit	27,203	800	48,259	1,391
Investment losses (gains) recognized by equity method	(1,453)	(43)	11,993	346
Losses (gains) on trading securities	(97,483)	(2,868)	0	0
Unrealized losses on trading securities	25,620	754	20,053	578
Others	(37,253)	(1,096)	(30,432)	(877)
Taxable Income	551,486	16,225	493,615	14,226
Time; Taxes Rate; Less: Progressive difference	25% - 10	-	25% - 10	-
Sub-Total	137,861	4,056	123,394	3,556
Tax on a separate basis	1,021	30	1,719	50
Extra 10% income tax on undistributed retained earnings	5,198	153	3,684	106
Less: Tax Effects under integrated Income Tax Systems	(5,198)	(153)	-	-
Income tax credit	(31,042)	(913)	(1,072)	(31)
Deferred income tax expenses (benefits)	(6,714)	(198)	(11,940)	(344)
Adjustment of prior year's income tax	(216)	(6)	395	11
Total income tax expenses	\$100,910	\$2,969	\$116,180	\$3,348

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

	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax				
assets	\$51,673	\$1,520	\$44,960	\$1,296
Total deferred income tax				
liabilities	\$0	\$0	\$0	\$0
B. Temporary differences:				
Employee benefits	\$135	\$4	\$484	\$14
Bad debts exceeding				
legal limit	206,500	6,075	179,297	5,167
Others	57	2	57	2
Total	\$206,692	\$6,081	\$179,838	\$5,183
C. Deferred income tax				
assets-current	\$51,659	\$1,520	\$44,912	\$1,294
Deferred income tax				
liabilities-current	0	0	0	0
Net deferred income				
tax-current	\$51,659	\$1,520	\$44,912	\$1,294
D. Deferred income tax				
assets – non-current	\$14	\$0	\$48	\$1
Deferred income tax				
liabilities –non-current	0	0	0	0
Net deferred income tax –				
non-current	\$14	\$0	\$48	\$1

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

Law of income tax credits	The credits items	The amount of		The remaining balance		Expiry year
		income	tax credit			
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$1,042	\$30	\$0	\$0	2007
	Income tax credit	30,000	883	0	0	2005
	Total	\$31,042	\$913	\$0	\$0	

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

(5) Information related to tax imputation:

	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$176,703	\$5,199	\$184,485	\$5,317
Imputation credit account ratio		December 31, 2003 (Estimate)	December 31, 2002 (Actual)	
		29.82%	33.33%	

(6) Information relating of unappropriated earnings:

Year	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$0	\$0
After 1998	592,660	17,436	234,503	6,758
Total	\$592,660	\$17,436	\$234,503	\$6,758

16. Earnings per share

	For the year ended December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$693,570	\$20,405	\$350,683	\$10,106
Net income after taxes (B)	\$592,660	\$17,436	\$234,503	\$6,758
Outstanding number of shares at year-end	231,700,560	231,700,560	231,700,560	231,700,560
Adjusted weighted average outstanding number of shares(C)	231,700,560	231,700,560	231,700,560	231,700,560
Earnings per share before tax (A)/(C) (dollars)	\$2.99	\$0.09	\$1.51	\$0.04
Earnings per share (B)/(C) (dollars)	\$2.56	\$0.08	\$1.01	\$0.03

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17. Related party transactions

(1) Related parties

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

(2) Transactions with related parties

A. Premium revenues

Name	For the year ended December 31, 2003			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$174,748	\$5,141	\$2,242	\$66
Cathay United Bank Co., Ltd.	55,719	1,639	16,297	480
San-Ching Engineering Co., Ltd.	606	18	3	0
Cathay General Hospital	5,702	168	522	15
Others	6,664	196	795	23
Total	<u>\$243,439</u>	<u>\$7,162</u>	<u>\$19,859</u>	<u>\$584</u>

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Name	For the year ended December 31, 2002			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$131,432	\$3,788	\$4,354	\$125
Cathay United Bank Co., Ltd.	18,449	532	12,281	354
San-Ching Engineering Co., Ltd.	14,121	407	872	25
Cathay General Hospital	4,480	129	197	6
Others	4,624	133	274	8
Total	\$173,106	\$4,989	\$17,978	\$518

B. Insurance claims payment

Name	For the year ended December 31,			
	2003		2002	
	Insurance Claims Payment		Insurance Claims Payment	
NT\$	US\$	NT\$	US\$	
Cathay Life Insurance Co., Ltd.	\$17,559	\$516	\$17,700	\$510
Cathay United Bank Co., Ltd.	9,783	288	339	10
San-Ching Engineering Co., Ltd.	0	0	51,453	1,483
Cathay General Hospital	0	0	3,195	92
Total	\$27,342	\$804	\$72,687	\$2,095

C. Rents (To related parties)

Name	For the year ended December 31, 2003					
	Rents		Guarantee Deposits		Prepaid Rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$52,912	\$1,557	\$13,078	\$385	\$2,219	\$65

Name	For the year ended December 31, 2002					
	Rents		Guarantee Deposits		Prepaid Rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$49,535	\$1,428	\$12,730	\$367	\$2,328	\$67

D. Cash in bank

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		December 31, 2003		
Name	Nature	Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$189,589	0.1%~0.5%	\$265
	Time Deposit	\$173,000	0.9%~1.85%	\$12,384

		December 31, 2003		
Name	Nature	Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$5,578		\$8
	Time Deposit	\$5,090		\$364

		December 31, 2002		
Name	Nature	Ending Balance	Rate	Interest Income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$222,161	0.30%~0.50%	\$1,043
	Time Deposit	\$765,000	1.85%~2.30%	\$20,863

		December 31, 2002		
Name	Nature	Ending Balance	Rate	Interest Income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$6,402	0.30%~0.50%	\$30
	Time Deposit	\$22,046	1.85%~2.30%	\$601

E. Secured loans

For the year ended December 31, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$		NT\$
Wu Ming-Yang	\$3,189	\$2,374	3.50%	\$92

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For the year ended December 31, 2003				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Wu Ming-Yang	\$94	\$70	3.50%	\$3

For the year ended December 31, 2002				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$3,309	\$3,189	4.25%	\$106

For the year ended December 31, 2002				
Name	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Wu Ming-Yang	\$95	\$92	4.25%	\$3

F. Short-term investment-beneficiary certificates

		December 31,			
		2003		2002	
Name	Transaction type	NT\$	US\$	NT\$	US\$
Cathay Securities	Security fund	\$99,410	\$2,925	\$110,000	\$3,170
Investment	Bond fund	240,000	7,061	157,859	4,549
Trust Co., Ltd.	Total	\$339,410	\$9,986	\$267,859	\$7,719

G. Handling fee paid

For the year ended December 31,					
		2003		2002	
		Handling Fee Paid		Handling Fee Paid	
Name		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.		\$5,603	\$165	\$2,875	\$83

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H. Property transactions (From related parties)

a. Acquisition

Name	Item	December 31,			
		2003		2002	
		NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	Other equipment	\$0	\$0	\$1,168	\$34

b. Disposal

Name	Item	December 31,			
		2003		2002	
		NT\$	US\$	NT\$	US\$
Lin Yuan Building Management & Maintenance Co., Ltd	Communication and transportation equipment	\$0	\$0	\$810	\$23
	Other equipment	\$0	\$0	\$8	\$1

I. Integrated marketing expense and accrued expense

Name	For the year ended December 31, 2003			
	Integrated marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$304,237	\$8,951	\$15,873	\$467

2002: none

18. Pledged assets

Item	December 31,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Long-term Investment in Bonds	\$360,284	\$10,600	\$365,199	\$10,524

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- (1) According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment in bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guarantee deposits.
- (2) The pledged assets are disclosed at their net carrying values.

19. Other important matters and contingent liabilities

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in both years 2001 and 2000 tax returns, amounting to NT\$2,474(US\$73) and NT\$7,690(US\$226), respectively, were rejected by the Tax Authority as being able to offset income tax payable. The Company disputed the above tax assessments and had filed for reinvestigation.

B. By the date of December 31, 2003, the Company had made some significant rental contracts, and based on which, we estimate that the rents for the following 5 years should be as below:

Year	Amount	Amount
	NT\$	US\$
Jan.01, 04 ~Dec.31, 04	\$54,781	\$1,612
Jan.01, 05 ~Dec.31, 05	56,263	1,655
Jan.01, 06 ~Dec.31, 06	57,906	1,704
Jan.01, 07 ~Dec.31, 07	59,599	1,753
Jan.01, 08 ~Dec.31, 08	61,342	1,805
Total	\$289,891	\$8,529

20. Serious damages: None

21. Subsequent events: None

22. Other important events

A. Pension related information

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a. Pension funded status:

	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
(1) Vested benefit obligation	(\$32,199)	(\$948)	(\$23,399)	(\$675)
(2) Non-vested benefit obligation	(106,402)	(3,130)	(85,163)	(2,454)
(3) Accumulated benefit obligation	(138,601)	(4,078)	(108,562)	(3,129)
(4) Additional benefits based on future salaries	(72,036)	(2,119)	(51,320)	(1,479)
(5) Projected benefit obligation	(210,637)	(6,197)	(159,882)	(4,608)
(6) Fair value of plan assets	132,542	3,899	103,020	2,969
(7) Vested benefit	80,957	2,382	53,863	1,552
(8) Funded status = (5) + (6)	(78,095)	(2,298)	(56,862)	(1,639)
(9) Unrecognized transitional net benefit obligation (net assets)	8,703	256	9,284	268
(10) Unrecognized prior service cost	0	0	0	0
(11) Unrecognized pension gain and loss	69,392	2,042	47,578	1,371
(12) Additional accrued pension liability	(6,059)	(178)	(5,542)	(160)
(13) Accrued pension liability /prepaid pension cost=(8)+(9)+(10)+(11)+(12)	(\$6,059)	(\$178)	(\$5,542)	\$(160)

b. Net periodic pension cost:

	For the year ended December 31,			
	2003(NT\$)	2003(US\$)	2002(NT\$)	2002(US\$)
(1) Service cost	\$26,405	\$777	\$22,633	\$652
(2) Interest cost	6,544	193	5,310	153
(3) Projected return on plan assets	(4,805)	(141)	(4,031)	(116)
(4) Amortization of unrealized transit on obligation (asset)	580	17	580	17
(5) Amortization of prior service cost	0	0	0	0
(6) Amortization of gain or loss	1,580	46	1,024	30
(7) Net periodic pension cost	<u>\$30,304</u>	<u>\$892</u>	<u>\$25,516</u>	<u>\$736</u>

c. Actuarial assumptions

For the year ended December 31

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	2003	2002
(1) Discount rate	3.70%	4.30%
(2) Rate of increase in future salaries	1.08% ~ 8.69%	1.08% ~ 8.69%
(3) Expected return on pension plan assets	3.70%	4.30%

B. Financial instruments related information

(a) Derivative Financial Instruments related information :

1. Credit and Market Risk

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

2. Cash Flow and Demand

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

3. Forward Contract

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

(2) As of December 31, 2003 and 2002, the Company has forward exchange contracts of approximately US\$54,000 and US\$11,600 respectively in notional value.

(b) Non Derivative Financial Instruments related information :

Except for the item listed in the following table, the book value of non derivative financial instruments as of December 31, 2003 and 2002, is the same as the estimated fair market value:

December 31,	
2003	2003

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Item	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$2,065,103	\$2,162,167	\$60,756	\$63,612

December 31,				
Item	2002		2002	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$ 2,063,054	\$2,172,225	\$59,454	\$62,600

C. Discretionary Account Management

Item	December 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$19,616	\$577	\$18,829	\$554
Cash in bank	32,214	948	32,124	945
Net other assets less liabilities	(64)	(2)	(64)	(2)
Total	\$51,766	\$1,523	\$50,889	\$1,497

Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$15,348	\$442	\$15,088	\$435
Cash in bank	76,985	2,219	76,985	2,219
Net other assets less liabilities	(104)	(3)	(104)	(3)
Total	\$92,229	\$2,658	\$91,969	\$2,651

D. Material Contract: None

E. Presentation of Financial Statements:

Certain accounts in financial statements for the years ended December 31, 2002 have been reclassified in order to be comparable with those in the financial statements for the years ended December 31, 2003.

23. Information for investment in Mainland China: None

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24. Segment Information: None