

Cathay Century Insurance Co., Ltd.
Financial statements
Together with
Review report
As of September 30, 2003 and 2002

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Index to financial statements

	<u>Page</u>
Review report	3
Balance sheets as of September 30, 2003 and 2002	4-5
Statements of income for the nine-month periods ended September 30, 2003 and 2002	6
Statements of changes in stockholders' equity for the nine-month periods ended September 30, 2003 and 2002	7
Statements of cash flows for the nine-month periods ended September 30, 2003 and 2002	8-9
Notes to financial statements	10-33



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REVIEW REPORT

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

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

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

As disclosed in Note 8 to the financial statements, we did not review the financial statements of the investee companies. The related amount (thousand of dollars) of partial long-term investment for these companies under the equity method were NT\$220,656 (US\$6,532) and NT\$151,967 (US\$4,352) as of September 30, 2003 and 2002, respectively. The related amounts of investment gain were NT\$3362 (US\$100) and NT\$990 (US\$28) for the periods ended September 30, 2003 and 2002.

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

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China
October 13, 2003

Notice to Readers

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

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

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Assets						
Current assets						
Cash and cash equivalents (Notes 2, 4)	\$3,330,264	\$98,587	33.06	\$4,215,513	\$120,719	45.70
Short-term investments (Notes 2, 5)	1,915,123	56,694	19.01	1,938,542	55,514	21.02
Notes receivable (Note 2)	149,233	4,418	1.48	183,236	5,247	1.99
Interest receivable	48,676	1,441	0.48	48,594	1,392	0.53
Premiums receivable (Notes 2, 6)	554,977	16,429	5.51	430,806	12,337	4.67
Claims recoverable from reinsurers	255,635	7,568	2.54	192,623	5,516	2.09
Due from reinsurers and ceding companies	55,836	1,653	0.55	219,391	6,283	2.38
Other accounts receivable (Note 2)	40,010	1,184	0.40	10,146	291	0.11
Deferred income tax assets - current (Notes 2, 15)	50,661	1,500	0.50	43,902	1,257	0.47
Prepayments	2,609	77	0.03	274	8	0.00
Subtotal	<u>\$6,403,024</u>	<u>189,551</u>	<u>63.56</u>	<u>7,283,027</u>	<u>208,564</u>	<u>78.96</u>
Exchange bills negotiated, discounted and loans (Notes 2, 7)						
Short-term secured loans	0	0	0.00	19,295	553	0.21
Medium-term secured loans	474,004	14,032	4.71	578,429	16,564	6.27
Long-term secured loans	396,306	11,732	3.93	448,837	12,853	4.86
Subtotal	<u>870,310</u>	<u>25,764</u>	<u>8.64</u>	<u>1,046,561</u>	<u>29,970</u>	<u>11.34</u>
Funds, long-term investments, and receivable (Notes 2, 8)						
Long-term investments in stocks						
Under the equity method	234,292	6,936	2.33	168,566	4,827	1.83
Under the cost method	225,000	6,660	2.23	225,000	6,444	2.44
Long-term investments in bonds	1,823,613	53,985	18.10	0	0	0.00
Subtotal	<u>2,282,905</u>	<u>67,581</u>	<u>22.66</u>	<u>393,566</u>	<u>11,271</u>	<u>4.27</u>
Property and equipment (Notes 2, 9)						
Communication and transportation equipment	14,930	442	0.15	14,308	410	0.15
Other equipment	146,041	4,323	1.45	107,610	3,082	1.17
Subtotal	<u>160,971</u>	<u>4,765</u>	<u>1.60</u>	<u>121,918</u>	<u>3,492</u>	<u>1.32</u>
Less: Accumulated depreciation	<u>(105,403)</u>	<u>(3,120)</u>	<u>(1.05)</u>	<u>(82,499)</u>	<u>(2,363)</u>	<u>(0.89)</u>
Subtotal	<u>55,568</u>	<u>1,645</u>	<u>0.55</u>	<u>39,419</u>	<u>1,129</u>	<u>0.43</u>
Intangible assets (Note 2)						
Computer software cost	7,472	221	0.07	7,168	205	0.08
Subtotal	<u>7,472</u>	<u>221</u>	<u>0.07</u>	<u>7,168</u>	<u>205</u>	<u>0.08</u>
Other assets						
Guarantee deposits paid	16,525	489	0.16	12,815	367	0.14
Overdue receivables (Note 2)	55,858	1,654	0.55	53,783	1,540	0.58
Temporary payments and suspense accounts	15,566	461	0.16	20,630	591	0.23
Securities serving as deposits paid-bonds (Notes 10, 18)	361,523	10,702	3.59	366,438	10,494	3.97
Funds held by ceding companies	8	0	0.00	60	2	0.00
Deferred charges	5,542	164	0.06	0	0	0.00
Deferred income tax assets- noncurrent (Notes 2, 15)	23	1	0.00	70	2	0.00
Subtotal	<u>455,045</u>	<u>13,471</u>	<u>4.52</u>	<u>453,796</u>	<u>12,996</u>	<u>4.92</u>
Total assets	<u>\$10,074,324</u>	<u>\$298,233</u>	<u>100.00</u>	<u>\$9,223,537</u>	<u>\$264,135</u>	<u>100.00</u>

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

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

Cathay Century Insurance Co., Ltd.
Balance sheets (Continued)
(Expressed in thousands of dollars)
As of September 30, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Liabilities & stockholders' equity						
Current liabilities						
Collections for others	4,876	144	0.05	10,886	312	0.12
Accrued expenses	185,288	5,485	1.84	134,468	3,851	1.46
Income taxes payable	50,574	1,497	0.50	37,348	1,069	0.40
Commissions payable	4,334	128	0.04	8,812	252	0.10
Dividends payable	1,441	43	0.02	3,755	108	0.04
Claims outstanding	4,826	143	0.05	1,565	45	0.02
Due to reinsurers and ceding companies	109,952	3,255	1.09	151,267	4,332	1.64
Other payable	374,691	11,092	3.72	317,411	9,089	3.44
Subtotal	735,982	21,787	7.31	665,512	19,058	7.22
Long-term liabilities						
Accrued pension liabilities	8,067	239	0.08	2,126	61	0.02
Subtotal	8,067	239	0.08	2,126	61	0.02
Other liabilities						
Unearned premiums reserve (Notes 2, 11)	3,608,132	106,813	35.82	3,282,370	93,997	35.59
Special claim reserve (Notes 2, 11)	2,100,523	62,182	20.85	2,058,433	58,947	22.32
Claims reserve (Notes 2, 11)	611,882	18,114	6.08	561,680	16,085	6.09
Temporary receipts and suspense accounts	30,343	898	0.30	32,743	938	0.35
Funds held for reinsurers	181	5	0.00	822	24	0.01
Subtotal	6,351,061	188,012	63.05	5,936,048	169,991	64.36
Total liabilities	7,095,110	210,038	70.44	6,603,686	189,110	71.60
Stockholders' equity						
Capital stock						
Common stock (Note 12)	2,317,006	68,591	23.00	2,317,006	66,352	25.12
Capital surplus	430	13	0.00	0	0	0.00
Retained earnings (Note 13)						
Legal reserve	161,475	4,780	1.60	138,025	3,953	1.50
Unappropriated retained earnings	498,060	14,744	4.94	162,558	4,655	1.76
Equity adjustment						
Cumulative conversion adjustments	2,243	67	0.02	2,262	65	0.02
Total stockholders' equity	2,979,214	88,195	29.56	2,619,851	75,025	28.40
Total liabilities and stockholders' equity	\$10,074,324	\$298,233	100.00	\$9,223,537	\$264,135	100.00

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

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

Cathay Century Insurance Co., Ltd.
Statements of income
(Expressed in thousands of dollars, except earning per share)
For the nine-month periods ended September 30, 2003 and 2002

	2003			2002		
	NT\$	US\$	%	NT\$	US\$	%
Operating revenues (Note 2)						
Premiums income	\$5,231,204	\$154,861	52.17	\$4,579,272	\$131,136	56.47
Reinsurance commission earned	238,257	7,053	2.38	209,786	6,008	2.59
Claims recovered from reinsurers	641,377	18,987	6.40	619,218	17,733	7.64
Recovered unearned premium reserve	3,352,667	99,250	33.43	2,396,811	68,637	29.56
Recovered special claim reserve	220,285	6,521	2.20	98,056	2,808	1.21
Recovered claims reserve	27,023	800	0.27	29,686	850	0.37
Handling fee earned	330	10	0.00	35	1	0.00
Interest income	159,457	4,721	1.59	175,518	5,026	2.16
Gain on trading bills and securities	156,947	4,646	1.56	0	0	0.00
Subtotal	<u>10,027,547</u>	<u>296,849</u>	<u>100.00</u>	<u>8,108,382</u>	<u>232,199</u>	<u>100.00</u>
Operating costs (Note 2)						
Reinsurance premiums ceded	(1,887,934)	(55,889)	(18.83)	(1,819,385)	(52,102)	(22.44)
Commissions expenses	(101,551)	(3,006)	(1.01)	(154,197)	(4,416)	(1.90)
Insurance claims payment	(2,305,116)	(68,239)	(22.99)	(2,012,881)	(57,643)	(24.83)
Provision for unearned premiums reserve	(3,608,132)	(106,813)	(35.98)	(2,492,645)	(71,382)	(30.74)
Provision for special claim reserve	(283,124)	(8,381)	(2.82)	(345,228)	(9,886)	(4.26)
Contribution to the stabilization funds	(9,925)	(294)	(0.10)	(8,564)	(245)	(0.11)
Provision for claims reserve	(32,103)	(950)	(0.32)	(27,022)	(774)	(0.33)
Handling fee paid	(133,601)	(3,955)	(1.33)	(99,816)	(2,858)	(1.23)
Interest expenses	(25)	(1)	0.00	(56)	(2)	0.00
Loss on trading bills and securities	0	0	0.00	(67,586)	(1,935)	(0.83)
Loss on long-term equity investment	(102)	(3)	0.00	(2,411)	(69)	(0.03)
Agent expenses	(1,674)	(50)	(0.02)	(766)	(22)	(0.01)
Subtotal	<u>(8,363,287)</u>	<u>(247,581)</u>	<u>(83.40)</u>	<u>(7,030,557)</u>	<u>(201,334)</u>	<u>(86.71)</u>
Operating gross profit	<u>1,664,260</u>	<u>49,268</u>	<u>16.60</u>	<u>1,077,825</u>	<u>30,865</u>	<u>13.29</u>
Operating expenses (Note 2)						
Marketing expenses	(866,846)	(25,662)	(8.65)	(647,915)	(18,554)	(7.99)
Administrative and general expenses	(184,620)	(5,465)	(1.84)	(188,008)	(5,384)	(2.32)
Operating income	<u>612,794</u>	<u>18,141</u>	<u>6.11</u>	<u>241,902</u>	<u>6,927</u>	<u>2.98</u>
Non-operating revenues						
Gain on foreign exchange	316	9	0.00	958	27	0.01
Gain on disposal of property and equipment	0	0	0.00	593	17	0.01
Miscellaneous income	2,023	60	0.02	1,942	56	0.02
Subtotal	<u>2,339</u>	<u>69</u>	<u>0.02</u>	<u>3,493</u>	<u>100</u>	<u>0.04</u>
Non-operating expenses						
Loss on foreign exchange	(4,445)	(132)	(0.04)	(1,103)	(32)	(0.01)
Loss on disposal of property and equipment	0	0	0.00	(16)	0	0.00
Subtotal	<u>(4,445)</u>	<u>(132)</u>	<u>(0.04)</u>	<u>(1,119)</u>	<u>(32)</u>	<u>(0.01)</u>
Income from continuing operations before income taxes	610,688	18,078	6.09	244,276	6,995	3.01
Income taxes (Notes 2, 15)	(112,628)	(3,334)	(1.12)	(81,718)	(2,340)	(1.01)
Net income	<u>\$498,060</u>	<u>14,744</u>	<u>4.97</u>	<u>\$162,558</u>	<u>\$4,655</u>	<u>2.00</u>
Earnings per share before taxes (expressed in dollars) (Note 16)	<u>\$2.64</u>	<u>\$0.08</u>		<u>\$1.05</u>	<u>\$0.03</u>	
Earnings per share after taxes (expressed in dollars) (Note 16)	<u>\$2.15</u>	<u>\$0.06</u>		<u>\$0.70</u>	<u>\$0.02</u>	

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

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

Cathay Century Insurance Co., Ltd.
Statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the nine-month periods ended September 30, 2003 and 2002

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative conversion adjustments		Total	
	Common stock				Legal reserve		Unappropriated retained earnings					
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2002	\$2,317,006	\$66,352	\$724	\$21	\$102,100	\$2,924	\$361,977	\$10,366	\$2,262	\$65	\$2,784,069	\$79,728
Appropriations and distributions for 2001												
Legal reserve					35,925	1,029	(35,925)	(1,029)			0	0
Cash dividends							(323,021)	(9,250)			(323,021)	(9,250)
Bonus paid to employees							(3,755)	(108)			(3,755)	(108)
Capital surplus from disposal of property and equipment turn into retained earnings			(724)	(21)			724	21			0	0
Net Income for the nine-month period ended September 30, 2002							162,558	4,655			162,558	4,655
Balance on September 30, 2002	\$2,317,006	\$66,352	\$0	\$0	\$138,025	\$3,953	\$162,558	\$4,655	\$2,262	\$65	\$2,619,851	\$75,025
Balance on January 1, 2003	\$2,317,006	\$68,591	\$0	\$0	\$138,025	\$4,086	\$234,503	\$6,942	\$2,172	\$65	\$2,691,706	\$79,684
Appropriations and distributions for 2002												
Legal reserve					23,450	694	(23,450)	(694)			0	0
Cash dividends							(209,612)	(6,205)			(209,612)	(6,205)
Bonus paid to employees							(1,441)	(43)			(1,441)	(43)
Capital surplus- long-term equity investment			430	13							430	13
Cumulative conversion adjustments									71	2	71	2
Net Income for the nine-month period ended September 30, 2003							498,060	14,744			498,060	14,744
Balance on September 30, 2003	\$2,317,006	\$68,591	\$430	\$13	\$161,475	\$4,780	\$498,060	\$14,744	\$2,243	\$67	\$2,979,214	\$8,195

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

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

Cathay Century Insurance Co., Ltd.

Statements of cash flows

(Expressed in thousands of dollars)

For the nine-month periods ended September 30, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash Flows from Operating Activities				
Net Income	\$498,060	\$14,744	\$162,558	\$4,655
Adjustments:				
Loss on bad debt	48,513	1,436	56,355	1,614
Amortizations	3,107	92	3,466	99
Depreciation	18,247	540	12,605	361
Provision for reserve for operations	3,923,359	116,144	2,864,895	82,042
Recovered unearned premium reserve	(3,352,667)	(99,250)	(2,396,811)	(68,637)
Recovered special claim reserve	(220,285)	(6,521)	(98,056)	(2,808)
Recovered claims reserve	(27,023)	(800)	(29,686)	(850)
Gain on disposal of property and equipment	0	0	(593)	(17)
Loss on disposal of property and equipment	0	0	16	0
Unrealized loss (gain) on long-term investments	102	3	2,411	69
Amortization long-term investments in bonds	3,676	109	3,676	105
Effects of exchange rate changes	4,130	122	145	4
Decrease (increase) in short-term investments	147,930	4,379	452,105	12,947
Decrease (increase) in notes receivable	21,975	651	(7,593)	(217)
Decrease (increase) in interest receivable	(17,324)	(513)	(10,632)	(304)
Decrease (increase) in premiums receivable	(130,580)	(3,866)	14,949	428
Decrease (increase) in claims recoverable from reinsurers	(20,094)	(595)	(17,312)	(496)
Decrease (increase) in due from reinsurers and ceding companies	123,925	3,669	37,882	1,085
Decrease (increase) in other accounts receivable	(23,059)	(683)	40,561	1,162
Decrease (increase) in prepayments	256	8	2,562	73
Decrease (increase) in deferred income tax assets-current	(5,750)	(170)	(11,014)	(315)
Decrease (increase) in deferred income tax assets-noncurrent	25	1	62	2
Decrease (increase) in overdue receivables	(9,663)	(286)	(59,072)	(1,692)
Decrease (increase) in temporary payments and suspense accounts	(1,212)	(36)	(8,448)	(242)
Increase (decrease) in collections for others	(7,725)	(229)	588	17
Increase (decrease) in accrued expenses	13,268	393	(34,152)	(978)
Increase (decrease) in income taxes payable	(15,005)	(444)	23,258	666
Increase (decrease) in commissions payable	(4,043)	(120)	(4,219)	(121)
Increase (decrease) in claims outstanding	(63,176)	(1,870)	1,063	30
Increase (decrease) in other payable	51,183	1,515	52,306	1,498
Increase (decrease) in accrued pension liabilities	399	12	2,126	61
Increase (decrease) in temporary receipts and suspense accounts	(33,353)	(987)	(229)	(7)
Increase (decrease) in loss reserve	75,987	2,249	64,853	1,857
Net Cash Provided by (Used in) Operating Activities	<u>1,003,183</u>	<u>29,697</u>	<u>1,120,625</u>	<u>32,091</u>

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

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

Cathay Century Insurance Co., LTD.

Statement of cash flows (Continued)

(Expressed in thousands of dollars)

For the nine-month periods ended September 30, 2003 and 2002

	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash flows from investing activities				
Decrease (increase) in short-term secured loans	22,000	651	0	0
Decrease (increase) in medium-term secured loans	(13,542)	(401)	5,325	152
Decrease (increase) in long-term secured loans	27,261	807	30,233	866
Acquisition of long-term investment in stocks	(75,000)	(2,220)	(42,777)	(1,225)
Disposal of property and equipment	0	0	2,258	65
Decrease (increase) in long-term investments in bonds	(1,543,279)	(45,686)	0	0
Acquisition of property and equipment	(6,289)	(186)	(7,499)	(215)
Acquisition of intangible assets	(4,436)	(131)	(3,099)	(89)
Decrease (increase) in guarantee deposits paid	(2,057)	(61)	(1,393)	(40)
Decrease (increase) in funds held by ceding companies	137	4	59	2
Net cash provided by (used in) investing activities	<u>(1,595,205)</u>	<u>(47,223)</u>	<u>(16,893)</u>	<u>(484)</u>
Cash flows from financing activities				
Paid other payable for acquisition of property and equipment in former period	(16,480)	(488)	(1,778)	(51)
Increase (decrease) in funds held for reinsurers	(512)	(15)	(934)	(27)
Bonus to employees	(3,755)	(111)	(1,655)	(47)
Cash dividends	<u>(209,612)</u>	<u>(6,205)</u>	<u>(323,021)</u>	<u>(9,250)</u>
Net cash provided by (used in) financing activities	<u>(230,359)</u>	<u>(6,819)</u>	<u>(327,388)</u>	<u>(9,375)</u>
Effects of exchange rate changes	(4,129)	(122)	(145)	(4)
Increase (decrease) in cash and cash equivalents	(826,510)	(24,467)	776,199	22,228
Cash and cash equivalents at the beginning of period	4,156,774	123,054	3,439,314	98,491
Cash and cash equivalents at the end of period	<u>\$3,330,264</u>	<u>\$98,587</u>	<u>\$4,215,513</u>	<u>\$120,719</u>
Supplemental disclosure of cash flows information				
Interest paid of the period	\$25	\$1	\$56	\$2
Less: capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	<u>\$25</u>	<u>\$1</u>	<u>\$56</u>	<u>\$2</u>
Income tax paid	<u>\$133,358</u>	<u>\$3,948</u>	<u>\$69,413</u>	<u>\$1,988</u>
Partial cash investing financing activities:				
Equipment	\$6,289	\$186	\$7,499	\$215
Other payable	0	0	0	0
Cash paid	<u>\$6,289</u>	<u>\$186</u>	<u>\$7,499</u>	<u>\$215</u>

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

US\$1.00)

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

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

1. Organization of business scope

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

2. Summary of significant accounting policies

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

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

Current assets are assets that can be liquidated or disposed within one year. Assets that do not belong to current assets are called concurrent assets. Current liabilities are debts, which do not belong to current liabilities, are called noncurrent liabilities.

(2) Cash and cash equivalents

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

(3) Short-term investments

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

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

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

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

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

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

(4) Allowance for bad and doubtful debts

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

(5) Long – term investments

A. Long-term investments in stocks

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

Investments in equity securities are accounted for under the equity method where the Company’s ownership interest is 20% or more of the voting shares and the Company has significant operational influence.

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

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

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

B. Long-term investments in bonds

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

(6) Property and equipment

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

(7) Deferred charges

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

(8) Reserves for operations

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

(9) Insurance premiums

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

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

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

(10) Contribution to the stabilization funds

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

(11) Pension plan

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

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

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

(12) Guaranteed depository insurance payment

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

(13) Foreign currency transactions

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

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

(14) Income Taxes

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

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 unappropriate retained earnings effectively since year 2002 under the Integrated Income Tax Systems. If there is any tax effects due to adopt forgoing Integrated Income Tax System, parent company can proportion to allocate the effects on tax expense(benefit) 、 deferred income tax and tax payable(tax refund receivable) among the company

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

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

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

(15) Capital expenditure expenses

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

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

(16) Derivative financial products transaction

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

(17) Insurance claims payment & claims recovered from reinsurers

A. Insurance claims payment

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

B. Claims recovered from reinsurers

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

(18) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the September 30, 2003 and 2002 NT dollar amounts into U.S. dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$33.78 and NT\$34.92 to US\$1.00 effective on September 30, 2003 and 2002, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects: None

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

4. Cash and cash equivalents

Item	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$8,807	\$261	\$8,174	\$234
Cash in banks	309,257	9,155	257,591	7,376
Time deposits	2,858,407	84,618	3,387,654	97,012
Cash equivalents	153,793	4,553	562,094	16,097
Total	<u>\$3,330,264</u>	<u>\$98,587</u>	<u>\$4,215,513</u>	<u>\$120,719</u>
Interest rate of time deposits	<u>0.85%~2.20%</u>	<u>0.85%~2.20%</u>	<u>1.85%~3.55%</u>	<u>1.85%~3.55%</u>
Interest rate of cash equivalents	<u>0.85%~0.875%</u>	<u>0.85%~0.875%</u>	<u>1.85%~1.90%</u>	<u>1.85%~1.90%</u>

5. Short – term investments

Item	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,586	\$6,767	\$228,586	\$6,546
Less: Allowance for				
valuation loss	(79,916)	(2,366)	(93,014)	(2,663)
Subtotal	<u>148,670</u>	<u>4,401</u>	<u>135,572</u>	<u>3,883</u>
Common stock and				
beneficiary certificates	872,922	25,841	1,039,635	29,772
Appoint purpose trust fund	28,276	837	-	-
Financial debentures	200,000	5,921	200,000	5,727
Corporate bonds	665,255	19,694	563,335	16,132
Short-term notes	153,793	4,553	562,094	16,097
Subtotal	<u>1,920,246</u>	<u>56,846</u>	<u>2,365,064</u>	<u>67,728</u>
Less: Cash equivalents	<u>(153,793)</u>	<u>(4,553)</u>	<u>(562,094)</u>	<u>(16,097)</u>
Subtotal	<u>1,766,453</u>	<u>52,293</u>	<u>1,802,970</u>	<u>51,631</u>
Total	<u>\$1,915,123</u>	<u>\$56,694</u>	<u>\$1,938,542</u>	<u>\$55,514</u>

6. Premiums receivable

September 30,

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

Item	2003		2002	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$558,979	\$16,548	\$433,627	\$12,418
Less: Allowance for bad				
debts	(4,002)	(119)	(2,821)	(81)
Net	\$554,977	\$16,429	\$430,806	\$12,337

7. Secured loans

Item	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$0	\$0	\$22,000	\$630
Less: Allowance for bad				
debts	0	0	(2,705)	(77)
Subtotal	0	0	19,295	553
Medium-term secured loans	577,723	17,103	659,525	18,886
Less: Allowance for bad				
debts	(103,719)	(3,071)	(81,096)	(2,322)
Sub-total	474,004	14,032	578,429	16,564
Long-term secured loans	483,024	14,299	511,764	14,655
Less: Allowance for bad				
debts	(86,718)	(2,567)	(62,927)	(1,802)
Sub-total	396,306	11,732	448,837	12,853
Total	\$870,310	\$25,764	\$1,046,561	\$29,970
Interest rate	2.52%~5.40%	2.52%~5.40%	4.25%~7.00%	4.25%~7.00%

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

8. Long –term investments

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

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

Investee	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$220,656	\$6,532	\$151,967	\$4,352
Vista Technology Venture Capital Corp.	13,636	404	16,599	475
Subtotal	<u>234,292</u>	<u>6,936</u>	<u>168,566</u>	<u>4,827</u>
b. Under the cost method:				
Koo Group				
Telecommunication Co., Ltd.	150,000	4,440	150,000	4,296
KGEX. Com Co., Ltd.	75,000	2,220	75,000	2,148
Subtotal	<u>225,000</u>	<u>6,660</u>	<u>225,000</u>	<u>6,444</u>
Total	<u>\$459,292</u>	<u>\$13,596</u>	<u>\$393,566</u>	<u>\$11,271</u>

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

	For the nine-month periods ended September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$158,893	\$4,704	\$150,977	\$4,323
Increment of investment	75,000	2,220	0	0
The change in treatment for a long-term investment in stock	0	0	20,000	573
Investment income (loss) by equity method recognized	(102)	(3)	(2,411)	(69)
Cumulative conversion adjustments by equity method recognized	71	2	0	0
Capital surplus by equity method recognized	430	13	0	0
Balance on September 30	<u>\$234,292</u>	<u>\$6,936</u>	<u>\$168,566</u>	<u>\$4,827</u>

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

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

Investee	For the nine-month periods ended September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$3,362	\$100	\$990	\$28
Vista Technology Venture Capital Corp.	(3,464)	(103)	(3,401)	(97)
Total	(\$102)	(\$3)	(\$2,411)	(\$69)

e. The investment gains of Cathay Venture Capital Corp. for the nine-month period ended September 30, 2003 were recognized by the equity method based on unreviewed financial statements in the same period.

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

B. Long-term investments in bonds

Investee	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$1,823,613	\$53,985	0	0
Interest rate	4.00%~6.00%	4.00%~6.00%	-	-

9. Property and equipment

Item	September 30, 2003					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$

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

Communication and transportation equipment	\$14,930	\$442	\$7,192	\$213	\$7,738	\$229
Other equipment	146,041	4,323	98,211	2,907	47,830	1,416
Total	<u>\$160,971</u>	<u>\$4,765</u>	<u>\$105,403</u>	<u>\$3,120</u>	<u>\$55,568</u>	<u>\$1,645</u>

Item	September 30, 2002					
	Cost		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$14,308	\$410	\$4,812	\$138	\$9,496	\$272
Other equipment	107,610	3,082	77,687	2,225	29,923	857
Total	<u>\$121,918</u>	<u>\$3,492</u>	<u>\$82,499</u>	<u>\$2,363</u>	<u>\$39,419</u>	<u>\$1,129</u>

The insurance of insured property and equipment were NT\$100,648 (US\$2,980) and NT\$78,737(US\$2,255) as of September 30, 2003 and 2002, respectively.

10. Securities serving as deposits paid

Item	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government bonds	\$361,523	\$10,702	\$366,438	\$10,494
Interest rate	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%	6.25%~7.75%

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

11. Reserve for operations and liabilities

	January 1, 2003		Provision		Recovered		September 30,2003	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums reserve	\$3,352,667	\$99,250	\$3,608,132	\$106,813	\$3,352,667	\$99,250	\$3,608,132	\$106,813
Special reserve	2,037,684	60,322	283,124	8,381	220,285	6,521	2,100,523	62,182
Claims reserve	530,815	15,714	602,294	17,830	521,227	15,430	611,882	18,114
Total	<u>\$5,921,166</u>	<u>\$175,286</u>	<u>\$4,493,550</u>	<u>\$133,024</u>	<u>\$4,094,179</u>	<u>\$121,201</u>	<u>\$6,320,537</u>	<u>\$187,109</u>

12. Capital stock and capital increment

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

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

13. Retained Earnings

(1) Legal reserve

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

(2) Unappropriate retained earnings

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

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

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

14. Personnel, depreciation, depletion and amortizations

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

Item	For the nine-month period ended September 30,2003 (NT\$)			For the nine-month period ended September 30,2002 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	390,008	390,008	-	395,762	395,762
Labor & health Insurance expenses	-	25,799	25,799	-	17,543	17,543
Pension expenses	-	22,728	22,728	-	19,137	19,137
Other expenses	-	159,229	159,229	-	129,683	129,683
Depreciation	-	18,247	18,247	-	12,605	12,605
Depletion	-	-	-	-	-	-
Amortizations	-	3,107	3,107	-	3,466	3,466

Item	For the nine-month period ended September 30,2003 (US\$)			For the nine-month period ended September 30,2002 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	-	11,546	11,546	-	11,333	11,333
Labor & health Insurance expenses	-	764	764	-	502	502
Pension expenses	-	673	673	-	548	548
Other expenses	-	4,714	4,714	-	3,714	3,714
Depreciation	-	540	540	-	361	361
Depletion	-	-	-	-	-	-
Amortizations	-	92	92	-	99	99

The total number of employees is 791 on September 30, 2003.

15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the nine-month periods ended September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$610,688	\$18,078	\$244,276	\$6,995
Adjustments				
Interest income of tax on a separate basis	(3,738)	(111)	(5,933)	(170)
Losses (gains) on market price loss (recovery) of	(26,306)	(779)	88,450	2,533

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

short-term investments				
Bad debts exceeding legal limit (recovery)	23,159	686	44,179	1,265
Investment losses (gains) recognized by equity method	102	3	2,411	69
Losses (gains) on trading securities	(130,641)	(3,867)	(20,864)	(597)
Others	(140)	(4)	(250)	(7)
Taxable Income	\$473,124	\$14,006	352,269	10,088
Time; Taxes Rate; Less:				
Progressive difference	25% - 10	-	25% - 10	-
Subtotal	118,271	3,500	88,057	2,522
Tax on a separate basis	747	22	1,187	34
Extra 10% income tax on undistributed retained earnings	5,054	150	3,684	106
Less: Tax Effects under Integrated Income Tax Systems	(5,054)	(150)	-	-
Income tax credit	(450)	(13)	(652)	(19)
Deferred income tax expenses (benefits)	(5,724)	(169)	(10,953)	(314)
Adjustment of prior year's income tax	(216)	(6)	395	11
Total income tax expenses	\$112,628	\$3,334	\$81,718	\$2,340

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

	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	<u>\$50,684</u>	<u>\$1,501</u>	<u>\$43,972</u>	<u>\$1,259</u>
Total deferred income tax liabilities	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
B. Temporary differences:				
Employee benefits	\$222	\$7	\$613	\$18
Bad debts exceeding legal limit	202,455	5,993	175,217	5,018
Others	57	2	57	2
Total	<u>\$202,734</u>	<u>\$6,002</u>	<u>\$175,887</u>	<u>\$5,038</u>
C. Deferred income tax assets-current	\$50,661	\$1,500	\$43,902	\$1,257
Deferred income tax liabilities-current	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net deferred income	<u>\$50,661</u>	<u>\$1,500</u>	<u>\$43,902</u>	<u>\$1,257</u>

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

tax-current				
D. Deferred income tax				
assets – noncurrent	\$23	\$1	\$70	\$2
Deferred income tax				
liabilities –noncurrent	0	0	0	0
Net deferred income tax – noncurrent	\$23	\$1	\$70	\$2

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$450(US\$13)	\$0	2007

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

(5) Information related to tax imputation:

	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$176,389	\$5,222	\$121,707	\$3,485
	September 30, 2003 (Actual)		September 30, 2002 (Actual)	
Imputation credit account ratio	33.33%		33.33%	

(6) Information relating of undistributed earnings:

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

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

Total	\$0	\$0	\$0	\$0
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Net income for the nine-month periods ended September 30, 2003 and 2002 were not included in undistributed earnings computation since 1998.

16. Earnings per share

	For the nine-month periods ended September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$610,688	\$18,078	\$244,276	\$6,995
Net income after taxes (B)	\$498,060	\$14,744	\$162,558	\$4,655
Outstanding number of shares at year-end	231,700,560	231,700,560	231,700,560	231,700,560
Adjusted weighted average outstanding number of shares(C)	231,700,560	231,700,560	231,700,560	231,700,560
Earnings per share before tax (A)/(C) (dollars)	\$2.64	\$0.08	\$1.05	\$0.03
Earnings per share (B)/(C) (dollars)	\$2.15	\$0.06	\$0.70	\$0.02

17. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank Co., Ltd.	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate

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

Cathay Life Charity Foundation	Affiliate
United World Chinese Commercial Bank	Affiliate
Po Han Investment Co., Ltd.	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Wu Ming-Yang	Senior Manager

(2) *Transactions with related parties*

A. Premium Revenues

Name	For the nine-month period ended September 30, 2003			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$159,762	\$4,729	\$3,802	\$112
United World Chinese Commercial Bank	15,650	463	262	8
Cathay United Bank Co., Ltd.	5,010	148	664	19
Cathay General Hospital	5,095	151	2,491	74
Others	2,918	87	567	17
Total	<u>\$188,435</u>	<u>\$5,578</u>	<u>\$7,786</u>	<u>\$230</u>

Name	For the nine-month period ended September 30, 2002			
	Direct written premiums		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$133,104	\$3,812	\$6,547	\$187
United World Chinese Commercial Bank	1,589	46	29	1
Cathay United Bank Co., Ltd.	5,892	169	130	4
Cathay General Hospital	4,083	117	1,860	53
Others	1,977	56	187	6
Total	<u>\$146,645</u>	<u>\$4,200</u>	<u>\$8,753</u>	<u>\$251</u>

B. Insurance claims payment

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

Name	For the nine-month periods ended September 30,			
	2003		2002	
	Insurance claims payment		Insurance claims payment	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$7,612	\$225	\$6,408	\$183
United World Chinese Commercial Bank	496	15	0	-
San-Ching Engineering Co., Ltd.	0	0	1,302	37
Cathay United Bank Co., Ltd.	8,626	255	5,921	170
Total	\$16,734	\$495	\$13,631	\$390

C. Rents (To related parties)

Name	For the nine-month period ended September 30, 2003					
	Rents		Guarantee deposits		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$39,269	\$1,162	\$13,078	\$387	\$2,286	\$68

Name	For the nine-month period ended September 30, 2002					
	Rents		Guarantee deposits		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$36,045	\$1,032	\$11,546	\$331	\$2,158	\$62

D. Cash in bank

Name	Nature	September 30, 2003		
		Ending balance	Rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$219,851	0.15%~0.25%	\$116
	Time Deposit	\$487,000	0.90%~1.85%	\$6,831
United World Chinese Commercial Bank	Cash in Bank	\$63,622	0.10%~0.20%	\$54
	Time Deposit	\$108,000	1.05%~1.85%	\$3,751

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

		September 30, 2003		
Name	Nature	Ending balance	Rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$6,508	0.15%~0.25%	\$3
	Time Deposit	\$14,417	0.90%~1.85%	\$202
United World Chinese Commercial Bank	Cash in Bank	\$1,883	0.10%~0.20%	\$2
	Time Deposit	\$3,197	1.05%~1.85%	\$111

		September 30, 2002		
Name	Nature	Ending balance	Rate	Interest income
		NT\$		NT\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$156,859	0.50%	\$559
	Time Deposit	\$480,000	2.15%~2.65%	\$9,725
United World Chinese Commercial Bank	Cash in Bank	\$38,609	0.40%	\$132
	Time Deposit	\$295,000	2.1%~2.8%	\$6,764

		September 30, 2002		
Name	Nature	Ending balance	Rate	Interest income
		US\$		US\$
Cathay United Bank Co., Ltd.	Cash in Bank	\$4,492	0.50%	\$16
	Time Deposit	\$13,746	2.15%~2.65%	\$278
United World Chinese Commercial Bank	Cash in Bank	\$1,106	0.40%	\$4
	Time Deposit	\$8,448	2.1%~2.8%	\$194

E. Secured loans

For the nine-month period ended September 30, 2003				
Name	Maximum amount	Ending balance	Rate	Interest income
		NT\$		NT\$
Wu Ming-Yang	\$3,189	\$2,409	3.5%	\$71

For the nine-month period ended September 30, 2003				
Name	Maximum amount	Ending balance	Rate	Interest income
		US\$		US\$

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

Wu Ming-Yang	<u>\$94</u>	<u>\$71</u>	3.5%	<u>\$2</u>
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For the nine-month period ended September 30, 2002

Name	Maximum amount	Ending balance	Rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	<u>\$3,309</u>	<u>\$3,230</u>	4.25%	<u>\$71</u>

For the nine-month period ended September 30, 2002

Name	Maximum amount	Ending balance	Rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	<u>\$95</u>	<u>\$92</u>	4.25%	<u>\$2</u>

F. Handling fee paid

For the nine-month period ended September 30,

Name	2003		2002	
	Handling Fee Paid		Handling Fee Paid	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$3,093</u>	<u>\$92</u>	<u>\$3,174</u>	<u>\$91</u>

G. Integrated marketing expense and accrued expense

For the nine-month period ended September 30, 2003

Name	Integrated marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$191,753</u>	<u>\$5,677</u>	<u>\$35,362</u>	<u>\$1,047</u>

2002: none

H. Short-term investment-beneficiary certificates

September 30,

Name	Transaction type	2003		2002	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Security fund	\$99,410	\$2,943	\$110,000	\$3,150
Investment	Bond fund	240,000	7,105	157,859	4,521
Trust Co., Ltd.	Total	<u>\$339,410</u>	<u>\$10,048</u>	<u>\$267,859</u>	<u>\$7,671</u>

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

18. Pledged assets

Item	September 30,			
	2003		2002	
	NT\$	US\$	NT\$	US\$
Government bonds	\$361,523	\$10,702	\$366,438	\$10,494

(1) According to Article 141, the Insurance Law of ROC the Company should deposited long-term investment bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guarantee deposit.

(2) The pledged assets are disclosed at their net carrying values.

19. Other important matters and contingent liabilities

A. The Company's income tax returns, except for 1999 tax returns, have been filed and approved by the Tax Authorities until year 2001. In tax year 2000 and 2001, the Company was assessed by the Tax Authority to pay overdue taxes in the amount of NT\$7,690 (US\$228) and NT\$2,474 (US\$73), respectively. The Company has appealed against this assessment.

B. By September 30, 2003, the Company had made some significant rental contracts. Base on these, the company estimate that the rent payments for the following 5years should be as bellows:

Year	Amount (NT\$)	Amount (US\$)
October 01, 2003 ~ September 30, 2004	\$54,752	\$1,621
October 01, 2004 ~ September 30, 2005	56,349	1,668
October 01, 2005 ~ September 30, 2006	57,995	1,717
October 01, 2006 ~ September 30, 2007	59,690	1,767
October 01, 2007 ~ September 30, 2008	61,435	1,819
Total	<u>\$290,221</u>	<u>\$8,592</u>

20. Serious damages: None

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

21. Subsequent events : None

22. Other important events

A. Pension related information

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

B. Financial instruments related information

(a) Derivative financial instruments related information :

1. Credit and market risk

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

2. Cash flow and demand

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

3. Forward contract

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

(2) As of September 30, 2003 and 2002, the Company has forward exchange contracts of approximately US\$54,000 and \$0 respectively in notional value.

(b) Non derivative financial instruments related information :

Except for the item listed in the following table, the book value of non derivative financial instruments as of September 30, 2003 and 2002, is the same as the estimated fair market value:

September 30, 2003	
NT\$	US\$

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

Item	Book value	Fair value	Book value	Fair value
Shot-term investment	\$1,915,123	\$2,038,891	\$56,694	\$60,358

September 30,2002				
NT\$		US\$		
Item	Book value	Fair value	Book value	Fair value
Shot-term investment	\$1,938,542	\$1,938,542	\$55,514	\$55,514

C. Discretionary account management

September 30,2003				
Item	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$11,738	\$347	\$11,953	\$354
Cash in bank	38,156	1,130	38,156	1,130
Net other assets less liabilities	(52)	(2)	(52)	(2)
Total	\$49,842	\$1,475	\$50,057	\$1,482

September 30,2002				
Item	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$18,414	\$527	\$17,190	\$492
Cash in bank	26,209	751	26,209	751
Net other assets less liabilities	73	2	73	2
Total	\$44,696	\$1,280	\$43,472	\$1,245

As of September 30, 2003 and 2002, the securities investment had recorded that the Company had discretionary account management contracts in the amount of NT\$50,000(US\$1,480) and NT\$50,000(US\$1,432), respectively.

D. Material Contract: None

E. Presentation of Financial Statements:

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

23.Information for investment in Mainland China: None

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

24. Segment information:

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