

**CATHAY LIFE INSURANCE CO., LTD.
FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
AS OF DECEMBER 31, 2003 AND 2002**

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

Address: No.296, Sec.4, Ren Ai Road, Taipei, Taiwan, ROC

Telephone: 886-2-2755-1399

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditors' Report	2
Balance Sheets as of December 31, 2003 and 2002	3-4
Statements of Income for the years ended December 31, 2003 and 2002	5
Statements of Changes in Stockholders' Equity for the years ended December 31, 2003 and 2002	6-7
Statements of Cash Flows for the years ended December 31, 2003 and 2002	8-9
Notes to Financial Statements	10-51



BDO Taiwan Union & Co.
Certified Public Accountants

Headquarters:
10, 11th Fl., No. 72 Sec. 2, Nan Jing E. Road Taipei,
Taiwan, ROC
Telephone: 886-2-2564-3000 Fax: 886-2-2542-1158
Taichung Branch:
6th Fl., No. 306 Wen Hsin Road, Sec. 1, Taichung,
Taiwan, ROC
Telephone: 886-4-2329-1290 Fax: 886-4-2320-2524
Kaohsiung Branch:
15th Fl., No. 260 Chung Shang 2nd Road, Kaohsiung,
Taiwan, ROC
Telephone: 886-7-537-2589 Fax: 886-7-537-3589

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. as of 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Life Insurance Co., Ltd. as of December 31, 2003 and 2002, and the results of their operations and their 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 20, 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 jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

CATHAY LIFE INSURANCE CO., LTD.
BALANCE SHEETS
(Expressed in thousands of dollars)
As of December 31, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current Assets						
Cash and cash equivalents (Notes 2, 4)	\$110,832,510	\$3,260,739	7.62	\$135,061,552	\$3,892,264	10.51
Short-term investments (Notes 2, 5)	394,517,196	11,606,861	27.12	282,050,205	8,128,248	21.94
Notes receivable	15,256,262	448,846	1.05	19,663,894	566,683	1.53
Notes receivable-related parties (Note 18)	47,701	1,403	0.00	36,111	1,041	0.00
Tax refund receivable	15,029	442	0.00	15,029	433	0.00
Interest receivable	10,672,933	314,002	0.74	11,059,642	318,722	0.86
Other accounts receivable	7,006,490	206,134	0.48	3,073,662	88,578	0.24
Prepayments	30,422	895	0.00	304,712	8,781	0.02
Subtotal	538,378,543	15,839,322	37.01	451,264,807	13,004,750	35.10
Exchange Bills Negotiated, Discounted and Loans (Notes 2, 6)						
Policy loans	183,721,399	5,405,160	12.63	184,421,933	5,314,753	14.35
Short-term secured loans	61,106	1,798	0.00	105,833	3,050	0.01
Medium-term secured loans	9,928,879	292,112	0.68	9,356,206	269,631	0.73
Long-term secured loans	284,651,611	8,374,569	19.57	307,811,516	8,870,649	23.94
Subtotal	478,362,995	14,073,639	32.88	501,695,488	14,458,083	39.03
Funds, Long-Term Investments, and Receivable						
Long-term investments in stocks (Notes 2, 7)						
Under the equity method	2,133,813	62,778	0.15	2,074,654	59,788	0.16
Under the cost method	44,369,985	1,305,383	3.05	55,157,328	1,589,548	4.29
Allowance for valuation loss on long-term investments in stocks	(19,419)	(571)	0.00	(935,733)	(26,966)	(0.07)
Long-term investments in bonds (Notes 2, 8)	253,211,527	7,449,589	17.41	149,669,472	4,313,241	11.64
Investments in real estate (Notes 2, 9)	94,484,088	2,779,761	6.49	94,151,308	2,713,294	7.33
Subtotal	394,179,994	11,596,940	27.10	300,117,029	8,648,905	23.35
Property and Equipment (Notes 2, 10)						
Land	5,161,509	151,854	0.35	5,504,057	158,618	0.43
Buildings and Construction	11,193,060	329,304	0.77	10,704,265	308,480	0.83
Communication and transportation equipment	137,010	4,031	0.01	139,050	4,007	0.01
Other equipment	4,359,036	128,245	0.30	3,955,648	113,996	0.31
Subtotal	20,850,615	613,434	1.43	20,303,020	585,101	1.58
Less: Accumulated depreciation	(5,494,597)	(161,653)	(0.38)	(5,003,380)	(144,190)	(0.39)
Construction in progress and prepayment for equipment	109,927	3,234	0.01	667,479	19,236	0.05
Subtotal	15,465,945	455,015	1.06	15,967,119	460,147	1.24
Other Assets						
Non-operating assets (Note 2)	3,002,047	88,322	0.21	3,437,401	99,061	0.27
Guarantee deposits paid (Notes 2, 19)	1,176,827	34,623	0.08	262,822	7,574	0.02
Overdue receivables (Notes 2, 11)	1,431,930	42,128	0.10	4,265,036	122,912	0.33
Temporary payments and suspense accounts	244,124	7,182	0.02	104,957	3,025	0.01
Securities serving as deposits paid-bonds (Notes 2, 8,19)	7,937,998	233,539	0.54	7,730,262	222,774	0.60
Deferred income tax assets (Notes 2, 16)	259,724	7,641	0.02	433,378	12,489	0.03
Investment-linked products assets (Note 2)	14,285,128	420,274	0.98	280,271	8,077	0.02
Subtotal	28,337,778	833,709	1.95	16,514,127	475,912	1.28
Total Assets	\$1,454,725,255	\$42,798,625	100.00	\$1,285,558,570	\$37,047,797	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 LIFE 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						
Notes payable	\$1,603	\$47	0.00	\$2,677	\$77	0.00
Accounts payable-related parties (Note 18)	209,741	6,171	0.01	33,272	959	0.00
Collections for others	142,696	4,198	0.01	180,451	5,200	0.01
Accrued expenses	3,196,696	94,048	0.22	3,453,387	99,521	0.27
Taxes payable	347,517	10,224	0.02	2,450,410	70,617	0.19
Commissions payable	1,148,918	33,802	0.08	1,389,907	40,055	0.11
Dividends payable	175,596	5,166	0.01	337,975	9,740	0.03
Life insurance proceeds payable	481	14	0.00	790	23	0.00
Other payable	1,418,101	41,721	0.10	1,422,941	41,007	0.11
Deferred income tax liabilities- current (Notes 2, 16)	1,125,244	33,105	0.08	1,216,007	35,044	0.09
Accounts collected in advance	535,077	15,743	0.04	202,337	5,831	0.02
Subtotal	<u>8,301,670</u>	<u>244,239</u>	<u>0.57</u>	<u>10,690,154</u>	<u>308,074</u>	<u>0.83</u>
Long-term Liabilities						
Reserve for land revaluation increment tax	3,726	110	0.00	3,726	107	0.00
Accrued pension liability (Notes 2,23)	732,491	21,550	0.05	0	0	0.00
Subtotal	<u>736,217</u>	<u>21,660</u>	<u>0.05</u>	<u>3,726</u>	<u>107</u>	<u>0.00</u>
Other Liabilities						
Reserve for operations and liabilities (Note 2)						
Unearned premium reserve	9,471,557	278,657	0.65	14,080,464	405,777	1.10
Reserve for life insurance	1,320,057,659	38,836,648	90.75	1,178,668,422	33,967,390	91.69
Special reserve	13,379,990	393,645	0.92	11,155,322	321,479	0.87
Claims reserve	329,851	9,704	0.02	278,080	8,014	0.02
Miscellaneous liabilities						
Guarantee deposits received	1,327,385	39,052	0.09	1,294,401	37,302	0.10
Temporary receipts and suspense accounts	602,457	17,725	0.04	448,983	12,939	0.03
Investment-linked products liabilities (Note 2)	14,285,128	420,274	0.98	280,271	8,077	0.02
Subtotal	<u>1,359,454,027</u>	<u>39,995,705</u>	<u>93.45</u>	<u>1,206,205,943</u>	<u>34,760,978</u>	<u>93.83</u>
Total Liabilities	<u>1,368,491,914</u>	<u>40,261,604</u>	<u>94.07</u>	<u>1,216,899,823</u>	<u>35,069,159</u>	<u>94.66</u>
Stockholders' Equity						
Capital stock						
Common stock (Note 12)	50,686,158	1,491,208	3.49	50,686,158	1,460,696	3.94
Capital surplus	5,200	153	0.00	3,048	88	0.00
Retained earnings (Notes 13,16)						
Legal reserve	14,552,065	428,128	1.00	13,254,705	381,980	1.03
Special reserve	6,249,135	183,852	0.43	0	0	0.00
Unappropriated retained earnings	17,788,827	523,355	1.22	12,973,603	373,879	1.01
Equity adjustment (Notes 2, 7)						
Unrealized valuation losses on long-term equity investment	(19,419)	(572)	0.00	(935,733)	(26,966)	(0.07)
Cumulative conversion adjustments	4,341	128	0.00	10,829	312	0.00
Treasury stock (Notes 2, 14)	(3,032,966)	(89,231)	(0.21)	(7,333,863)	(211,351)	(0.57)
Total Stockholders' Equity	<u>86,233,341</u>	<u>2,537,021</u>	<u>5.93</u>	<u>68,658,747</u>	<u>1,978,638</u>	<u>5.34</u>
Total Liabilities and Stockholders' Equity	<u>\$1,454,725,255</u>	<u>\$42,798,625</u>	<u>100.00</u>	<u>\$1,285,558,570</u>	<u>\$37,047,797</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 LIFE 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	\$260,375,620	\$7,660,360	54.82	\$280,361,926	\$8,079,595	62.07
Reinsurance commission earned	100,663	2,962	0.02	130,526	3,762	0.03
Claims recovered from reinsurers	191,186	5,625	0.04	632,365	18,224	0.14
Recovered premiums reserve	128,477,867	3,779,873	27.05	109,906,943	3,167,347	24.33
Recovered special reserve	0	0	0.00	4,962,327	143,007	1.10
Recovered claims reserve	278,080	8,181	0.06	266,322	7,675	0.06
Handling fees earned	545,547	16,050	0.12	10,209	294	0.00
Interest Income	47,277,701	1,390,930	9.95	43,939,482	1,266,267	9.73
Gain on disposal of investments	11,006,551	323,817	2.32	4,778,373	137,705	1.06
Gain on long-term equity investments	22,960	675	0.00	0	0	0.00
Gain on investments-real estate	4,513,133	132,778	0.95	4,484,010	129,222	0.99
Other operating Income	5,072,265	149,228	1.07	1,934,216	55,741	0.43
Investment-linked products revenues (Note 2)	17,094,832	502,937	3.60	291,248	8,393	0.06
Subtotal	<u>474,956,405</u>	<u>13,973,416</u>	<u>100.00</u>	<u>451,697,947</u>	<u>13,017,232</u>	<u>100.00</u>
Operating Costs (Note 2)						
Insurance expenses	(445,229)	(13,099)	(0.10)	(723,807)	(20,859)	(0.16)
Brokerage expenses	(23,818,122)	(700,739)	(5.01)	(24,545,513)	(707,363)	(5.44)
Commissions expenses	(314,055)	(9,240)	(0.07)	(275,438)	(7,938)	(0.06)
Insurance claims payment	(134,132,353)	(3,946,230)	(28.24)	(122,855,410)	(3,540,502)	(27.20)
Provision for premiums reserve	(265,258,198)	(7,804,007)	(55.85)	(271,346,336)	(7,819,779)	(60.07)
Provision for special reserve	(2,224,669)	(65,451)	(0.47)	0	0	0.00
Contribution to the stabilization funds	(259,913)	(7,647)	(0.05)	(280,404)	(8,081)	(0.06)
Provision for claims reserve	(329,851)	(9,704)	(0.07)	(278,080)	(8,014)	(0.06)
Handling fees paid	(1,775,924)	(52,248)	(0.37)	(2,163,984)	(62,363)	(0.48)
Interest expenses	(32,377)	(952)	(0.01)	(24,136)	(696)	0.00
Loss on long-term equity investments	0	0	0.00	(20,896)	(602)	0.00
Provisions expenses	(592,873)	(17,443)	(0.12)	(2,608,958)	(75,186)	(0.58)
Investment-linked products expenses (Note 2)	(17,094,832)	(502,937)	(3.60)	(291,248)	(8,393)	(0.07)
Subtotal	<u>(446,278,396)</u>	<u>(13,129,697)</u>	<u>(93.96)</u>	<u>(425,414,210)</u>	<u>(12,259,776)</u>	<u>(94.18)</u>
Operating Gross Profit	<u>28,678,009</u>	<u>843,719</u>	<u>6.04</u>	<u>26,283,737</u>	<u>757,456</u>	<u>5.82</u>
Operating Expenses (Note 2)						
Marketing expenses	(2,739,501)	(80,597)	(0.58)	(3,463,232)	(99,805)	(0.77)
Administrative and general expenses	(7,503,620)	(220,760)	(1.58)	(7,440,376)	(214,420)	(1.65)
Operating Income	<u>18,434,888</u>	<u>542,362</u>	<u>3.88</u>	<u>15,380,129</u>	<u>443,231</u>	<u>3.40</u>
Non-Operating Revenues & Gains						
Gains on foreign exchange	0	0	0.00	190,658	5,495	0.04
Gains on disposal of property and equipment	2,903	85	0.00	3,404	98	0.00
Miscellaneous income	1,569,264	46,168	0.33	524,189	15,106	0.12
Subtotal	<u>1,572,167</u>	<u>46,253</u>	<u>0.33</u>	<u>718,251</u>	<u>20,699</u>	<u>0.16</u>
Non-Operating Expenses & Losses						
Losses on foreign exchange	(192,345)	(5,659)	(0.04)	0	0	0.00
Losses on disposal of property and equipment	(15,004)	(441)	0.00	(6,075)	(175)	0.00
Miscellaneous expenses	(29,407)	(865)	(0.01)	(33,216)	(957)	(0.01)
Subtotal	<u>(236,756)</u>	<u>(6,965)</u>	<u>(0.05)</u>	<u>(39,291)</u>	<u>(1,132)</u>	<u>(0.01)</u>
Income from Continuing						
Operations before income taxes	19,770,299	581,650	4.16	16,059,089	462,798	3.55
Income Taxes (Notes 2, 16)	(1,939,702)	(57,067)	(0.41)	(3,212,932)	(92,592)	(0.71)
Net Income	<u>\$17,830,597</u>	<u>\$524,583</u>	<u>3.75</u>	<u>\$12,846,157</u>	<u>\$370,206</u>	<u>2.84</u>
Before income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$4.01</u>	<u>\$0.12</u>		<u>\$2.98</u>	<u>\$0.09</u>	
After income taxes Earnings Per Share (expressed in dollars) (Note 17)	<u>\$3.61</u>	<u>\$0.11</u>		<u>\$2.39</u>	<u>\$0.07</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 LIFE INSURANCE CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)
(Expressed in thousands of dollars)
For the Years Ended December 31, 2003 and 2002

Summary	Retained Earnings										Equity Adjustments				Total			
	Common Stock		Capital Surplus		Legal Reserve		Special Reserve		Unappropriated Retained Earnings		Unrealized Valuation Losses on long-term Equity Investment		Cumulative Conversion Adjustments		Treasury Stock		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2003	\$50,686,158	\$1,491,208	\$3,048	\$90	\$13,254,705	\$389,959	\$0	\$0	\$12,973,603	\$381,689	(\$935,733)	(\$27,530)	\$10,829	\$319	(\$7,333,863)	(\$215,765)	\$68,658,747	\$2,019,970
Appropriations and Distributions for 2002																		
Legal reserve					1,297,360	38,169			(1,297,360)	(38,169)							0	0
Special reserve							6,249,135	183,852	(6,249,135)	(183,852)							0	0
Cash dividends									(5,369,406)	(157,970)							(5,369,406)	(157,970)
Remuneration paid to directors and supervisors									(8,100)	(238)							(8,100)	(238)
Bonus paid to employees									(49,602)	(1,459)							(49,602)	(1,459)
Capital surplus-long-term equity investment				2,152	63												2,152	63
Unrealized valuation losses on long-term equity investment											916,314	26,958					916,314	26,958
Cumulative conversion adjustments													(6,488)	(191)			(6,488)	(191)
Disposal of treasury stock									(41,770)	(1,229)					4,300,897	\$126,534	4,259,127	125,305
Net Income for the year ended December 31, 2003									17,830,597	524,583							17,830,597	524,583
Balance on December 31, 2003	\$50,686,158	\$1,491,208	\$5,200	\$153	\$14,552,065	\$428,128	\$6,249,135	\$183,852	\$17,788,827	\$523,355	(\$19,419)	(\$572)	\$4,341	\$128	(\$3,032,966)	(\$89,231)	\$86,233,341	\$2,537,021

(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.)

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 Years Ended December 31, 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	\$1,682,598	\$130,494	\$3,761	\$12,195,156	\$351,445	\$0	\$0	\$11,461,899	\$330,314	\$0	\$0	\$6,657	\$192	(\$7,333,863)	(\$211,351)	\$74,846,501	\$2,156,959
Appropriations and Distributions for 2001																		
Legal reserve					1,059,549	30,535			(1,059,549)	(30,535)							0	0
Cash dividends									(10,254,383)	(295,515)							(10,254,383)	(295,515)
Remuneration paid to directors and supervisors									(8,100)	(233)							(8,100)	(233)
Bonus paid to employees									(139,867)	(4,031)							(139,867)	(4,031)
Capital decrease	(7,700,000)	(221,902)															(7,700,000)	(221,902)
Unrealized valuation losses on long-term equity investment											(935,733)	(26,966)					(935,733)	(26,966)
Cumulative conversion adjustments													4,172	120			4,172	120
Net Income for the year ended December 31, 2002									12,846,157	370,206							12,846,157	370,206
Capital surplus from disposal of property and equipment turn into retained earnings			(127,446)	(3,673)					127,446	3,673							0	0
Balance on December 31, 2002	\$50,686,158	\$1,460,696	\$3,048	\$88	\$13,254,705	\$381,980	\$0	\$0	\$12,973,603	\$373,879	(\$935,733)	(\$26,966)	\$10,829	\$312	(\$7,333,863)	(\$211,351)	\$68,658,747	\$1,978,638

(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 LIFE 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 for the Year	\$17,830,597	\$524,583	\$12,846,157	\$370,206
Adjustments:				
Loss (gain) on bad deb	592,873	17,443	2,608,957	75,186
Depreciation	1,953,497	57,473	1,868,804	53,856
Provision for reserve for operation	267,812,717	7,879,162	271,621,172	7,827,699
Recovered unearned premium reserv	(18,499,017)	(544,249)	(13,535,315)	(390,067)
Recovered reserve for life insurance	(106,797,552)	(3,142,029)	(94,396,970)	(2,720,374)
Recovered special reserv	0	0	(4,962,327)	(143,007)
Recovered claims reserv	(278,080)	(8,181)	(266,322)	(7,675)
Applicant terminates the insurance contrac income	(3,181,298)	(93,595)	(1,979,031)	(57,032)
Provision loss on short-term investment	(5,072,265)	(149,228)	(1,934,216)	(55,741)
Realized loss on long-term investments	198,077	5,828	0	0
Loss (gain) on disposal of property and equipmen	12,101	356	2,672	77
Loss (gain) on disposal of investment	(3,242,717)	(95,402)	(42,281)	(1,218)
Loss (gain) on disposal of real estat	(117,527)	(3,458)	11,815	340
Amortization long-term investments in bond	86,644	2,549	85,595	2,467
Unrealized loss (gain) on long-term investment	16,144	475	37,280	1,074
Effects of exchange rate change	1,319	39	(494)	(14)
Decrease (increase) in short-term investment	(107,374,227)	(3,158,995)	(76,826,582)	(2,214,023)
Decrease (increase) in notes receivabl	4,407,632	129,674	(328,141)	(9,457)
Decrease (increase) in notes and accounts receivable-related partie	(11,590)	(341)	(12,504)	(360)
Decrease (increase) in prepayment	274,290	8,070	73,539	2,119
Decrease (increase) in prepaid pensio	76,930	2,263	720,677	20,769
Decrease (increase) in other current asset	(1,313,970)	(38,657)	(1,345,888)	(38,786)
Decrease (increase) in temporary payments and suspense accounts	(139,167)	(4,094)	20,479	590
Decrease (increase) in deferred income tax asset	173,654	5,109	(21,367)	(616)
Increase (decrease) in notes payabl	(1,075)	(32)	1,003	29
Increase (decrease) in accounts payable-relate parties	176,470	5,192	1,276	37
Increase (decrease) in accrued expense	(2,600,883)	(76,519)	3,209,772	92,501
Increase (decrease) in other payabl	(144,707)	(4,257)	532,836	15,356
Increase (decrease) in accounts collected in advance	332,740	9,789	(15,517)	(447)
Increase (decrease) in other current liabilitie	(37,755)	(1,111)	19,369	558
Increase (decrease) in accrued pension liabilit	732,490	21,550	0	0
Increase (decrease) in temporary receipt and suspense accounts	153,474	4,515	34,249	987
Increase (decrease) in deferred income ta liabilitie	(90,763)	(2,670)	96,976	2,795
Net Cash Provided by (Used in) Operating Activitie	<u>45,929,056</u>	<u>1,351,252</u>	<u>98,125,673</u>	<u>2,827,829</u>
Cash Flows from Investing Activities				
Decrease (increase) in forward exchange receivabl	(2,232,150)	(65,671)	(29,622)	(854)
Decrease (increase) in policy loan	700,534	20,610	2,147,798	61,896
Decrease (increase) in secured loan	23,823,966	700,911	(9,513,782)	(274,172)
Acquisition of long-term investments Subsidiary	(75,000)	(2,207)	0	0
Acquisition of long-term investments Non Subsidiary	(121,577,215)	(3,576,852)	(100,326,230)	(2,891,246)
Proceeds from disposal of long-term investment	31,547,624	928,144	220,481	6,354
Disposal of investments in real estat	149,572	4,401	36,698	1,057
Acquisition of investments in real estat	(1,116,034)	(32,834)	(8,362,381)	(240,991)
Disposal of property and equipmen	18,614	548	25,141	725
Acquisition of property and equipmen	(731,828)	(21,531)	(1,211,214)	(34,905)
Decrease (increase) in non-operating asset	358,425	10,545	(1,719,885)	(49,564)
Decrease (increase) in guarantee deposits pai	(914,004)	(26,890)	1,017,781	29,331
Decrease (increase) in overdue receivable	1,048,225	30,839	(749,992)	(21,614)
Net Cash Provided by (Used in) Investing Activitie	<u>(68,999,271)</u>	<u>(2,029,987)</u>	<u>(118,465,207)</u>	<u>(3,413,983)</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 LIFE 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 Financing Activities				
Increase (decrease) in guarantee deposits received	32,985	971	12,304	355
Remuneration paid to directors and supervisors	(8,100)	(238)	(8,100)	(233)
Bonus to employees	0	0	(139,867)	(4,031)
Cash dividends	(5,441,520)	(160,092)	(10,254,383)	(295,515)
Disposal of treasury stock	4,259,127	125,305	0	0
Increase (decrease) in capital stock	0	0	(7,700,000)	(221,902)
Net Cash Provided by (Used in) Financing Activities	<u>(1,157,508)</u>	<u>(34,054)</u>	<u>(18,090,046)</u>	<u>(521,326)</u>
Effects of Exchange Rate Changes	(1,319)	(39)	494	14
Increase(decrease) in Cash and Cash Equivalents	(24,229,042)	(712,828)	(38,429,086)	(1,107,466)
Cash and Cash Equivalents at the Beginning of Year	135,061,552	3,973,567	173,490,638	4,999,730
Cash and Cash Equivalents at the End of Year	<u>\$110,832,510</u>	<u>\$3,260,739</u>	<u>\$135,061,552</u>	<u>\$3,892,264</u>
Supplemental Disclosure of Cash Flows Information				
Interest paid during the year	\$14,672	\$432	\$2,099	60
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interes	<u>\$14,672</u>	<u>\$432</u>	<u>\$2,099</u>	<u>\$60</u>
Income tax paid	<u>\$3,981,446</u>	<u>\$117,136</u>	<u>\$1,135,728</u>	<u>\$32,730</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 LIFE INSURANCE CO., LTD.
NOTES TO FINANCIAL STATEMENTS
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2003 and 2002

1. Organization of Business Scope

CATHAY LIFE INSURANCE CO., LTD. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became the subsidiary of CATHAY FINANCIAL HOLDING CO., LTD. (“Cathay Financial Holding”) by adopting the stock conversion method under the ROC Financial Holding Company Act (“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 are classified as noncurrent assets. Current liabilities mean debts must be paid-off within period of one year; debts do not belong to current liabilities are classified as noncurrent liabilities.

(2) Cash and Cash Equivalents

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

(3) Short-term Investments

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

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

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

Short-term notes are recorded at cost when acquired and stated on the balance sheet date, if the market value is available. The cost of notes, interest income, and gain or loss, either due to maturity or resulting from the sale of notes is determined by the specific identification method.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined based on the weighted-average 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 have 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 December 31, 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 December 31, 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 December 31, 2003, the amount of NT\$2,005,254(US\$58,995) 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 of China (the “Central Bank”). Such deposit is the “Guaranteed Depository Insurance”. The amount was deposited in the form of a bond.

(10) Reserve for Operations

Reserves for the operations are organized according to the Insurance Law. These reserves include the Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. The figures for these reserves are provided by actuaries.

The MOF passed a new 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\$183,852) from the “Special Reserve for the Loss Movement” in 2003.

(11) Insurance Premiums Income and Expenses

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

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

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

(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.

(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 conversion occurs. 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 opening 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 conversions are reported as "Cumulative Conversion Adjustments" under stockholders' equity as a separate item.

When the financial statements of a foreign operation are converted into 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 conversion is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is recognized in the current period because it directly affects the cash flows of the foreign operation.

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

(14) Income Taxes

The Company adopted SFAS No. 22, “ Accounting for Income Taxes”, which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences 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 should be estimated, if needed. The prior year’s income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

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.

Deferred income tax assets and liabilities are classified as current or noncurrent in accordance with the underlying assets or liabilities. Deferred income taxes not belonging to asset or liabilities are classified as current or noncurrent based on the length of the expected realizable or reversible period.

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 .

(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 is greater than the cost, the difference is credited to capital surplus. If the disposal price is lower than cost, the difference is debited to capital surplus. If capital surplus is insufficient to cover the excess of the cost over the price,

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

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 retired 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 contract 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 hedge 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 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 hedge 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. Interest rates are determined according to the applicable interest rate within the agreed period. The difference is credited or charged to the current income.

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

D. Interest rate swap agreements (IRS)

The interest rate swap agreements are used for the purpose of hedging risks and are adjusted for 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 December 31, 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\$33.99 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 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

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

4. Cash and Cash Equivalents

	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cash on hand	\$358,068	\$10,535	\$424,567	\$12,235
Cash in banks	4,195,877	123,444	6,455,415	186,035
Time deposits	63,754,099	1,875,672	105,978,512	3,054,136
Cash equivalents	42,524,466	1,251,088	22,203,058	639,858
Total	\$110,832,510	\$3,260,739	\$135,061,552	\$3,892,264

5. Short-Term Investments

	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Parent stock	\$0	\$0	\$856,726	\$24,690
Less: Allowance for valuation loss	(0)	(0)	(486,176)	(14,011)
Subtotal	0	0	370,550	10,679
Common stock and Beneficiary certificates	132,875,857	3,909,263	97,890,426	2,821,050
Oversea investments	170,351,226	5,011,804	77,300,167	2,227,671
Appoint purpose trust fund	46,557,350	1,369,737	42,520,064	1,225,362
Corporate bonds	8,388,114	246,782	12,908,702	372,009
Government bonds	17,756,801	522,413	13,798,947	397,664
Financial debentures	15,000,000	441,306	17,099,550	492,782
Short-term notes	46,112,314	1,356,644	46,950,946	1,353,053
Subtotal	437,041,662	12,857,949	308,468,802	8,889,591
Less: cash equivalents	(42,524,466)	(1,251,088)	(22,203,058)	(639,858)
Allowance for valuation loss	0	0	(4,586,089)	(132,164)
Subtotal	394,517,196	11,606,861	281,679,655	8,117,569
Total	\$394,517,196	\$11,606,861	\$282,050,205	\$8,128,248

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

	December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Short-term secured loans	\$61,500	\$1,809	\$106,902	\$3,081
Less: Allowance for bad debts	(394)	(11)	(1,069)	(31)
Subtotal	<u>61,106</u>	<u>1,798</u>	<u>105,833</u>	<u>3,050</u>
Medium-term secured loans	9,993,233	294,005	9,450,713	272,355
Less: Allowance for bad debts	(64,354)	(1,893)	(94,507)	(2,724)
Subtotal	<u>9,928,879</u>	<u>292,112</u>	<u>9,356,206</u>	<u>269,631</u>
Long-term secured loans	286,599,639	8,431,881	310,920,723	8,960,251
Less: Allowance for bad debts	(1,948,028)	(57,312)	(3,109,207)	(89,602)
Subtotal	<u>284,651,611</u>	<u>8,374,569</u>	<u>307,811,516</u>	<u>8,870,649</u>
Total	<u>\$294,641,596</u>	<u>\$8,668,479</u>	<u>\$317,273,555</u>	<u>\$9,143,330</u>

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

7. Long-Term Investments

(A) Long -term Investments in Stocks

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

<u>Investee</u>	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$ Book Value	US\$ Book Value	NT\$ Book Value	US\$ Book Value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$375,440	\$11,046	\$380,209	\$10,957
Cathay Insurance (Bermuda) Co., Ltd.	56,954	1,676	53,397	1,539
Cathay Venture Capital Corp.	221,256	6,509	142,294	4,101
Vista Technology Venture Capital Corp.	68,181	2,006	82,994	2,392
Omnitek Venture Capital Corp.	150,572	4,430	152,693	4,400
IBT Venture Capital Corp.	565,288	16,631	590,214	17,009
Wa Tech Venture Capital Co., Ltd.	179,871	5,292	176,034	5,073
Cathay Securities Investment Trust Co., Ltd.	207,601	6,108	198,726	5,727
Symphox Information Co., Ltd.	258,625	7,609	247,950	7,145
Lin Yuan Property Management Co., Ltd.	15,129	445	31,258	901
Cathay Securities Investment Co., Ltd.	15,477	455	9,427	272
Subtotal	<u>2,114,394</u>	<u>62,207</u>	<u>2,065,196</u>	<u>59,516</u>
B. Under the cost method:				
Cathay Financial Holding Co., Ltd.	0	0	12,399,063	357,322
WK Technology Fund Co., Ltd.	100,000	2,942	100,000	2,882
Taiwan Aerospace Company	110,500	3,251	260,000	7,493
Koo Group Telecommunications Co., Ltd.	749,998	22,065	749,998	21,614
Concord Venture Capital Co., Ltd.	89,280	2,627	89,280	2,573
Taipei Financial Center Corp.	1,441,591	42,412	1,441,591	41,544
Chunghwa Telecom Co., Ltd.	33,581,819	987,991	32,995,861	950,889
China Power Venture Capital Co., Ltd.	190,000	5,590	190,000	5,475
Investar Dayspring V.C. Inc.	200,000	5,884	200,000	5,764
FAT Venture Capital Co., Ltd.	50,000	1,471	50,000	1,441
Concord Venture Capital Co., Ltd.	50,000	1,471	50,000	1,441
WK Technology Fund Co., Ltd.	150,000	4,413	150,000	4,323
WK Technology Fund Co., Ltd.	127,200	3,742	127,200	3,666
Century Venture Capital Co., Ltd.	100,000	2,942	100,000	2,882
Super Tech Venture Capital Corp.	100,000	2,942	100,000	2,882

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

CDIB & Partners				
Investment Holding Corp.	500,000	14,710	500,000	14,409
Alex-Tech Machinery Industrial Co., Ltd.	7,008	206	21,000	605
ROC Venture Capital Co., Ltd.	151,970	4,471	151,970	4,379
National Venture Capital Co., Ltd.	100,000	2,942	100,000	2,882
WK Technology Fund Co., Ltd.	200,000	5,884	200,000	5,764
Capital Venture Fund Corp	50,000	1,471	50,000	1,441
Fu Yu Venture Capital Investment Corp.	200,000	5,884	200,000	5,764
Concord Venture Capital Co., Ltd.	100,000	2,942	100,000	2,882
Allied Material Technology Corp.	98,400	2,895	98,400	2,836
New Century InfoComm Tech Co., Ltd.	1,268,000	37,305	1,268,000	36,542
Srsuntour Co., Ltd.	62,000	1,824	62,000	1,787
Titan Venture Capital Co., Ltd.	150,000	4,413	150,000	4,323
Harbinger Venture Capital Crop.	200,000	5,884	200,000	5,764
Prosperity Venture Capital Corp.	100,000	2,942	100,000	2,882
KGEx.com Co., Ltd.	175,000	5,149	175,000	5,043
United Venture Corp.	50,000	1,471	50,000	1,441
BioCare Corp.	12,000	353	12,000	346
Megic Corp.	18,000	530	18,000	518
WK Technology Fund VIII Co., Ltd.	200,000	5,884	200,000	5,764
Hua Chih Venture Capital Corp.	60,000	1,765	60,000	1,729
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,354	80,000	2,305
Formosa Epitaxy Inc.	0	0	20,500	591
Win Semiconductors Corp.	16,364	482	50,949	1,468
Kinik Precision Grinding Co., Ltd.	6,000	177	6,000	173
Vita Genomics Inc.	87,500	2,574	87,500	2,521
Tong Hsing Electronic Inc. Co., Ltd.	27,144	799	27,144	782
China Technology Venture Capital Corp.	50,000	1,471	50,000	1,441
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,626	259,200	7,470
Applied Vacuum Coating Technologies Co., Ltd.	6,661	196	6,661	192
TaiGen Biotechnology Co., Ltd.	16,500	485	16,500	475
Darly 3 Venture Co., Ltd.	20,000	588	20,000	576
Cdid BioScience venture Inc.	285,000	8,385	285,000	8,213
Maxima Venture , Inc, Taiwan	126,630	3,726	126,630	3,649
Parawin Venture Capital Co., Ltd.	50,000	1,471	50,000	1,441

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

Top Taiwan Venture Capital Co., Ltd.	50,000	1,471	50,000	1,441
Cash Box Audio and Video Co., Ltd.	200,000	5,884	50,000	1,441
Richtech Technology Co., Ltd.	0	0	28,806	830
Hua Venture Capital Corp.	50,000	1,471	50,000	1,441
Shin Sheng Venture Capital Investment Corp.	50,000	1,471	50,000	1,441
Centillion Venture Capital Corp.	50,000	1,471	50,000	1,441
Harbinger Venture Capital Corp.	100,000	2,942	100,000	2,882
Unitive Semiconductor Taiwan Corp.	46,800	1,377	46,800	1,348
Enermax Technology Corp.	47,600	1,400	0	0
Creative Sensor Inc.	11,820	348	0	0
Tong Lung Metal Industry Co., Ltd.	300,000	8,826	0	0
Hsin Tao Power Corp.	640,000	18,829	0	0
CTBI Venture Capital Co., Ltd.	50,000	1,471	0	0
Taiwan High Speed Rail Corp.	1,000,000	29,420	0	0
Subtotal	44,369,985	1,305,383	54,231,053	1,562,854
Total	\$46,484,379	\$1,367,590	\$56,296,249	\$1,622,370

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

	December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Balance at January 1	\$2,065,196	\$60,759	\$2,010,259	\$57,932
Add: Investment gains (losses) by equity method recognized	22,960	675	(30,755)	(886)
Increment of investments	75,000	2,207	112,000	3,228
Cumulative conversion adjustments	(1,849)	(54)	(466)	(13)
Unrealized valuation losses on long-term equity investment	(9,962)	(293)	(9,458)	(273)
Capital surplus by equity method recognized	2,152	63	0	0
Less: Cash dividends	(39,103)	(1,150)	(16,384)	(472)
Balance of December 31,	\$2,114,394	\$62,207	\$2,065,196	\$59,516

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

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

<u>Investee</u>	For the years ended December 31,			
	<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
Cathay Insurance (Bermuda) Co., Ltd.	4,804	141	512	15
Symphox Information Co., Ltd.	10,675	314	(33,581)	(968)
Cathay Venture Capital Corp.	4,917	145	(8,592)	(248)
Visa Technology Venture Capital Corp.	(17,319)	(510)	(15,044)	(434)
Omnitek Venture Capital Corp.	2,979	87	2,280	66
IBT Venture Capital Corp	(12,043)	(354)	5,237	151
Wa Tech Venture Capital Corp.	22,192	653	3,118	90
Cathay Securities Investment Trust Co., Ltd.	8,875	261	9,823	283
Cathay Securities Investment Co., Ltd.	6,050	178	(573)	(16)
Lin Yuan Property Management Co., Ltd.	(8,028)	(236)	4,258	123
Total	<u>\$22,960</u>	<u>\$ 675</u>	<u>(\$30,755)</u>	<u>(\$ 886)</u>

(1) It is not practicable for some investee companies under the equity method to provide timely audited financial statements. If the Company owns less than 50% interest of such investees, the recognition investment gains or losses for those investees shall be deferred to next year. That is, the Company will recognize its investment gains or losses in proportion to its equivalent stock ownership in the following year.

The Company owns less than 50% voting share of the following investees: The WK Technology Fund Co., Ltd. Visa Technology Venture Capital Corp. Omnitek Venture Capital Corp. Wa Tech Venture Capital Corp. and IBT Venture Capital Corp for the years ended December 31, 2003 and 2002.

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

- (2) The Company holds over 50% of Cathay Insurance (Bermuda) Co., Ltd. Symphox Information Co., Ltd. Cathay Securities Investment and Lin Yuan Property Management Co., Ltd. However, these four subsidiaries' financial reports were not consolidated because each account items in their total assets and operation revenues contributed less than 10% to the Company's.
- (3) The investment income (losses) were recognized based current year's audited financial statements of Cathay Insurance (Bermuda) Co., Ltd. Lin Yuan Property Management Co., Ltd. Cathay Securities Investment Trust Co., Ltd. Cathay Securities Investment Co., Ltd. Cathay Venture Capital Corp. and Symphox Information Co., Ltd.
- (4) December 31, 2002. United World Chinese Commercial Bank Co., Ltd. ("UWCCB") was audited by other CPAs with unqualified opinions with modification due to the potential adjustment, except for the long-term investments in the amount of NT\$2,073,365 (US\$59,751) under the equity method and investment losses in the amount of NT\$375,074 (US\$10,809) which were all in accordance with unaudited reports of its investee companies. However, as the Company determined 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 audited by other CPAs. Cathay Financial Holding acquired UWCCB on December 18, 2002. As a result, the shares of UWCCB held by the Company were swapped for 344,227,175 shares of Cathay Financial Holding.

8. Long-Term Investments in Bonds

Long-term investments in bonds consist mainly of government bonds as of December 31, 2003 and 2002. Partial Bonds are deposited in the Central Bank as Capital Guarantee Deposits. As of December 31, 2003 and 2002, the capital guarantee deposits amounted to NT\$7,937,998 (US\$233,539) and NT\$7,730,262 (US\$222,774), respectively, categorized under securities serving as deposits paid-bonds of other assets. Please see note 19, "Pledged assets" for details.

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

9. Investments in Real Estate

Item	December 31, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,700,707	\$2,786,134	\$4,851	\$143	(11,688,521)	(343,881)	\$83,017,037	\$2,442,396
Construction	11,466,637	337,353	0	0	0	0	11,466,637	337,353
Prepayment for buildings and land	414	12	0	0	0	0	414	12
Total	\$106,167,758	\$3,123,499	\$4,851	\$143	(\$11,688,521)	(\$343,881)	\$94,484,088	\$2,779,761

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,078,903	\$2,711,207	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$83,703,729	\$2,412,211
Construction	10,447,165	301,071	0	0	0	0	10,447,165	301,071
Prepayment for buildings and land	414	12	0	0	0	0	414	12
Total	\$104,526,482	\$3,012,290	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$94,151,308	\$2,713,294

- (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	December 31, 2003							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,159,585	\$151,797	\$1,924	\$57	\$0	\$0	\$5,161,509	\$151,854
Buildings and structures	11,193,060	329,304	0	0	(3,105,383)	(91,361)	8,087,677	237,943
Communication and transportation equipment	137,010	4,031	0	0	(59,307)	(1,745)	77,703	2,286
Other equipment	4,359,036	128,245	0	0	(2,329,907)	(68,547)	2,029,129	59,698
Subtotal	20,848,691	613,377	1,924	57	(5,494,597)	(161,653)	15,356,018	451,781
Construction in progress	48,768	1,435	0	0	0	0	48,768	1,435
Prepayment for equipment	61,159	1,799	0	0	0	0	61,159	1,799
Total	\$20,958,618	\$616,611	\$1,924	\$57	(\$5,494,597)	(\$161,653)	\$15,465,945	\$455,015

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

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,502,414	\$158,571	\$1,643	\$47	\$0	\$0	\$5,504,057	\$158,618
Buildings and structures	10,704,265	308,480	0	0	(2,899,319)	(83,554)	7,804,946	224,926
Communication and transportation equipment	139,050	4,007	0	0	(52,382)	(1,510)	86,668	2,497
Other equipment	3,955,648	113,996	0	0	(2,051,679)	(59,126)	1,903,969	54,870
Subtotal	20,301,377	585,054	1,643	47	(5,003,380)	(144,190)	15,299,640	440,911
Construction in progress	502,989	14,496	0	0	0	0	502,989	14,496
Prepayment for equipment	164,490	4,740	0	0	0	0	164,490	4,740
Total	\$20,968,856	\$604,290	\$1,643	\$47	(\$5,003,380)	(\$144,190)	\$15,967,119	\$460,147

No property and equipment was pledged as collateral. The insurance coverage on property and equipment and real estate investments are stated at book value.

11. Overdue Receivables

	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,863,861	\$84,256	\$6,103,371	\$175,890
Less: Allowance for bad and doubtful debts	(1,431,931)	(42,128)	(1,838,335)	(52,978)
Total	\$1,431,930	\$42,128	\$4,265,036	\$122,912

12. Capital Stock and Capital Increment

As of December 31, 2003 and 2002, the total authorized shares were the same 5,068,615,765, with par value of NT10 dollars each.

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

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 can not be used for the purpose of cash dividend distribution. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by the Board of Directors.

(2) Unappropriated Retained Earnings

A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, should first be added to the legal reserve. After distributing stock interests and 2% of the total remaining distribution as bonus for employees, the remainder shall be allocated in accordance with a resolution in the Board of Directors' meeting.

B. According to related regulations, if any undistributed retained earnings of the Company assessed by the tax authority 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 alternatively, the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

C. According to the revised ROC Tax Law ("Tax Law") of 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

D. According to the regulations issued by SFC, the Company should assume that dividends for year 2002 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

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

	For the years ended December 31,	
	2002(NT\$)	2002(US\$)
A. Distribution		
Bonus paid to employees-Cash	\$49,602	\$1,459
Bonus paid to employees-Stock	0	0
Remuneration paid to directors and supervisors	8,100	238
B. After income tax earnings per share (expressed in dollars)	\$2.39	\$0.07
Pro forma earnings per share (expressed in dollars)	\$2.38	\$0.07

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

The surplus appropriation act of 2003 has not yet passed by the board of directors of the Company as the date of this audit report is issued.

14. Treasury Stock

- (1) The Company's treasury stock variation for the year ended December 31, 2003 are as follows:

	Jan. 1, 2003	Increase	Decrease	Dec. 31, 2003
Reason for transfer				
Transferred it to employees	156,927	0	105,376	51,551

(Unit: thousand shares)

- (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\$215,765).
- (3) Treasury stock of the Company was converted into common stock of Cathay Financial Holding on December 31, 2001. As a result of this conversion, Cathay Financial Holding owned 100% of the Company's shares.

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

(4) The Company had been transferred 105,376,000 shares to its employees at transferred price of NT40.54dollars/share (US1.2dollars/share) and was approved by the SFC on October 16, 2003. After the transfer transaction, the treasury stock holdings of the Company have been reduced to 51,551,000 shares.

15. 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	20,403,545	2,693,679	23,097,224	21,146,404	2,880,568	24,026,972
Labor & health Insurance expenses	1,243,291	186,483	1,429,774	1,205,377	194,134	1,399,511
Pension expenses	958,877	143,823	1,102,700	880,008	141,732	1,021,740
Other expenses	1,127,502	213,231	1,340,733	1,241,422	221,141	1,462,563
Depreciation	-	1,953,497	1,953,497	-	1,868,804	1,868,804
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

Item	For the year ended December 31,2003 (US\$)			For the year ended December 31,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	600,281	79,249	679,530	609,406	83,014	692,420
Labor & health Insurance expenses	36,578	5,487	42,065	34,737	5,595	40,332
Pension expenses	28,211	4,231	32,442	25,361	4,084	29,445
Other expenses	33,172	6,273	39,445	35,776	6,373	42,149
Depreciation	-	57,473	57,473	-	53,856	53,856
Depletion	-	-	-	-	-	-
Amortizations	-	-	-	-	-	-

The total number of employees is 28,977 on December 31, 2003.

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

16. Estimated Income Taxes

Income tax expenses include the following:

	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Income before Taxes	\$19,770,299	\$581,650	\$16,059,089	\$462,798
Adjustments				
Interest income of tax on a separate basis	(879,469)	(25,874)	(948,741)	(27,341)
Loss (gain) on disposal of investments	(4,971,138)	(146,253)	(207,335)	(5,975)
Loss (gain) on disposal of land	(126,246)	(3,714)	(11,110)	(320)
Loss (gain) on market price loss (recovery) of short-term investments	(5,072,265)	(149,228)	(1,934,216)	(55,741)
Bad debts exceeding legal limit (recovery)	(1,284,683)	(37,796)	(603,685)	(17,397)
Unrealized exchange loss (gain)	191,027	5,620	(193,140)	(5,566)
Cash Dividend	(1,733,886)	(51,012)	(1,133,458)	(32,665)
Unfunded pension expense	809,420	23,814	720,677	20,769
Loss (gain) on market price loss (recovery) of long-term investments	198,077	5,828	0	0
Others	(41,427)	(1,219)	833	24
Taxable Income	6,859,709	201,816	11,748,914	338,586
Times; Taxes Rate; Less:				
Progressive difference	25% - 10	25%	25% - 10	25%
Add: Extra 10% Income Tax on Undistributed Retained Earnings	137,663	4,050	136,605	3,937
Less: Tax effects under integrated income tax systems	(137,663)	(4,050)	0	0
Subtotal	1,714,917	50,454	3,073,823	88,583
Add: Tax on a separate basis	175,894	5,175	189,748	5,468
Beginning deferred income tax assets	649,565	19,110	892,355	25,716
Ending deferred income tax liabilities	1,135,785	33,415	1,432,194	41,274
Less: Income tax credit	(17,739)	(522)	(126,248)	(3,638)
Beginning deferred income tax liabilities	(1,432,194)	(42,136)	(1,599,375)	(46,092)
Ending deferred income tax assets	(270,265)	(7,951)	(649,565)	(18,719)
Dissimilitude on estimate tax after time	(16,261)	(478)	0	0
Total Income Tax expenses	<u>\$1,939,702</u>	<u>\$57,067</u>	<u>\$3,212,932</u>	<u>\$92,592</u>

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

(1) The Company's income tax returns, except for the 1999, had been filed and assessed by the Tax Authorities as the end of the 2000.

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

	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax liabilities	\$1,135,785	\$33,415	\$1,432,194	\$41,274
Total deferred income tax assets	\$270,265	7,951	\$649,565	\$18,719
B. Temporary differences:				
Employee benefits	\$33,142	\$975	\$68,071	\$1,962
Unrealized exchange gains (Losses)	(4,543,141)	(133,661)	(4,734,168)	(136,431)
Bad debts exceeding legal limit	295,619	8,697	1,580,302	45,542
Pension expense	732,490	21,550	(76,930)	(2,217)
Other	19,811	583	32,211	928
C. Deferred income tax assets-current	\$10,541	\$310	\$16,785	\$483
Deferred income tax liabilities-current	(1,135,785)	(33,415)	(1,232,792)	(35,527)
Net offset balance of deferred income tax assets (liabilities)-current	<u>(\$1,125,244)</u>	<u>(\$33,105)</u>	<u>(\$1,216,007)</u>	<u>(\$35,044)</u>
D. Deferred income tax assets-noncurrent	\$259,724	\$7,641	\$632,780	\$18,236
Deferred income tax Liabilities- noncurrent	(0)	(0)	(199,402)	(5,747)
Net offset balance of deferred income tax assets (liabilities) - noncurrent	<u>\$259,724</u>	<u>\$7,641</u>	<u>\$433,378</u>	<u>\$12,489</u>

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

(3) Information related to tax imputation

	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$1,403,484	\$41,291	\$3,806,751	\$109,705

	December 31,	
	<u>2003</u>	<u>2002</u>
Imputation credit account ratio – Estimate	7.90%	-
Imputation credit account ratio – Actual June 2, 2003	-	30.17%

(4) Related Information on Undistributed Earnings

Year	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$0	\$0	\$105,651	\$3,045
After 1998	17,788,827	523,355	12,867,952	370,834
Total	<u>\$17,788,827</u>	<u>\$523,355</u>	<u>\$12,973,603</u>	<u>\$373,879</u>

(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\$	
Statute for Upgrading Industries	Education training	\$14,813	\$436	\$0	\$0	2007
	Investment	2,926	86	0	0	2007
	Total	<u>\$17,739</u>	<u>\$522</u>	<u>\$0</u>	<u>\$0</u>	

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

17. Earning Per Share

	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Income from continuing operations before income taxes (a)	\$19,770,299	\$581,650	\$16,059,089	\$462,798
Net income (b)	<u>\$17,830,597</u>	<u>\$524,583</u>	<u>\$12,846,157</u>	<u>\$370,206</u>
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)	4,932,763,965	4,932,763,965	5,384,236,710	5,384,236,710
Adjusted weighted average outstanding number of shares (d)	4,932,763,965	4,932,763,965	5,384,236,710	5,384,236,710
Before income taxes Earnings per share (a) / (c) (dollars)	<u>\$4.01</u>	<u>\$0.12</u>	<u>\$2.98</u>	<u>\$0.09</u>
After income taxes Earnings per share (b) / (c) (dollars)	<u>\$3.61</u>	<u>\$0.11</u>	<u>\$2.39</u>	<u>\$0.07</u>
Before income taxes Adjusted earnings per share (a) / (d) (dollars)	<u>\$4.01</u>	<u>\$0.12</u>	<u>\$2.98</u>	<u>\$0.09</u>
After income taxes Adjusted earnings per share (b) / (d) (dollars)	<u>\$3.61</u>	<u>\$0.11</u>	<u>\$2.39</u>	<u>\$0.07</u>

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

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

(Shares)	For the years ended December 31,	
	2003	2002
Shares at the beginning of year	5,068,615,765	5,838,615,765
Disposal of the treasury stock	21,075,200	0
Treasury stock	(156,927,000)	(156,927,000)
Capital decrease	0	(297,452,055)
Total	4,932,763,965	5,384,236,710

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 Co., Ltd. (Originally merged by United World Chinese Commercial Bank and Cathay United Bank, effective merged dated on October 27, 2003)	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay Property Insurance Agent Co., Ltd.	Affiliate
Seaward Futures Co., Ltd.	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Seaward Property Insurance Agent Co., Ltd.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Indovina Bank	Affiliate
Seaward Insurance Agent Co., Ltd.	Affiliate
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Cathay Venture Capital Co., Ltd.	The investee is accounted for using equity method
Cathay General Hospital	Their chairman is an immediate family member of the Company's chairman
Cathay Life Charity Foundation	Their chairman is an immediate family member of the Company's chairman

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

Wan Pao Development Co., Ltd.	Their chairman is an second immediate family member of the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is an second immediate family member of the Company's chairman
KG Telecommunication Co., Ltd.	The company is to occupy the supervisor for KG Telecommunication LTD.,
Grand Pacific Petrochemical Corporation	The ex-president of United World Chinese Commercial Bank was appointed as the vice president of the Company(resigned in year 2003)

(2) *Significant Transactions with Related Parties*

A. Property Transactions (From related parties):

Transactions between the Company and related parties are real estate, construction, 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 years ended December 31, 2003 and 2002 are list below:

Name	Item	For the year ended December 31, 2003	
		NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build, extend or repair:		
	Tainmu Jung Cheng-A	\$6,888	\$203
	Tainmu Jung Cheng-B	6,973	205
	Hsinyi District Base-D	721,116	21,215
	Cathay Information Building	22,122	651
	Tucheng Office Building	41,029	1,207
	Ban Ciao Building	146,108	4,298
	Hsinyi District Base-E	23,874	702
	Min Sheng Building	19,104	562
	Sheraton Taipei Building	80,884	2,380
	Taitung Building	2,776	82
	Yong Kang Building	125	4
	Cathay General Hospital of Hsinchu	189	6
Other	13,051	384	
Cathay Real Estate Development Co., Ltd.	Hsinyi District Base-D	3,749	110
	Tucheng Office Building	1,330	39
	Ban Ciao Building	2,357	69
	Hsinyi District Base-E	442	13
	Total	\$1,092,117	\$32,130

For the year ended December 31, 2002

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

Name	Item	NT\$	US\$
	The construction build or extend:		
San Ching Engineering Co., Ltd.	Tainan Shopping Center	\$2,184,921	\$62,966
	Cathay General Hospital of Hsinchu	664,310	19,144
	Taitung Building	211,819	6,104
	Lin Yuan Financial building	1,608,917	46,367
	Hsinyi District Base-D	681,876	19,651
	Other	187,968	5,417
Cathay Real Estate Development Co., Ltd.	Other	4,897	141
	Total	<u>\$5,544,708</u>	<u>\$159,790</u>

a. The total amount of construction contracts for real estate on December 31, 2003 and 2002 between the Company and San Ching Engineering Co., Ltd. are \$10,361,754 (US\$304,847) and \$19,940,725 (US\$574,661) respectively. As of December 31 in 2003 and 2002, \$10,338,340 (US\$304,158) and \$9,274,524 (US\$267,277) had been paid according to the schedule of construction contracts.

b. For the years ended December 31, 2003 and 2002, the Company did not repurchase properties and investments that they had previously sold.

(B) We didn't recognize the gain (loss) of real estate which sold to Cathay General Hospital for the year ended December 31, 2003, because unfinished process. The company did not sell any real estate to its related parties during the years of 2002.

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

Name	Rental income			
	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Real Estate Development Co., Ltd.	\$28,092	\$826	\$30,944	\$892
San Ching Engineering Co., Ltd.	18,336	539	19,962	575
Cathay Century Insurance Co., Ltd.	50,462	1,485	49,274	1,420
Cathay United Bank	187,088	5,504	135,933	3,917
Cathay Securities Investment Trust Co., Ltd.	8,854	261	9,131	263
Cathay Financial Holding Co., Ltd.	7,816	230	7,816	225
Cathay General Hospital	166,271	4,892	156,235	4,502
Symphox Information Co., Ltd.	29,008	853	30,735	886
Grand Pacific Petrochemical Corporation	0	0	1,121	32
Lin Yuan Property Management Co., Ltd.	437	13	62	2
Lin Ynan Investment Co., Ltd.	136	4	104	3
KG Telecommunication Co., Ltd.	11,719	345	0	0
Cathay Securities Investment Co., Ltd.	4,140	122	0	0
Total	<u>\$512,359</u>	<u>\$15,074</u>	<u>\$441,317</u>	<u>\$12,717</u>

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

Name	Guarantee deposits received			
	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$364	\$12,386	\$357
San Ching Engineering Co., Ltd.	7,079	208	7,079	204
Cathay Century Insurance Co., Ltd.	13,078	385	12,730	367
Cathay United Bank	65,964	1,941	38,629	1,113
Cathay General Hospital	2,339	69	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	63	2,144	62
Grand Pacific Petrochemical Corporation	0	0	143	4
Lin Yuan Property Management Co., Ltd.	49	1	49	1
Symphox Information Co., Ltd.	1,421	42	1,421	41
KG Telecommunication Corp.	8,383	246	0	0
Lin Ynan Investment Co., Ltd.	16	1	16	1
Total	\$112,859	\$3,320	\$76,580	\$2,207

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

(D) Real-Estate Rental Expense (From related parties)

Name	Rental Expense			
	For the years ended December 31,			
	2003	2003	2002	2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$30,300	\$891	\$27,098	\$781
Lin Yuan Investment Co., Ltd.	5,016	148	0	0
Total	\$35,316	\$1,039	\$27,098	\$781

Name	Guarantee Deposits paid			
	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2002
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,352	\$275	\$9,352	\$270
Lin Yuan Investment Co., Ltd.	1,650	49	0	0
Total	\$11,002	\$324	\$9,352	\$270

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

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

(E) Disposal of Property and Equipment Information:

Name	Item	For the year ended December 31, 2002			
		Amount		(Loss) Gain	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation Equipment	\$698	\$20	(\$12)	(\$0)

(F) Acquisition of Property and Equipment Information:

Name	Item	For the years ended December 31,			
		2003	2003	2002	2002
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	Transportation Equipment	\$1,560	\$46	\$0	\$0
	Other equipment	0	0	39,787	1,147
	Total	\$1,560	\$46	\$39,787	\$1,147

B. Marketable Securities - Stock

Name	Item	For the year ended December 31, 2002		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,700	\$27,000	\$778

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

C. Cash In Bank

		December 31, 2003			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		(NT\$)	(NT\$)		
Cathay United Bank	Time Deposit	\$13,393,550	\$8,768,550	0.75% ~ 1.90%	\$67,409
	Cash In Bank	21,650,859	4,188,598	0.00% ~ 0.20%	1,101
Total			<u>\$12,957,148</u>		<u>\$68,510</u>

		December 31, 2003			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		(US\$)	(US\$)		
Cathay United Bank	Time Deposit	\$394,044	\$257,975	0.75% ~ 1.90%	\$1,983
	Cash In Bank	636,977	123,230	0.00% ~ 0.20%	33
Total			<u>\$381,205</u>		<u>\$2,016</u>

		December 31, 2002			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
Cathay United Bank	Time Deposit	\$15,002,350	\$7,650,350	1.85%~5.20%	\$205,674
	Cash In Bank	27,471,073	5,134,720	0.00%~2.40%	22,414
Total			<u>\$12,785,070</u>		<u>\$228,088</u>

		December 31, 2002			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		NT\$	NT\$		
United World Chinese	Time Deposit	\$23,500,000	\$21,700,000	1.65%~4.60%	\$112,241
Commercial Bank	Cash In Bank	262,250	158,486	0.00%~1.75%	240
Total			<u>\$21,858,486</u>		<u>\$112,481</u>

		December 31, 2002			
Name	Item	Maximum Amount	Ending Balance	Rate	Interest Income
		US\$	US\$		
Cathay United Bank	Time Deposit	\$432,344	\$220,471	1.85%~5.20%	\$5,927
	Cash In Bank	791,674	147,975	0.00%~2.40%	646
Total			<u>\$368,446</u>		<u>\$6,573</u>

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

Name	Item	December 31, 2002			
		Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
United World Chinese	Time Deposit	\$677,233	\$625,360	1.65%~4.60%	\$3,235
Commercial Bank	Cash In Bank	7,558	4,568	0.00%~1.75%	7
Total			<u>\$629,928</u>		<u>\$3,242</u>

D. Regular Secured Loans

Name	December 31, 2003			
	Maximum Amount (NT\$)	Ending Balance (NT\$)	Rate	Interest Income (NT\$)
Cathay General Hospital	<u>\$1,173,912</u>	<u>\$1,173,181</u>	3.50% ~ 4.25%	<u>\$44,911</u>

Name	December 31, 2003			
	Maximum Amount (US\$)	Ending Balance (US\$)	Rate	Interest Income (US\$)
Cathay General Hospital	<u>\$34,537</u>	<u>\$34,515</u>	3.50% ~ 4.25%	<u>\$1,321</u>

Name	December 31, 2002			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay General Hospital	<u>\$1,174,594</u>	<u>\$1,173,912</u>	4.44%~5.21%	<u>\$54,685</u>

Name	December 31, 2002			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay General Hospital	<u>\$33,850</u>	<u>\$33,830</u>	4.44%~5.21%	<u>\$1,576</u>

E. Beneficiary Certificates:

Name	For the years ended December 31,			
	<u>2003</u> NT\$	<u>2003</u> US\$	<u>2002</u> NT\$	<u>2002</u> US\$
Cathay Securities Investment Trust Co., Ltd.	<u>\$4,041,834</u>	<u>\$118,912</u>	<u>\$3,589,039</u>	<u>\$103,431</u>

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

F. Notes Receivable-Related Parties

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$16,404	\$483	\$35,332	\$1,018
Cathay Century Insurance Co., Ltd.	15,873	467	0	0
Symphox Information Co., Ltd.	1,388	41	721	21
Cathay Securities Investment Co., Ltd.	76	2	0	0
Cathay United Bank	0	0	58	2
Cathay Real Estate Development Co., Ltd.	475	14	0	0
Lin Yuan Property Management Co., Ltd.	9	0	0	0
Cathay Insurance (Bermuda) Co., Ltd.	13,476	396	0	0
Total	<u>\$47,701</u>	<u>\$1,403</u>	<u>\$36,111</u>	<u>\$1,041</u>

G. Accounts Payable-Related Parties

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$189,660	\$5,580	\$0	\$0
Cathay Real Estate Development Co., ltd.	1,141	34	0	0
Cathay Century Insurance Co., Ltd.	2,242	66	4,353	126
Lin Yuan Property Management Co., Ltd.	0	0	491	14
Symphox Information Co., Ltd.	16,698	491	28,428	819
Total	<u>\$209,741</u>	<u>\$6,171</u>	<u>\$33,272</u>	<u>\$959</u>

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

H. Accounts Collected in Advance

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century insurance Co., Ltd.	\$2,219	\$65	\$2,217	\$64
Other	284	9	468	13
Total	<u>\$2,503</u>	<u>\$74</u>	<u>\$2,685</u>	<u>\$77</u>

I. Prepayment

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$21,758	\$640	\$159,382	\$4,593

J. Guarantee Deposit Paid

Name	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$55,000	\$1,618	\$0	\$0

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

K. Insurance Expense

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$174,748	\$5,141	\$131,432	\$3,788

Insurance Expenses are mainly insurance premium paid for property and equipment, cash, and public accident. Of the premium paid on December 31, 2003 and 2002 amounts of \$12,358 (US\$364) and \$12,281 (US\$354) were paid for employees' fidelity guarantee insurance.

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

L. Indemnity Income

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$17,559	\$517	\$17,700	\$510

Indemnity Income consists mainly claims on insured property and equipment, cash, and public accident of among the claims received in December 31, 2003 and 2002, \$12,201 (US\$359) and \$10,316 (US\$297), represented claims for employees' fidelity guarantee insurance.

M. Reinsurance Income

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$90,584	\$2,665	\$132,926	\$3,831

N. Reinsurance Claims Payment

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$34,161	\$1,005	\$43,424	\$1,251

O. Reinsurance Commissions Expense

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$21,481	\$632	\$28,322	\$816

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

P. Reinsurance Handing Fee Expense

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$6,490	\$191	\$6,186	\$178

Q. Miscellaneous Income

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$309,840	\$9,116	\$2,738	\$79

R. Commissions Expense

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$46,620	\$1,372	\$27,531	\$793
Seaward Insurance agent Corp.	72,440	2,131	63,449	1,829
Total	\$119,060	\$3,503	\$90,980	\$2,622

S. Marketing Expense

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$424,457	\$12,488	\$239,738	\$6,909

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

T. Administrative and general expense

	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$736,739	\$21,675	\$961,687	\$27,714
Cathay Securities Investment Co., Ltd.	39,375	1,159	0	0
Cathay Real Estate Development Co., Ltd.	11,090	326	4,286	124
San Ching Engineering Co., Ltd.	14,750	434	0	0
Total	<u>\$801,954</u>	<u>\$23,594</u>	<u>\$965,973</u>	<u>\$27,838</u>

U. Donations

Name	For the years ended December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$0	\$0	\$350,000	\$10,086

19. Pledged Assets

As of December 31, 2003 and 2002, the Company pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, 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 long-term investment bonds in an amount equal to an amount of 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	December 31,			
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,937,998	\$233,539	\$7,730,262	\$222,774
Time Deposits	878,750	25,853	711,550	20,506
Total	<u>\$8,816,748</u>	<u>\$259,392</u>	<u>\$8,441,812</u>	<u>\$243,280</u>

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

20. Other Important Matters and Contingent Liabilities

As of December 31, 2003, signed sales contracts and construction contracts of approximately \$800 million (US\$24 million), respectively, are either not completed or still in progress and remain open projects. About \$4 million (US\$0.12 million) had been paid during the year.

21. Serious Damages: None

22. Subsequent Events: None

23. Other Important Events

(1) Pension Related Information

A. With respect to the accounting for pensions, we performed the amount based on minimum pension liability and net periodic pension cost. As of December 31, 2003 and 2002, we have allotted NT\$293,280 (US\$8,628) and NT\$301,062 (US\$8,676), respectively.

B. Pension funded status:

	For the years ended December 31,			
	2003	2003	2002	2002
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Vested benefit obligation	(\$5,406,316)	(\$159,056)	(\$4,719,843)	(\$136,019)
(2) Non-vested benefit obligation	(3,898,071)	(114,683)	(3,246,744)	(93,566)
(3) Accumulated benefit obligation	(9,304,387)	(273,739)	(7,966,587)	(229,585)
(4) Additional benefits based on future salaries	(2,163,173)	(63,641)	(1,872,973)	(53,976)
(5) Projected benefit obligation	(11,467,560)	(337,380)	(9,839,560)	(283,561)
(6) Vested benefit	(7,902,437)	(232,493)	(7,266,281)	(209,403)
(7) Fair value of plan assets	10,092,972	296,939	8,171,944	235,503
(8) Funded status = (5) + (7)	(1,374,588)	(40,441)	(1,667,616)	(48,058)
(9) Unrecognized transitional net benefit obligation (net assets)	(2,650,892)	(77,990)	(3,029,591)	(87,308)
(10) Unrecognized prior service cost	413,867	12,176	465,601	13,418
(11) Unrecognized pension gain and loss	2,879,122	84,705	4,308,536	124,165
(12) Additional accrued pension liability	0	0	0	0
(13) Accrued pension liability /prepaid pension cost =(8)+(9)+(10)+(11)+(12)	(\$732,491)	(\$21,550)	\$76,930	\$2,217

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

C. Actuarial assumptions

	Year Ended December 31,	
	2003	2002
(1) Discount rate	3.50%	4.00%
(2) Rate of increase in future salaries	3.00%	3.00%
(3) Expected return on pension plan Assets	3.50%	4.00%

(2) Financial Instruments Related Information

A. Derivative Financial Instruments related information

(A). Purpose

Effective December 31, 2003, the Company 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 contract, 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.

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

(D). Product type and condition

a. Futures

All futures transaction had offset on December 31, 2003 and 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 December 31, 2003 and 2002, the Company had forward exchange contracts and CCS of approximately US\$12,376,800 and US\$6,480,000, respectively, in national value.

The year ended December 31, 2003 forward contracts are due from the period of January 3, 2003 to January 2, 2004.

Item	Contract Amount	December 31, 2003			
		Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$12,376,800	\$420,160,422	\$12,361,295	\$422,574,293	\$12,432,312

Item	Contract Amount	December 31, 2002			
		Fair Value		Due Value	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Forward & CCS	US\$6,480,000	\$224,393,948	\$6,466,684	\$224,351,730	\$6,465,468

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

Net capital	December 31,	
	2003	2002
Short-term investment	US\$12,376,800	US\$6,480,000

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

The forward contracts agreement listed loss amount is about NT\$966,356 (US\$28,431) to this company for the year ended December 31, 2003.

c. Interest Rate Swap Agreement (IRS)

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

Category	Period	Amount
IRS	2002.09.03~2010.11.07	NT\$37,500,000 US\$1,103,266

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:

Item	December 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$394,517,196	\$11,606,861	\$403,809,617	\$11,880,248
Long-term Investment –				
Cost method	\$44,369,985	\$1,305,383	\$46,185,526	\$1,358,797
Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Shot-term Investment	\$282,050,205	\$8,128,248	\$282,050,205	\$8,128,248
Long-term Investment –				
Cost method	\$54,231,053	\$1,562,854	\$54,231,053	\$1,562,854

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

(c) Discretionary Account Management

Item	December 31, 2003			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$2,213,351	\$65,118	\$2,247,032	\$66,109
Repurchase bonds	6,197,247	182,326	6,198,381	182,359
Short-term securities	250,024	7,356	250,081	7,357
Convertible bonds	497,528	14,638	533,182	15,686
Bonds	1,890,603	55,622	1,885,500	55,473
Cash in bank	295,962	8,707	295,962	8,707
Net other assets less liabilities	(163,411)	(4,808)	(163,411)	(4,808)
Total	<u>\$11,181,304</u>	<u>\$328,959</u>	<u>\$11,246,727</u>	<u>\$330,883</u>

Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,000,211	\$28,824	\$936,044	\$26,975
Repurchase bonds	5,077,614	146,329	5,077,614	146,329
Short-term securities	216,680	6,244	216,680	6,244
Bonds	907,013	26,139	975,373	28,109
Cash in bank	297,639	8,578	297,639	8,578
Net other assets less liabilities	(10,009)	(288)	(10,009)	(288)
Total	<u>\$7,489,148</u>	<u>\$215,826</u>	<u>\$7,493,341</u>	<u>\$215,947</u>

(d) Material Contract: None

(e) Presentation of Financial Statements:

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

(f) 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.

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

24. Information for Investment in Mainland China: None

25. Segment Information: None