

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**Three-Month Periods ended March 31, 2005 and 2006**  
**With Independent Auditors' Review Report**

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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**English Translation of Review Report Originally Issued in Chinese**  
**Independent Auditors' Review Report**

To: Board of Directors  
Cathay Financial Holding Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of March 31, 2005 and 2006 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with the generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China (ROC). A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards in the ROC, where the objective is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements as of and for the three-month periods ended March 31, 2005 and 2006 in order to conform with the generally accepted accounting principles in the Republic of China, the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies".

As discussed in Note 3 to the consolidated financial statements, effective from January 1, 2006, the Company has adopted the ROC Statements of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments".

Diwan, Ernst & Young  
Taipei, Taiwan  
The Republic of China  
April 25, 2006

**Notice to Readers**

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**

**Unaudited consolidated balance sheets**

**March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

Assets	Notes	March 31, 2005		March 31, 2006	
		NT \$	US \$	NT \$	US \$
Cash and cash equivalents	2,4	\$183,683,713	\$5,838,643	\$314,012,092	\$9,685,752
Due from the Central Bank and call loans to banks		56,963,093	1,810,651	46,512,499	1,434,685
Financial assets at fair value through profit and loss	2,5	192,072,161	6,105,282	181,424,531	5,596,068
Securities purchased under agreements to resell	2	10,538,393	334,978	9,198,701	283,735
Receivables -net		76,828,167	2,442,090	98,248,749	3,030,498
Loans -net	6	1,047,295,560	33,289,751	1,132,924,935	34,945,248
Available-for-sale financial assets -net	2,7	255,677,453	8,127,065	263,221,292	8,119,102
Held-to-maturity financial assets -net	2,8	400,297,063	12,724,001	518,125,875	15,981,674
Investments under equity method	2,9	3,142,305	99,883	3,698,589	114,084
Other financial assets -net	2,10	83,641,017	2,658,646	146,787,528	4,527,684
Investments in debt securities with no active market	2	216,550,451	6,883,358	258,797,814	7,982,659
Investments in real estate	2,11	101,929,187	3,239,961	106,825,508	3,295,050
Property and equipment -net	2	42,306,016	1,344,756	42,013,092	1,295,901
Goodwill and intangible assets -net		116,666	3,708	1,297,704	40,028
Other assets -net		39,603,360	1,258,848	46,448,997	1,432,727
<b>Total assets</b>		<b>\$2,710,644,605</b>	<b>\$86,161,621</b>	<b>\$3,169,537,906</b>	<b>\$97,764,895</b>
<b>Liabilities &amp; stockholders' equity</b>					
<b>Liabilities</b>					
Due to the Central Bank and call loans from banks		\$80,444,271	\$2,557,033	\$83,545,631	\$2,576,978
Bankers acceptances and funds borrowed		791,750	25,167	812,500	25,062
Commercial paper payable	12	1,019,300	32,400	1,298,392	40,049
Financial liabilities at fair value through profit and loss	2,13	49,779,124	1,582,299	64,968,249	2,003,956
Securities sold under agreements to repurchase	2	45,971,549	1,461,270	36,279,930	1,119,060
Payables		22,203,774	705,778	41,704,325	1,286,376
Deposits	14	721,904,966	22,946,757	877,767,204	27,074,868
Bonds payable	2,15	17,607,124	559,667	31,122,908	959,991
Reserve for operations and liabilities	2,16	1,526,958,740	48,536,514	1,696,760,965	52,336,859
Other financial liabilities	2,17	45,599,811	1,449,454	111,790,445	3,448,194
Other liabilities		7,432,020	236,237	16,554,370	510,622
<b>Total liabilities</b>		<b>2,519,712,429</b>	<b>80,092,576</b>	<b>2,962,604,919</b>	<b>91,382,015</b>
<b>Stockholders' Equity attributable to equity holders of the parent</b>					
Common stock	18	84,741,672	2,693,632	85,258,878	2,629,823
Capital surplus	19	65,851,309	2,093,176	68,168,225	2,102,660
Retained earnings	20				
Legal reserve		3,026,715	96,208	6,009,431	185,362
Special reserve		122,653	3,899	226,579	6,989
Unappropriated retained earnings		35,435,374	1,126,363	36,087,845	1,113,135
Other stockholders' equity					
Cumulative conversion adjustments		(96,426)	(3,065)	45,998	1,419
Unrealized gains or losses on financial instruments		(142,447)	(4,528)	7,695,629	237,373
Treasury stock	2,21	(354,955)	(11,283)	-	-
Net loss not yet recognized as net pension cost		(5,560)	(177)	(1,837)	(57)
<b>Total stockholder's equity attributable to equity holders of the parent</b>		<b>188,578,335</b>	<b>5,994,225</b>	<b>203,490,748</b>	<b>6,276,704</b>
<b>Minority interest</b>		<b>2,353,841</b>	<b>74,820</b>	<b>3,442,239</b>	<b>106,176</b>
<b>Total stockholders' equity</b>		<b>190,932,176</b>	<b>6,069,045</b>	<b>206,932,987</b>	<b>6,382,880</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$2,710,644,605</b>	<b>\$86,161,621</b>	<b>\$3,169,537,906</b>	<b>\$97,764,895</b>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT\$31.46 and NT\$32.42 to US\$1.00)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Unaudited consolidated statements of income**  
**For the three-month periods ended March 31, 2005 and 2006**  
**(Expressed in thousands of dollars, except earning per share)**

	Notes	January 1 ~ March 31, 2005		January 1 ~ March 31, 2006	
		NT \$	US \$	NT \$	US \$
<b>Interest income</b>	2	\$22,079,717	\$701,835	\$25,883,367	\$798,376
<b>Less: Interest expenses</b>	2	(2,920,872)	(92,844)	(4,178,849)	(128,897)
<b>Net interest income</b>		19,158,845	608,991	21,704,518	669,479
<b>Net income other than interest</b>					
Net commission and handling fee		1,638,006	52,066	1,026,249	31,655
Net premiums from insurance business		31,343,258	996,289	29,940,227	923,511
Gain on financial assets and liabilities at fair value through profit and loss		1,538,938	48,917	2,514,404	77,557
Realized gains on available-for-sale financial assets		620,595	19,727	5,065,327	156,241
Realized gains on held-to-maturity financial assets		-	-	4,788	148
Gain on investments under -equity method		29,776	946	152,757	4,712
Gain on investments in real estate		1,317,757	41,887	2,516,553	77,623
Loss on foreign exchange		(938,062)	(29,818)	(5,145,474)	(158,713)
Impairment loss		(710,880)	(22,596)	(13,336)	(411)
Provision for premiums reserve		(36,274,894)	(1,153,048)	(37,424,352)	(1,154,360)
Net other non-interest income		554,351	17,621	238,652	7,361
<b>Total income</b>		18,277,690	580,982	20,580,313	634,803
<b>Bad debt expenses -Loan</b>		-	-	(2,923,947)	(90,190)
<b>Operating expenses</b>					
Personnel expenses		(9,275,075)	(294,821)	(9,490,038)	(292,722)
Depreciation and amortizations expenses		(948,324)	(30,144)	(1,061,784)	(32,751)
Other general and administration expenses		(2,355,142)	(74,861)	(2,514,735)	(77,567)
<b>Income from continuing operations before income taxes</b>		5,699,149	181,156	4,589,809	141,573
<b>Income taxes (expense) benefit</b>	2,22	(876,783)	(27,870)	164,502	5,074
<b>Consolidated income before cumulative effect of accounting principles</b>		4,822,366	153,286	4,754,311	146,647
<b>Cumulative effect of changes in accounting principles</b>		-	-	3,249,323	100,226
<b>Consolidated income</b>		\$4,822,366	\$153,286	\$8,003,634	\$246,873
<b>Include:</b>					
Parent company		\$4,794,377	\$152,396	\$7,941,590	\$244,959
Minority interest		27,989	890	62,044	1,914
Consolidated income		\$4,822,366	\$153,286	\$8,003,634	\$246,873
<b>Earnings per share (expressed in dollars) :</b>	23				
Primary earnings per share:					
Consolidated income before cumulative effect of accounting principles		\$0.58	\$0.02	\$0.56	\$0.02
Cumulative effect of changes in accounting principles		-	-	0.38	0.01
Consolidated income		\$0.58	\$0.02	\$0.94	\$0.03
Fully-diluted earnings per share:					
Consolidated income before cumulative effect of accounting principles		\$0.56	\$0.02	\$0.55	\$0.02
Cumulative effect of changes in accounting principles		-	-	0.37	0.01
Consolidated income		\$0.56	\$0.02	\$0.92	\$0.03

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT\$31.46 and NT\$32.42 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries  
 Unaudited consolidated statements of changes in stockholders' equity  
 For the three-month periods ended March 31, 2005 and 2006  
 (Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity										Total		
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not yet recognized as net pension cost		Minority interest				
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$			
<b>Balance on January 1, 2005</b>	\$83,167,130	\$2,643,583	\$58,958,697	\$1,874,085	\$3,026,715	\$96,208	\$122,653	\$3,899	\$30,640,997	\$973,967	\$(96,005)	\$(3,052)	\$(110,435)	\$(3,510)	\$(354,955)	\$(11,283)	\$(5,560)	\$(177)	\$-	\$-	\$175,349,237	\$5,573,720	
Minority interest-first time inclusion of subsidiaries																			2,325,852	73,930	2,325,852	73,930	
Convertible notes converted into common stock	1,574,542	50,049	6,891,826	219,066																	8,466,368	269,115	
Capital surplus			786	25																	786	25	
Cumulative conversion adjustments											(421)	(13)										(421)	(13)
Unrealized gains or losses of financial instruments													(32,012)	(1,018)								(32,012)	(1,018)
Consolidated income for the three months ended March 31, 2005								4,794,377	152,396										27,989	890	4,822,366	153,286	
<b>Balance on March 31, 2005</b>	\$84,741,672	\$2,693,632	\$65,851,309	\$2,093,176	\$3,026,715	\$96,208	\$122,653	\$3,899	\$35,435,374	\$1,126,363	\$(96,426)	\$(3,065)	\$(142,447)	\$(4,528)	\$(354,955)	\$(11,283)	\$(5,560)	\$(177)	\$2,353,841	\$74,820	\$190,932,176	\$6,069,045	
<b>Balance on January 1, 2006</b>	\$85,242,234	\$2,629,310	\$68,095,085	\$2,100,404	\$6,009,431	\$185,362	\$226,579	\$6,989	\$28,146,255	\$868,176	\$81,154	\$2,503	\$(68,263)	\$(2,106)	\$-	\$-	\$(1,837)	\$(57)	\$3,430,369	\$105,810	\$191,161,007	\$5,896,391	
Minority interest																			(50,174)	(1,548)	(50,174)	(1,548)	
Convertible notes converted into common stock	16,644	513	74,228	2,290																	90,872	2,803	
Capital surplus			(1,088)	(34)																	(1,088)	(34)	
Cumulative conversion adjustments											(35,156)	(1,084)										(35,156)	(1,084)
Unrealized gains or losses of financial instruments													7,763,892	239,479								7,763,892	239,479
Consolidated income for the three months ended March 31, 2006								7,941,590	244,959										62,044	1,914	8,003,634	246,873	
<b>Balance on March 31, 2006</b>	\$85,258,878	\$2,629,823	\$68,168,225	\$2,102,660	\$6,009,431	\$185,362	\$226,579	\$6,989	\$36,087,845	\$1,113,135	\$45,998	\$1,419	\$7,695,629	\$237,373	\$-	\$-	\$(1,837)	\$(57)	\$3,442,239	\$106,176	\$206,932,987	\$6,382,880	

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT\$31.46 and NT\$32.42 to US\$1.00)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**

**Unaudited consolidated statements of cash flows**

**For the three-month periods ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

	January 1 ~ March 31, 2005		January 1 ~ March 31, 2006	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated income	\$4,822,366	\$153,286	\$8,003,634	\$246,873
Adjustments:				
Depreciation and amortizations expenses	948,324	30,144	1,061,784	32,751
Investment income recognized by equity method excess of cash dividends received	(29,776)	(946)	(115,502)	(3,563)
Bad debt expenses -loans	-	-	2,923,947	90,190
Provision for premiums reserve from insurance business	36,274,895	1,153,048	37,424,352	1,154,360
Gain on disposal of property and equipment	(27,471)	(873)	(1,081,582)	(33,362)
Impairment loss	710,880	22,596	13,336	411
Cumulative effect of changes in accounting principles	-	-	(3,249,323)	(100,226)
Other adjustments	(246,164)	(7,825)	(64,463)	(1,988)
Decrease (increase) on operating assets and liabilities				
Decrease (increase) in receivables	7,684,665	244,268	(5,269,248)	(162,531)
Decrease (increase) in deferred income tax assets	20,650	656	(2,247,366)	(69,320)
Decrease (increase) in financial assets at fair value through profit and loss	3,758,454	119,468	(9,109,698)	(280,990)
Increase in other financial assets	(11,192,781)	(355,778)	(3,347,447)	(103,252)
Increase in other assets	(2,450,688)	(77,899)	(4,227,301)	(130,392)
(Decrease) increase in payables	(3,867,239)	(122,926)	7,685,538	237,062
Increase in financial liabilities at fair value through profit and loss	3,396,904	107,975	10,299,890	317,702
Decrease in deferred income tax liabilities	(305,582)	(9,713)	(397,221)	(12,252)
(Decrease) increase in other financial liabilities	(204,630)	(6,504)	69,775	2,152
Decrease in other liabilities	(300,496)	(9,552)	(705,268)	(21,754)
<b>Net cash provided by operating activities</b>	<b>38,992,311</b>	<b>1,239,425</b>	<b>37,667,837</b>	<b>1,161,871</b>
<b>Cash flows from investing activities</b>				
Restricted assets	(500,000)	(15,893)	(485,000)	(14,960)
Increase in loans	(2,564,878)	(81,528)	(6,665,975)	(205,613)
(Increase) decrease in due from the Central Bank and call loans to banks	(1,509,910)	(47,995)	6,155,856	189,878
(Increase) decrease in available-for-sale financial assets	(11,195,914)	(355,878)	19,110,458	589,465
Increase in held-to-maturity financial assets	(62,420,348)	(1,984,118)	(46,694,118)	(1,440,287)
Decrease (increase) in investments under -equity method	479,679	15,247	(41,019)	(1,265)
Increase investments in real estate	(417,806)	(13,280)	(2,552,827)	(78,742)
Acquisition of property and equipment	(408,405)	(12,982)	(99,634)	(3,073)

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries**

**Unaudited consolidated statements of cash flows**

**For the three-month periods ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

	January 1 ~ March 31, 2005		January 1 ~ March 31, 2006	
	NT \$	US \$	NT \$	US \$
Decrease (increase) in securities purchased under agreements to resell	4,756,425	151,190	(1,195,379)	(36,872)
Increase in other financial assets	(11,929,408)	(379,193)	(31,104,101)	(959,411)
(Increase) decrease in other assets	(20,529,199)	(652,549)	368,327	11,361
<b>Net cash used in investing activities</b>	<b>(106,239,764)</b>	<b>(3,376,979)</b>	<b>(63,203,412)</b>	<b>(1,949,519)</b>
<b>Cash flows from financing activities</b>				
(Decrease) increase in due to the Central Bank and call loans from banks	(4,510,204)	(143,363)	10,784,197	332,640
Increase in deposits	11,686,849	371,483	1,612,814	49,748
(Decrease) increase in securities sold under agreements to repurchase	(4,059,132)	(129,025)	2,414,996	74,491
Decrease in bonds payable	(207,599)	(6,599)	(926,874)	(28,590)
Decrease in other financial liabilities	(1,637,132)	(52,039)	(1,089,364)	(33,602)
Increase (decrease) in other liabilities	16,322	519	(80,265)	(2,476)
Cash dividends	-	-	(79)	(2)
<b>Net cash provided by financing activities</b>	<b>1,289,104</b>	<b>40,976</b>	<b>12,715,425</b>	<b>392,209</b>
<b>Effects of exchange rate changes</b>	<b>(52,398)</b>	<b>(1,666)</b>	<b>(186,078)</b>	<b>(5,740)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(66,010,747)</b>	<b>(2,098,244)</b>	<b>(13,006,228)</b>	<b>(401,179)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>249,694,460</b>	<b>7,936,887</b>	<b>327,018,320</b>	<b>10,086,931</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$183,683,713</b>	<b>\$5,838,643</b>	<b>\$314,012,092</b>	<b>\$9,685,752</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period (excluding capitalized interest)	\$2,540,454	\$80,752	\$3,807,421	\$117,440
Income tax paid	\$268,094	\$8,522	\$479,635	\$14,794
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$8,466,368	\$269,115	\$90,872	\$2,803

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NTS31.46 and NTS32.42 to US\$1.00)

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



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd. and Subsidiaries  
Notes to unaudited consolidated financial statements  
(Expressed in thousands of dollars except  
for share and per share data and unless otherwise stated)  
March 31, 2005 and 2006**

**1. Organization and business scope**

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) were merged into the Company through stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank merged on October 27, 2003. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank (merged)”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. As of March 31, 2006, the Company has acquired 81.35% of interest in Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depository Shares (GDSs). The Company mainly engages in financial holding business activities. As of March 31, 2005 and 2006, the total numbers of the employees of the Company and its subsidiaries were 32,157 and 33,409, respectively.

As of and for the three months ended March 31, 2005, except Lucky Bank and Pao Shin Securities has not invested the consolidated financial entity were the same as March 31, 2006. As of and for the there months ended March 31, 2006, the consolidated financial statements include the followings:

**English Translation of Financial Statements Originally Issued in Chinese**

Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Life	Life insurance	100%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Law (the “Company Law”).
The Company	Cathay United Bank(merged)	Commercial banking operations	100%	Cathay United Bank (merged), originally named UWCCB, was enfranchised by the ROC government in January 1975, and started its operations on May 20, 1975. On October 27, 2003, UWCCB merged with the former Cathay United Bank which dissolved after the merger.
The Company	Cathay Century	Property and casualty insurance	100%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on August 2, 2002.
The Company	Cathay Securities	Securities	100%	Cathay Securities was incorporated on May 12, 2004, under the Company Law. The securities department and the securities agent (Taipei branch) of Cathay United Bank(merged) were transferred to Cathay Securities by using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Law.

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Investors	Investees	Business	Ownership interest	Notes
The Company 、 Cathay Life 、 Cathay United Bank(merged) 、 Cathay Century	Cathay Venture Capital Co., Ltd. (“Cathay Venture”)	Venture capital investment	67%	Cathay Venture was incorporated on September 13, 2000, under the Company Law.
The Company	Cathay II Venture Capital Co., Ltd. (“Cathay II Venture”)	Venture capital investment	100%	Cathay II Venture was incorporated on April 12, 2004, under the Company Law.
The Company	Lucky Bank	Commercial banking operations	81.35%	Lucky Bank, former Taichung Credit Department of Central Cooperative, was set up in 1947 and reorganized as Taichung Seventh Credit Cooperative in 1971. On September 1, 1997, Lucky Bank was restructured into a commercial bank in accordance with the Company Law and Banking Law.
Cathay Life	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50%	Cathay Life (Shanghai) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited hold 50% of the common stock respectively.
Cathay Life 、 Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	Symphox Information was incorporated on December 12, 1999, under the Company Law. Cathay Life and Cathay Venture’s hold 60.12% and 39.41% of the common stock respectively.
Cathay Life	Lin Yuan Property Management Co., Ltd.	Property management services	90%	Lin Yuan Property Management Co., Ltd. was incorporated on July 1, 1990, under the Company Law. On May 22, 2002, the company name was changed from “San Ching Property Management Co., Ltd.” to “Lin Yuan Property Management Co., Ltd.” As of January 13, 2006, Cathay Life has disposed 80% of the shares held.

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Investors	Investees	Business	Ownership interest	Notes
Cathay United Bank(merged)	Cathay Futures Corp. (“Cathay Futures”)	Time-bargain, self-support and further consulting	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Law and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp.
Cathay United Bank(merged)	Seaward Leasing Ltd. (“Seaward Leasing”)	Leasing for all kinds of equipments	100%	Seaward Leasing was incorporated on February, 1996, under the Company Law.
Cathay United Bank(merged)	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50%	Indovina Bank Limited was incorporated in Vietnam on October 29, 1992.
Lucky Bank	Pao Shin Securities Co., Ltd. (“Pao Shin Securities”)	Securities	38.35%	Pao Shin Securities was incorporated on September 9, 1988, under the Company Law.

As of and for the three months ended March 31, 2005 and 2006, the consolidated financial statements excluded following subsidiaries because the respective total assets and operating revenues were considered immaterial to the Company.

Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Capital Management Inc., (“Cathay Capital Management”)	Management consultant	100%	Cathay Capital Management was incorporated on June 12, 2000.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Class3 general business insurers and a long-term insurer	100%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.

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Investors	Investees	Business	Ownership interest	Notes
Cathay life	Cathay Securities Investment Co., Ltd. (“Cathay Securities Investment”)	Securities investment research analysis	100%	Cathay Securities Investment was incorporated on November 25, 2002.
Cathay United Bank(merged)	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank(merged)	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100%	Cathay Property Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank(merged)	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100%	Seaward Card was incorporated on April 9, 1999.
Cathay Capital Management	Cathay Pacific Partners Co., Ltd. (“Cathay Pacific Partners”)	Finance consultant	60%	Cathay Pacific Partners was incorporated on October 15, 2002.
Seaward Leasing	China England Co., Ltd. (“China England”)	Accreditation, load and securities investment	100%	China England was incorporated on August 7, 1996.

## **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 “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”. A summary of significant accounting policies follows:

### *(1) Principles of consolidation*

- A. In accordance with the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies”, consolidated financial statements preparation should comply with the Statements of Financial Accounting Standards of Republic of China (“ROC SFAS”) No. 7, except for subsidiaries in banking, insurance and securities which are required to be included in the consolidated financial statements.
- B. All material inter-company transactions were eliminated in the consolidated financial statements.

### *(2) Cash and cash equivalents*

Cash and cash equivalents include cash on hand, unrestricted bank deposits and all highly liquid investments with maturities of less than three months.

### *(3) Financial assets and financial liabilities*

The Company adopted the ROC SFAS No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Regulations Governing the Preparation of Financial Reports by Financial Holding Company”. Financial assets are categorized as the “financial assets at fair value through profit and loss”, “held-to-maturity financial assets”, “investments in debt securities with no active market”, “available-for-sale financial assets”, “derivative financial asset for hedging” or “financial assets carried at cost”, and accordingly, recognized at fair value initially. Financial liabilities are categorized as the “financial liabilities at fair value through profit and loss”, “derivative financial liability for hedging”, or “financial liabilities carried at cost”.

The Company purchases and sales of financial assets in “regular way”. “Regular way” purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

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### A. Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit and loss are categorized as held for trading or designated as at fair value through profit and loss. Gains and losses from changes in fair values of such assets are reflected in the income statement.

### B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums/ discounts have been taken into the consideration of the effective interest rate calculation.

### C. Investments in debt securities with no active market

Investments in debt securities with no active market are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains or losses from changes in fair values are recognized when investments in debt securities with no active market are derecognized, impaired, or amortized.

### D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profits and losses.

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### E. Derivative financial assets or liabilities for hedging

Derivative financial assets or liabilities for hedging are derivative financial assets or liabilities that have been designated as hedges based on hedge accounting and are effective hedging instruments. These assets or liabilities are measured at fair value.

### F. Financial assets carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

### G. Financial liabilities

The Company uses amortized cost for subsequent valuation of financial liabilities, except for “financial liabilities at fair value through profit and loss” and “derivative financial liabilities for hedging”, which are measured at fair value.

The fair value of a listed share or a depositary receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

## *(4) Derecognizing of financial assets and liabilities*

### A. Financial assets

A financial asset (or a portion) is derecognized in which the control over the asset (or a portion) is surrendered. Transfer a financial asset (or a portion) is deemed a sale to the extent of consideration received when the transferor surrenders control over the assets.

If a transfer of financial assets does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

### B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under the liability agreement is discharged or cancelled or expires.



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Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the current period income statement.

### *(5) Accounting for impairment of financial assets*

The Company assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

#### A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurs after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### B. Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is recorded as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss can not be reversed.

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### C. Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

#### *(6) Derivative financial instruments*

The Company conducts derivative financial instrument transactions such as forward foreign exchange, interest rate swap, cross-currency swap, option and futures to hedge its risks associated with interest rates and foreign currency fluctuations. These derivative financial instruments are initially recognized at fair value on the date of which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the period.

For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability;
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or
- C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

Hedges of the foreign currency risk of a firm commitment are belong to cash flow hedges.

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Hedges in compliance with hedge accounting requirements are accounted for as follows:

### A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains and losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

For fair value hedge relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin before the hedge accounting is no longer applicable.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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### B. Cash flow hedges

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

### C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedges are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

#### *(7) Securities purchased under agreements to resell/Securities sold under agreements to repurchase*

Securities purchased under agreements to resell/Securities sold under agreements to repurchase are recorded at the amount of cash received or paid at the transaction. The difference between the recorded cost and the amount which was reacquired or resold as specified in the respective agreements is accrued as interest revenue or interest expense.

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### *(8) Allowance for bad debts*

Allowance for bad debts on bills, loans, overdue accounts and receivables are determined based on the aging analysis of outstanding balances of such accounts and past experience.

### *(9) Investments under equity method*

Investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was amortized. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in inconformity with the acquisition cost allocation as provided in ROC SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method." Goodwill is no longer amortized.

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method accounts. If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and its subsidiaries are amortized to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

### *(10) Investments in real estate*

Investments in real estate are stated at cost when acquired. Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

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Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains and losses are recorded in operating gains and losses accounts.

Depreciation is calculated using the straight-line method in accordance with 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 for commercial leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

### *(11) Property and equipment*

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “capital surplus”, according to applicable regulations. The capital surplus can only be used to offset up operating losses and to increase capital.

Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for 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. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

### *(12) Accounting for Assets Impairment*

Pursuant to ROC SFAS No. 35, “Accounting for Asset Impairment” the Company assesses indicators of impairment for all its assets within the scope of ROC SFAS No. 35 on each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

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For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same day of each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

- A. first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- B. if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods. Impairment loss (reversal) is classified as non-operating loss/ (income).

### *(13) Real Estate Investment Trust (REIT)*

Cathay Life has adopted “Accounting Treatment under Real Estate Securitization” with the Accounting Research and Development Foundation.

Once the sales process is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under “total amount accrual method”.

If the promoter and its related parties do not participate in the initial offering but subsequently acquire the REIT beneficiary securities less than 20% of its outstanding shares from the TSE at fair market value within three months after the issue date, the transfer and purchase transaction are deemed two independent transactions due to the subsequent purchase transaction has no significant influence over the transfer transaction. However, if the promoter and its related parties subsequently acquire the REIT beneficiary securities over 20% of its outstanding shares within three months after the issue date, the subsequently acquired portion is not deemed a sale and therefore gain or loss on disposal of real estate for the promoter related to the subsequently acquired portion shall be deferred.

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### *(14) Convertible notes*

The excess of the redemption price over the par value of convertible notes are credited to redemption premium payable and amortized using the interest method. This amortization is recorded as interest expense.

The book value approach is used when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible notes and reserve amounts for bonds redemption are transferred to the accounts of capital stock and capital surplus and accordingly, no gain or loss is recognized upon conversion.

### *(15) Reserves for operations and liabilities*

The subsidiaries in banking, insurance and security industries are required by the government to record operating and loss reserves. The reserves recognized in the reporting period are recorded as expenses for the reporting period.

### *(16) Treasury stock*

The stock that the Company repurchases is recorded in the “treasury stock account”. The book value of the treasury stock is determined based on the reason of purchase and stock type (common or preferred stock) using the weighted average method. At the time of writing off treasury stock, the Company should debit common stock and capital surplus premium on stock issuance proportionally. As long as the book value of the retired treasury stock is higher than the sum of its par value and capital surplus-premium of common shares, the excess should be debited to other capital surplus or retained earnings when capital surplus treasury stock is insufficient. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus-premium of common shares, the difference is credited to capital surplus-treasury stock.

According to the Ministry of Finance-securities and Future Commission (91) article 108164:

In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities and Exchange Law), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose such treasury shares within this period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities and Exchange Law.



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According to the Securities and Futures Commission (91) article 111467, shares previously bought back by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities and Exchange Law), upon conversion of the institutions into wholly-owned subsidiaries of a financial holding company and the conversion of such shares into treasury shares of the financial holding company, must be treated by such subsidiaries as their own treasury shares and a deduction of shareholders' equity and must be treated as treasury shares of the financial holding company. If the financial institutions hold shares of other financial institutions whose shares are also converted into the shares of the same financial holding company, the principle of equity investment shall apply. The Company follows ROC SFAS NO.30 "Treasury Stock Accounting Principle" and treats shares held by its subsidiaries as treasury stock in its income statements.

### *(17) Recognition of interest income and service fees*

Interest income is recognized on an accrual basis except for loans classified as delinquent accounts. The accrual of income from delinquent accounts is discontinued; subsequent interest payments are credited to income when received. Service fees are recognized on an accrual basis.

### *(18) Insurance premium income and expenses*

In accordance with "The General Accounting Systems for Insurance Companies" published by the MOF, of the insurance subsidiaries records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

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 based on past experience.

### *(19) Pension plan*

The Labor Pension Act of ROC ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

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In compliance with SFC regulations, the Company and its subsidiaries follow the ROC SFAS No. 18, “Accounting for Pensions”. When providing defined benefit plans, an actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets; when providing defined contribution plans, an enterprise should recognize the amounts to be contributed as current expense for the employee’s employment period.

### *(20) Foreign currency transactions*

#### A. Conversion of foreign currency transactions

Foreign currency transactions are recorded in NT dollars at the spot rate when the conversion occurs. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income in the period of actual conversion or settlement. Investments under equity method in foreign currency are accounted for as cumulative translation adjustments and are treated as adjustments of stockholders’ equity. Assets and liabilities denominated in foreign currencies are restated at the balance sheet date exchange rate, and resulting gains or losses are credited or changed to current income.

#### B. Conversion of foreign subsidiaries’ financial statements

Financial statements of foreign subsidiaries under the equity method are converted into NT dollars based on 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 based on the historical rates except for the opening balance of retained earnings, which is posted directly from the year end balance of previous year. Income statement items are converted by the weighted-average exchange rate of the fiscal year. Differences arising from above conversion are reported as “cumulative adjustments” under stockholders’ equity.

Before converting into the local currency, the foreign currency financial statements need to be converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result as if the transactions are recorded in the functional currency from the beginning. The foreign exchange gain or loss from the conversion is recognized in the current period due to the impact to the cash flows of the foreign operation.

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### *(21) Income taxes*

The Company adopted ROC 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 between deferred income tax liabilities, deferred income tax assets, prior year’s loss carry forwards and investment tax credits. An allowance is provided under assessment of the realizability of deferred tax assets. Adjustment of prior years’ income tax payable are included in current income tax expense.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries adopt the linked-tax system for tax filings and pay a 10% surcharge on their undistributed retained earnings under the consolidated income tax return. If there are any tax effects due to the adoption of the linked-tax system, the Company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its subsidiaries.

The Company adopted ROC 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, research and development, education, training and investment in equity is accounted for under the current recognition method.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date when the stockholders resolve the appropriation of earnings.

Effective from January 1, 2006, the Company adopted “Income basic Tax Act” to estimate income basic tax.

### *(22) Capital expenditure expenses*

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

### *(23) The interim financial statement*

The interim financial statements are prepared according to the ROC SFAS No. 23, “Interim Financial Reporting and Disclosures”.

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### *(24) Conversion to U.S. dollars*

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of March 31, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$31.46 and NT\$32.42 provided by Federal Reserve Bank of New York of March 31, 2005 and 2006 are used for the conversion.

### *(25) Significant accounting policies used in 2005*

#### A. Short-term investments

- a. Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income but treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method. Market price is the weighted-average closing price of the month before the balance sheet date.
- b. Beneficiary certificates are stated at cost. The cost and gain/loss of beneficiary certificates sold are determined based on the weighted-average cost method.
- c. Bonds and convertible bonds repaid (converted) when due or sold before maturity are recorded at cost. The cost and gain/loss of these bonds sold is determined based on the weighted-average cost method. At the end of the reporting period, bonds are stated at the lower of cost or market value or at cost if there is no market value available.
- d. Overseas investment trust funds are investments in foreign securities made through financial institutions with pre-determined purposes. The trust funds are recorded at the amount originally remitted and stated at the lower of cost or market value at each balance sheet date. Realized interests, dividends, and disposal gains which are remitted back are recognized at the amounts received in the current period. Realized gain or loss which is not remitted back is recognized based on the net equity as reported by the trustee each month. The trust funds are translated into NT dollars using the spot rate at each balance sheet date. Any exchange difference is charged to income statement accounts.
- e. When market value is available, short-term notes are stated at the lower of aggregate cost or market value. The costs 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.

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- f. Securities purchased are stated at the lower of cost or market value. Except for the Company's equity shares held by Cathay United Bank (merged) and Lucky Bank, the lower of cost or market value is determined based on a portfolio basis with similar securities. A provision is made when the market value is lower than the cost. When the market value recovers, the gain is offset against the provision to the extent of the provision made previously.

When stocks and mutual funds are sold, the cost is calculated based on the weighted-average method. For other securities, the cost is calculated using specific identification method.

Securities purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and securities sold under repurchase agreements are presented as part of "Other liabilities". Interest income from securities purchased under resell agreements and interest expense from securities sold under repurchase agreements are recognized on an accrual basis.

- g. Investment in bonds with resale agreements / Bonds sold under repurchase agreements are recorded at the amount of cash received or paid at the transaction date. The difference between the recorded cost and the amount which was reacquired or resold as specified in the respective agreements, is accrued as interest revenue or interest expense.

According to an explanatory letter of the Securities and Futures Bureau ("SFB"), investments in bonds with resale agreements – securities financing, in conjunction with operating securities – dealing, are valued at the lower of aggregate cost or market value at the balance sheet date. Gains or losses should be recognized at the date the bonds are repurchased.

- h. Securities purchased for resale by the dealing department are accounted for as "operating securities-dealing", and consist of bonds, stock warrants, listed stocks, and over-the-counter (OTC) stocks.

Operating securities are valued at the lower of cost or market value. Cost is determined using the weighted-average method. Market value is the closing market price on the balance sheet date.

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### B. Long-term investments

#### a. Long-term investments in stocks

Long-term investments in listed companies in which the Company's ownership interest is less than 20% of the voting stock with no significant influence over the investee, 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 voting stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and the market value is already less than the cost, the market value becomes the new cost basis. The difference is recorded as a loss for the period. Stock dividends are not recognized as investment income but as an increase in the number of shares held. Upon the sales of long-term equity investments (accounted for under the cost method), any differences between the weighted-average costs and sale prices are used to compute the resulting gain or loss.

#### 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.

### C. Derivative financial products transaction

- a. Transactions on forward foreign exchange contracts are converted into NT dollars based on the spot rate on the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At the end of each period, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and any 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 on 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.

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### b. Structured notes transactions

The structured notes transactions of Cathay Securities can be divided into equity-linked notes and principal guaranteed notes based on the terms of the contracts.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed income products and selling options on linked assets. The proceeds received on the contract date are recognized as “Liabilities for equity-linked notes-fixed-income products” and “Liabilities for equity-linked notes-option premium”. The former amortizes its interest expense over the contract period using the straight-line method or interest method with the amount recognized as “Losses on equity-linked notes”. Any options purchased are recognized as “Assets for equity-linked notes-options”, and are valued at fair value with any resulting gains or losses recognized as “gains (losses) on valuation for equity-linked notes”. To the extent the losses do not exceed the unrealized gains of the hedging position based on market prices, the total amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss in current period earnings.

Principal guaranteed notes transactions involve receiving proceeds from investors and providing them with a guaranteed payment and returns, if any, of linked assets. The proceeds received from investors are recognized as “liabilities for principal guaranteed notes – fixed-income products” and “liabilities for principal guaranteed notes – options”. The former amortizes its interest expense over the contract period using the straight-line method or interest method with the amount recognized as “losses on principal guaranteed notes”. The latter is valued at fair value with any resulting gains or losses recognized as “gains (losses) on valuation for principal guaranteed notes”. To the extent the losses do not exceed the unrealized gains of the hedging position based on market prices, the total amount of the losses is deferred. Otherwise, the portion of losses exceeding the unrealized gains is recognized as a loss in current period earnings.

- c. For cross-currency swap contracts undertaken for non-trading purposes, amounts to be exchanged on settlement dates are recorded at the contracted forward rate. The interest, which may involve the exchange of fixed-rate interest payments for floating-rate interest payments based on a notional principal amount, on each settlement date, is recorded as revenue or expense.

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- d. There is no physical exchange of notional principal amounts for interest rate swaps. Memo entries are made on the trade date. For interest rate swap transactions undertaken for trading purposes, mark-to-market value is calculated based on the discounted present value of all future cash flows using the applicable market rate at the balance sheet date. Any difference between the carrying amount and mark-to-market value is recognized as a gain or loss. For swaps entered into for hedging purposes, interest income and expense are recognized upon settlement.
- e. Margin deposits paid for futures contracts entered into for trading or hedging purposes are recognized as assets and nominal amounts are made as memo entries. On the balance sheet date, outstanding futures contracts are market-to-market and any gain or loss is recognized in the statements of income. Unrealized gain or loss from classified as hedging or non-hedging based on the initial intentions when the contracts were entered into.
- f. For option contracts, only memo entries of notional principal amounts are made on the contract date. Premiums paid or received are recorded as assets or liabilities. As of the balance sheet date, outstanding option contracts are marked-to-market and the gains and losses are recognized in the current statement of income. Gains or losses on the exercise of options are recognized in current statement of income.
- g. The purpose of the CS held 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 in the current period. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.

The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis in the balance sheets.

- h. The interest rate swap agreements are used for the purpose of hedging risks against interest rate fluctuations and are adjusted for interest revenue or expenses based on the interest difference as of the agreed date of settlement. Interest rate swaps for trading purposes do not involve the exchange of nominal principal and are recorded by memorandum entries at the contract dates. The difference between interest received and paid at the settlement date and balance sheet date is recognized as “gain (loss) from derivative financial instruments”. Interest rate swaps are valued at fair value on the balance sheet date.



### **3. Change in accounting and its effects**

The Company and its subsidiaries adopted the ROC SFAS No.34 “Accounting For Financial Instruments” and No.36. “Disclosure and Presentation of Financial Instruments” beginning on and after January 1, 2006 (the “effective date”).

The above change in accounting principles increased consolidated assets, liabilities and stockholders’ equity by NT\$16,386,601 (US\$505,447), NT\$2,488,601 (US\$76,761) and NT\$10,648,677 (US\$328,460) as of January 1, 2006, respectively, and increased consolidated net income and earnings per share by NT\$3,249,323 (NT\$100,226) and NT\$0.38 (US\$0.01), respectively, for the three months ended March 31, 2006.

The Company and its subsidiaries adopted the ROC SFAS No.5, “Accounting for long-term investments in stocks under the equity method” (“ROC SFAS No.5,”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company and its subsidiaries’ share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles increased investment under equity method by NT\$5,383 (US\$166) as of March 31, 2006, and increased consolidated net income by NT\$5,383 (US\$166) for the three months ended March 31, 2006. The Company considers the effect insignificant.

The Company and its subsidiaries adopted the ROC SFAS No.5 revised on December 9, 2004, the Company and its subsidiaries are required to obtain the investee company’s financial statements under the equity method for the same period, and to recognize investment gain or loss based on those financial statements. The adoption of ROC SFAS No.5 resulted in a decrease of long-term investment in stocks by NT\$38,313 (US\$1,218) and a decrease in net income for the first quarter, 2005 by NT\$3,316 (US\$105). The Company deemed the effect insignificant to its financial statements.

The Company and its subsidiaries adopted the ROC SFAS No. 35 on January 1, 2005. No retroactive adjustment is required under ROC SFAS No. 35. The investments in real estate, property and equipment and non-operating assets of the Company and its subsidiaries decreased NT\$211,630 (US\$6,727), NT\$145,081 (US\$4,612) and NT\$334,169 (US\$10,622) as of March 31, 2005, respectively, due to the change of accounting principles under ROC SFAS No. 35. Net income of the Company decreased NT\$690,880 (US\$21,961) for the three months ended March 31, 2005. Such effect is deemed insignificant by the Company.

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Since January 1, 2005, The Company adopted the ROC SFAS No. 7, “Consolidated Financial Statements” which applied “essential controlling interest to identify subsidiaries to be consolidated”. This modification has no effect on the Company’s basic and diluted (if we’re not using basic and diluted EPS. Please let me know) earnings per share for the three months ended March 31, 2005.

### 4. Cash and cash equivalents

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Petty cash and cash on hand	\$9,301,271	\$295,654	\$11,518,391	\$355,287
Cash in banks	9,112,575	289,656	10,381,900	320,231
Time deposits	95,928,318	3,049,215	198,470,925	6,121,867
Cash equivalents	60,383,431	1,919,372	80,441,110	2,481,219
Checks for clearance	4,074,242	129,505	4,561,537	140,701
Due from commercial banks	4,883,876	155,241	8,638,229	266,447
Total	<u>\$183,683,713</u>	<u>\$5,838,643</u>	<u>\$314,012,092</u>	<u>\$9,685,752</u>

### 5. Financial assets at fair value through profit and loss

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Common stock	\$27,943,922	\$888,237	\$22,434,580	\$691,998
Mutual funds	44,472,148	1,413,609	64,769,646	1,997,830
Commercial papers	6,647,179	211,290	12,980,074	400,372
Corporate bonds	614,051	19,518	1,920,821	59,248
Government bonds	51,471,076	1,636,080	53,022,181	1,635,477
Overseas financial instruments	47,483,284	1,509,322	18,153,296	559,941
Financial debentures	-	-	525,935	16,223
Derivative financial instruments	13,463,542	427,958	10,365,377	319,722
Adjustment of valuation	(23,041)	(732)	(2,747,379)	(84,743)
Total	<u>\$192,072,161</u>	<u>\$6,105,282</u>	<u>\$181,424,531</u>	<u>\$5,596,068</u>

As of March 31, 2005 and 2006, certain financial assets at fair value through profit or loss were pledged under repurchase agreements with notional amounts of NT\$43,134,700 (US\$1,371,097) and NT\$14,084,500 (US\$434,439), respectively. Such repurchase agreements amounting of NT\$45,133,652 (US\$1,434,636) and NT\$14,266,713 (US\$440,059), respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to March 31, 2005 and 2006 are settled at NT\$45,199,460 (US\$1,436,728) and NT\$14,280,065 (US\$440,471) prior to September, 2005 and 2006, respectively.

As of March 31, 2005, the above financial assets were valued at the lower of cost or market value.

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**6. Loans-net**

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Inward-outward documentary bills	\$905,975	\$28,798	\$838,339	\$25,859
Loans	1,043,347,063	33,164,242	1,130,450,497	34,868,923
Overdrafts	698,500	22,203	587,854	18,132
Discounted	5,551,285	176,455	6,239,712	192,465
Receivable amount for margin loans	91,239	2,900	299,232	9,230
Delinquent accounts	5,154,399	163,840	9,420,989	290,592
Subtotal	1,055,748,461	33,558,438	1,147,836,623	35,405,201
Less: Allowance for bad debts	(8,452,901)	(268,687)	(14,911,688)	(459,953)
Total	\$1,047,295,560	\$33,289,751	\$1,132,924,935	\$34,945,248

**7. Available-for-sale financial assets-net**

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Common stock	\$71,935,532	\$2,286,571	\$65,657,581	\$2,025,218
Mutual funds	730,911	23,233	3,898,757	120,258
Government bonds	48,207,930	1,532,356	61,935,964	1,910,425
Corporate bonds	9,278,139	294,919	16,417,391	506,397
Financial debentures	13,560,462	431,038	25,938,954	800,091
Overseas financial instruments	111,971,867	3,559,182	79,907,630	2,464,763
Real estate investment trust	-	-	3,292,777	101,566
Adjustment of valuation	(7,388)	(234)	6,172,238	190,384
Total	\$255,677,453	\$8,127,065	\$263,221,292	\$8,119,102

As of March 31, 2006, certain available-for-sale financial assets were pledged under repurchase agreements with notional amounts of NT\$19,989,900 (US\$616,592). Such repurchase agreements amounting of NT\$21,963,217 (US\$677,459) were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements entered prior to March 31, 2006 will be settled at NT\$22,012,443 (US\$678,977) prior to September, 2006.

As of March 31, 2005, the above financial assets were valued at the lower of cost or market value.

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**8. Held-to-maturity financial asset-net**

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Government bonds	\$18,227,665	\$579,392	\$19,022,523	\$586,753
Corporate bonds	9,534,528	303,068	8,059,792	248,606
Financial debentures	7,934,229	252,201	16,241,819	500,981
Collateralized loans obligation and collateralized bonds obligation	171,875	5,463	2,591,830	79,945
Overseas financial instruments	364,428,766	11,583,877	472,211,920	14,565,451
Subtotal	400,297,063	12,724,001	518,127,884	15,981,736
Less: Accumulated impairment	-	-	(2,009)	(62)
Total	\$400,297,063	\$12,724,001	\$518,125,875	\$15,981,674

As of March 31, 2005, the above financial assets were valued at the lower of cost or market value.

**9. Investments under equity method**

Investee	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
	Carrying value	Carrying value	Carrying value	Carrying value
Cathay Securities Investment	\$28,014	\$890	\$97,964	\$3,022
Cathay Capital Management	31,151	990	30,757	949
Seaward Card	78,679	2,501	54,516	1,682
Cathay Property Insurance Agent	12,070	384	11,957	369
Cathay Life Insurance Agent	187,820	5,970	144,148	4,446
Cathay Insurance (Bermuda)	59,253	1,883	67,679	2,088
WK Technology Fund VI Co., Ltd	362,179	11,512	399,652	12,327
Vista Technology Venture Capital Corp.	55,737	1,772	56,206	1,734
Omnitek Venture Capital Corp.	152,726	4,855	364,481	11,242
Wa Tech Venture Capital Co., Ltd.	168,819	5,366	177,416	5,472
Taiwan Real-estate Management Corp.	21,789	693	16,951	523
Taiwan Finance Corp.	1,367,258	43,460	1,411,836	43,548
IBT Venture Capital Corp.	499,458	15,876	656,706	20,256
Cathay Securities Investment Trust Co., Ltd.	232,213	7,381	266,064	8,207
Subtotal	3,257,166	103,533	3,756,333	115,865
Less: Unrealized gain from intercompany transactions	(114,861)	(3,650)	(57,744)	(1,781)
Total	\$3,142,305	\$99,883	\$3,698,589	\$114,084

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Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the three months ended March 31, 2005 and 2006 were recognized based on the investees' unreviewed financial statements or reviewed by other auditors financial statements. No material adjustments are expected if those financial statements have been reviewed.

### 10. Other financial assets-net

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial assets for hedging	\$-	\$-	\$14,194	\$438
Financial assets carried at cost	27,937,823	888,043	27,212,877	839,385
Separate account products assets	43,679,071	1,388,400	109,181,992	3,367,736
Customer's margin accounts	842,882	26,792	1,060,157	32,701
Bills purchased	10,502	334	5,483	169
Overdue receivables-not loans	1,165,094	37,034	331,543	10,226
Other miscellaneous financial assets	10,005,645	318,043	8,521,321	262,841
Adjustment of valuation	-	-	459,961	14,188
Total	<u>\$83,641,017</u>	<u>\$2,658,646</u>	<u>\$146,787,528</u>	<u>\$4,527,684</u>

### 11. Investments in real estate

Item	March 31, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$113,060,197	\$3,593,776	\$4,563	\$145	\$(13,478,703)	\$(428,439)	\$(211,630)	\$(6,727)	\$99,374,427	\$3,158,755
Construction	1,861,618	59,174	-	-	-	-	-	-	1,861,618	59,174
Leased assets	712,101	22,635	-	-	(18,959)	(603)	-	-	693,142	22,032
Total	<u>\$115,633,916</u>	<u>\$3,675,585</u>	<u>\$4,563</u>	<u>\$145</u>	<u>\$(13,497,662)</u>	<u>\$(429,042)</u>	<u>\$(211,630)</u>	<u>\$(6,727)</u>	<u>\$101,929,187</u>	<u>\$3,239,961</u>

Item	March 31, 2006									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$117,088,135	\$3,611,602	\$4,072	\$126	\$(13,466,772)	\$(415,385)	\$(196,952)	\$(6,075)	\$103,428,483	\$3,190,268
Construction	1,904,185	58,735	-	-	-	-	-	-	1,904,185	58,735
Leased assets	1,546,629	47,706	-	-	(53,789)	(1,659)	-	-	1,492,840	46,047
Total	<u>\$120,538,949</u>	<u>\$3,718,043</u>	<u>\$4,072</u>	<u>\$126</u>	<u>\$(13,520,561)</u>	<u>\$(417,044)</u>	<u>\$(196,952)</u>	<u>\$(6,075)</u>	<u>\$106,825,508</u>	<u>\$3,295,050</u>

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collaterals.
- (4) Cathay Life has securitized its real estate properties such as the Sheraton Taipei Hotel, the Taipei Xi-Men Building and the Taipei Zhong Hwa Building in 2005. The accounting treatment of these transactions is conformed to the regulation of the Accounting Research and Development Foundation. The relative information was disclosed below.

Cathay Life transferred the risk and returns of the ownership of the real estate property to the assignee and the gain on disposal of the real estates under “total amount accrual method” was NT\$8,627,731 (US\$266,124).

After the REIT was issued, the sponsor and related parties of Cathay Life did not participate in the original offering. Instead, Cathay Life acquired over 20% of the REIT beneficiary securities which were issued within three months. Thus, Cathay Life has deferred the gain on disposal of real estate by percentage of REIT outstanding shares held by Cathay Life. As of March 31, 2006, the amount of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,717).

### 12. Commercial paper payable

Item	Rate	March 31, 2005		Guarantees
		Amount(NT\$)	Amount(US\$)	
E. Sun Bills financial Corp.	1.11%	\$100,000	\$3,179	None
Taching Bills finance Ltd.	1.28%	150,000	4,768	None
Hua Nan Bills finance Corp.	0.85%	70,000	2,225	None
Taishin Bills finance Corp.	0.86%	40,000	1,272	None
Grand Bills financial Corp.	1.05%-1.15%	50,000	1,589	None
Union Bills financial Corp.	0.68%	80,000	2,543	None
Great Chinese Bills finance Corp.	1.26%	50,000	1,589	None
Chinatrust Bills financial Corp.	1.07%	60,000	1,907	None
China Bills finance Corp.	1.15%-1.16%	220,000	6,993	None
Chung Hsing Bills finance Corp.	1.26%	200,000	6,357	None
Total		1,020,000	32,422	
Less: unamortized discount		(700)	(22)	
Net		\$1,019,300	\$32,400	

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March 31, 2006				
Item	Rate	Amount(NT\$)	Amount(US\$)	Guarantees
E. Sun Bills financial Corp.	1.35%	\$150,000	\$4,627	None
Union Bills financial Corp.	0.90%-0.92%	120,000	3,702	None
Grand Bills financial Corp.	1.26%	180,000	5,552	None
Chinatrust Bills financial Corp.	1.27%	100,000	3,085	None
China Bills finance Corp.	1.35%	250,000	7,711	None
International Bills financial Corp.	1.22%	250,000	7,711	None
Chung Hsing Bills finance Corp.	1.31%	250,000	7,711	None
Total		1,300,000	40,099	
Less: unamortized discount		(1,608)	(50)	
Net		<u>\$1,298,392</u>	<u>\$40,049</u>	

### 13. Financial liabilities at fair value through profit and loss

March 31,				
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Short option	\$63,535	\$2,019	\$8,866	\$273
Derivative financial instruments	14,376	457	11,613,642	358,225
Financial debentures	39,700,000	1,261,920	39,700,000	1,224,553
Subordinated financial debentures	10,000,000	317,864	10,000,000	308,452
Adjustment of valuation	1,213	39	3,645,741	112,453
Total	<u>\$49,779,124</u>	<u>\$1,582,299</u>	<u>\$64,968,249</u>	<u>\$2,003,956</u>

On May 23, 2002, Cathay United Bank (merged) issued a five-year subordinated financial debentures totaling NT\$5,000,000 (US\$154,226) with a stated interest rate of 4.15%, and the interest is payable annually. Subsequently on September 10, 2002, Cathay United Bank (merged) issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$154,226) with a floating interest rate or inverse floating interest rate and the interest is paid semiannually. The subordinated financial debentures are repayable at maturity.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts, that is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

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On June 20, 2003, Cathay United Bank (merged) issued five-year and six-month financial debentures totaling NT\$5,000,000 (US\$154,226) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank (merged) issued five-year financial debentures totaling NT\$3,200,000 (US\$98,705), NT\$2,700,000 (US\$83,282) and NT\$1,800,000 (US\$55,521), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank (merged) issued six-year financial debentures totaling NT\$2,000,000 (US\$61,690) with a floating interest rate. These financial debentures are repayable at maturity and the interest is payable quarterly or semi-annually.

On July 8 and July 15, 2004, Cathay United Bank (merged) issued five-year to seven-year financial debentures totaling NT\$1,000,000 (US\$30,845), NT\$3,500,000 (US\$107,958), NT\$2,000,000 (US\$61,690), and NT\$1,000,000 (US\$30,845), respectively, with floating interest rates, inverse floating interest rates or specific structure rate. These financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, January 14 and February 22, 2005, Cathay United Bank (merged) issued five-year to seven-year financial debentures totaling NT\$2,500,000 (US\$77,113), NT\$1,500,000 (US\$46,268), NT\$1,500,000 (US\$46,268), NT\$2,500,000 (US\$77,113), NT\$1,500,000 (US\$46,268), NT\$2,500,000 (US\$77,113), NT\$1,000,000 (US\$30,845) and NT\$1,000,000 (US\$30,845), NT\$2,000,000 (US\$61,690), NT\$1,500,000 (US\$46,268), respectively, with fixed interest rates. These financial debentures are repayable at maturity and the interest is payable quarterly.

These financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank (merged).

### 14. Deposits

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Check deposits	\$9,079,237	\$288,596	\$12,432,730	\$383,490
Demand deposits	121,510,398	3,862,378	133,230,959	4,109,530
Savings deposits	461,395,383	14,666,096	559,847,618	17,268,588
Time deposits	129,431,710	4,114,168	171,856,209	5,300,932
Remittances payable	488,238	15,519	399,688	12,328
Total	<u>\$721,904,966</u>	<u>\$22,946,757</u>	<u>\$877,767,204</u>	<u>\$27,074,868</u>



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**15. Bonds payable**

	March 31,			
	<u>2005(NT\$)</u>	<u>2005(US\$)</u>	<u>2006(NT\$)</u>	<u>2006(US\$)</u>
Subordinated financial debentures	\$2,350,000	\$74,698	\$18,600,000	\$573,720
Discount in financial debentures	-	-	(112,451)	(3,469)
Bonds payable	15,257,124	484,969	13,263,830	409,125
Adjustment of valuation	-	-	(628,471)	(19,385)
Total	<u>\$17,607,124</u>	<u>\$559,667</u>	<u>\$31,122,908</u>	<u>\$959,991</u>

On April 28, 2003, Cathay United Bank (formerly) issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$72,486) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

Cathay United Bank (merged) issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. Cathay United Bank (merged) can redeem the bond after 10 years by exercising the call option. Cathay United Bank (merged) has adopted hedge accounting to account for its subordinated financial debentures.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

Zero coupon convertible notes related information:

Issuer: Cathay Financial Holding Co., Ltd.

Issue amount: US\$700 million.

Issue price: 100%.

Maturity date: May 20, 2007.

Interest: The notes do not bear interest except in the limited circumstances.

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### Conversion rights:

Subject to certain conditions, each holder of the notes (the “Holder”) has the right during the conversion period to convert its notes (or any portion thereof being US\$1,000 dollars in principal amount or an integral multiple thereof) into common shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable deposit agreement, direct that the common shares deliverable upon conversion be deposited with the depository for issuance of GDSs, provided, however, that the conversion right during any closed period shall be suspended and the conversion period shall not include any such closed period.

### Repurchase at the option of the holder:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder’s notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium. The redemption premium is the amount payable at the issue price on the original issue date, plus a compound yield rate of 2.75% per annum (computed on a semi-annual note equivalent basis).

### Repurchase in the event of delisting:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Company’s common shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder’s notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

### Repurchase in the event of change of control:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder’s notes at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium, upon the occurrence of a change of control.

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Redemption at the option of the Company:

The notes may be redeemed at the option of the Company, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that (a) the closing price (translated into US dollars at the prevailing rate) of the common shares for a period of 30 consecutive trading days (including trading days that fall within a closed period), the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the exchange rate, as defined in the indenture for the notes) and (b) the applicable redemption date does not fall within a closed period. Notwithstanding the foregoing, the Company may redeem, in whole but not in part, the notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that the applicable redemption date does not fall within a closed period.

Tax redemption:

If, as a result of certain changes relating to the ROC tax laws or such other jurisdiction in which the Company is then organized, the Company becomes obligated to pay certain additional amounts, the notes may be redeemed at the option of the Company, in whole but not in part, at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium on such redemption date.

Redemption amount at maturity:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, the Company will redeem the notes on the maturity date at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

Negative pledge:

Subject to certain exceptions, the Company will not, and will procure that none of its principal subsidiaries will, create or permit to subsist any lien to secure for the benefit of the holders of any international investment securities any sum owing in respect thereof or any guarantee or indemnity thereof without making effective provision to secure the notes (a) equally and ratably with such international investment securities with a similar lien or (b) with such other security as shall be approved by Holders of not less than a majority in aggregate principal amount of the outstanding notes.

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Further issues:

The Company may create and issue further securities with the same terms and conditions from time to time without the consent of the Holders of the notes so that such further issuance shall be consolidated and form a single series with the notes.

Governing law:

The indenture, notes and deposit agreements are governed by, and construed in accordance with, the laws of the State of New York.

Status quo:

As of March 31, 2006, the Company has converted US\$338,803 convertible notes at conversion price of NT54.15 dollars (US1.67 dollars) or NT51.94 dollars (US1.60 dollars) per share, into 218,398 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$9,564,732 (US\$295,026), which are recognized as capital surplus. As of March 31, 2006 the Holder had exercised the repurchase right with US\$2,500 by par value, the Company had repurchased such Holder's notes at par value plus the redemption premium with US\$214.

### **16. Reserve for operations and liabilities**

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Reserve for insurance business	\$1,526,784,433	\$48,530,974	\$1,696,533,399	\$52,329,840
Reserves for losses on guarantees	28,555	908	28,651	884
Reserves for losses on stock brokerage transactions	4,889	155	51,288	1,582
Reserves for losses on trading securities	140,863	4,477	146,902	4,531
Reserves for losses on bad debt	-	-	725	22
Total	<u>\$1,526,958,740</u>	<u>\$48,536,514</u>	<u>\$1,696,760,965</u>	<u>\$52,336,859</u>

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### 17. Other financial liabilities

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial liabilities for hedging	\$-	\$-	\$709,389	\$21,881
Borrowed funds	431,525	13,717	315,010	9,716
Separate account products liabilities	43,679,071	1,388,400	109,181,992	3,367,736
Short-term debts	1,480,000	47,044	790,000	24,368
Financial liabilities carried at cost	9,215	293	-	-
Other miscellaneous financial liabilities	-	-	794,054	24,493
Total	<u>\$45,599,811</u>	<u>\$1,449,454</u>	<u>\$111,790,445</u>	<u>\$3,448,194</u>

Short-term debts included credit and guarantee loans. The interest rates were 1.50%-1.53% and 1.53%-1.60% for the three months ended March 31, 2005 and 2006. Certain fixed assets were pledged as collaterals for the debts. Please refer to note 25.

### 18. Common stock

As of March 31, 2005 and 2006, the numbers of common stock with a par value of NT\$10 (US\$0.3) shares issued, were 8,525,888 thousand shares and 8,474,167 thousand shares, respectively.

On December 31, 2001, the Company listed its shares of stock on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

### 19. Capital surplus

- (1) The capital surplus of the Company consists of premium of stock conversion from consolidation, equity method adjustments from investee companies and transactions of treasury stocks. Capital surplus was NT\$65,851,309 (US\$2,093,176) and NT\$68,168,225 (US\$2,102,660) as of March 31, 2005 and 2006. Before conversion into a financial holding company, NT\$267,215 (US\$8,242) constituted retained earnings of certain subsidiaries of the Company.
- (2) The additional paid-in capital of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's undistributed retained earnings is allowed to be distributed as cash dividends.

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- (3) In addition, pursuant to the Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

### **20. Retained earnings**

#### (1) Legal reserve

Pursuant to the Company Law, 10% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total 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) 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 deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.

B. On June 3, 2005, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2004. The Company declared cash dividends and cash bonus of NT2.5 dollars (US0.08 dollars) per common share and such dividends were paid on July 11, 2005.

C. The Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year.

D. In accordance with SFC regulations, in addition to the legal reserve retained, the Company is required to provide a special reserve in the amount equal to current year's contra account in shareholders' equity from current year's earnings after tax or prior years' undistributed earnings. However, contra accounts in prior years' accumulated shareholders' equity should only be provided from prior years' undistributed earnings. If a reversal of shareholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

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E. In accordance with SFC regulations, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The cost of these shares are exempted from distributing as special reserve.

F. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost expect for the legal reserve since 2007.

### G. Dividends policy

The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations with excess cash from retained earnings distributed in cash, but cash dividends must be a minimum of 10% of the total dividends declared.

## 21. Treasury stock

(1) The Company has no treasury stock for the three months ended March 31, 2006.

(2) The following is a summary of the movement of treasury stock for the three months ended March 31, 2005.

(Unit: in thousands of shares)

Reason for acquisition	January 1, 2005			March 31, 2005			Per share Book value (in NT dollars)	Per share Book value (in US dollars)	Per share Market value (in NT dollars)	Per share Market value (in US dollars)
	2005	Increase	Decrease	2005	Book value (NT\$)	Book value (US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares held by subsidiaries	6,897	-	-	6,897	\$354,955	\$11,283	\$51.47	\$1.64	\$60.54	\$1.92

(3) As of March 31, 2005, the Companies' stocks held by subsidiaries are illustrated as follows:

(Unit: in thousands of shares)

Name	Holding share	Amount (NT\$)	Amount (US\$)	Cause	About retained earnings limit	Legal time limit	Pro forma way determined by the board of directors determine
Cathay United Bank (merged)	3,500	\$210,810	\$6,701	Holding other subsidiaries stock by conversion	None	Within three years	None
Cathay Century	3,397	205,651	6,537	Holding other subsidiaries stock by conversion	None	Within three years	None
Total	6,897	\$416,461	\$13,238				

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**22. Estimated income taxes**

(1) Income tax expenses include the following:

	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Expected income tax payable	\$1,224,471	\$38,922	\$1,811,466	\$55,875
Plus: Interest income of tax on a separate basis	112,098	3,563	330,205	10,185
Deferred income tax benefits	(256,740)	(8,161)	(2,659,817)	(82,042)
Allocation of the cumulative effect of changes in accounting principles	-	-	476,896	14,710
Extra 10% income tax on undistributed retained earnings	2,726	87	785,316	24,223
Less: Income tax credit	(580)	(18)	(4,030)	(124)
Tax effects under consolidated income tax return	(1,513)	(48)	(847)	(26)
Dissimilitude on estimate tax from prior years	4,231	134	(447,163)	(13,793)
Operating loss carryforwards	(207,910)	(6,609)	(456,528)	(14,082)
Total income tax expenses (benefits)	<u>\$876,783</u>	<u>\$27,870</u>	<u>\$(164,502)</u>	<u>\$(5,074)</u>

The Company in accordance with the Financial Holding Company Act, elected to be the payer of the consolidated income tax and the 10% additional undistributed earnings tax filing the consolidated income tax return which includes all subsidiaries that have twelve months of operations in a taxable year.

(2) Income tax returns:

	March 31, 2006	
	Income tax returns assessed	Notes
The Company	through 2001	-
Cathay Life	through 2001	-
Cathay United Bank (merged)	through 2001	Cathay United Bank (merged) had accrued appropriate tax provisions for the years 1999 and 2001, and appealed to the tax authority. After further review, the tax authority re-determined the income tax obligations of Cathay United Bank (merged) for the years 1999 and 2001 in 2005.



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	Income tax returns assessed	Notes
Former Cathay United Bank's	through 2003	For the tax years 2003 with respect to Cathay United Bank (formerly), withholding tax on interest income from bonds held by other investors (the "bond withholding tax") was disallowed by the tax authority as a deduction. Cathay United Bank (formerly) accrued appropriate tax provisions, and filed for administrative remediation. In 2005, Cathay United Bank (formerly) settled the tax dispute arising from the withholding tax on interest income from bonds pertaining to the above relevant periods in its 2003 tax returns.
Cathy Century	through 2002	The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in years 2002, 2001 and 1999 tax returns, respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century has filed the dispute.
Cathay Pacific Venture	through 2003	-
Symphox Information	through 2003	-
Cathay Futures	through 2003	-
Seaward Leasing	through 2003	-
Lucky Bank	through 2003	-
Cathay venture	through 2003	-
Pao shin Securities	through 2003	-
Cathay Securities	through 2003	-

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(3) Information related tax imputation:

A. Balance of imputation credit account

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
The Company	\$364,246	\$11,578	\$488,559	\$15,070
Cathay Life	1,368,980	43,515	1,116,423	34,436
Cathay United Bank (merged)	112,981	3,591	288,893	8,911
Cathay Century	9,885	314	9,196	284
Cathay Securities	2,107	67	8,085	249
Cathay Pacific Venture	345	11	392	12
Cathay Venture	10,615	337	15,545	479
Cathay II Venture	1,176	37	4,595	142
Lin Yuan Property Management	14,836	472	-	-
Cathay Futures	11,995	381	12,282	379
Seaward Leasing	89,316	2,839	76,640	2,364
Lucky Bank	-	-	4,373	135
Pao Shin Securities	-	-	24,377	752

B Imputation credit account ratio

	For the three months ended March 31,	
	2005 (Actual)	2006 (Estimate)
The Company	7.58%	7.62%
Cathay Life	9.52%	4.57%
Cathay United Bank (merged)		
-cash dividends	1.04%	7.50%
-stock dividends	3.28%	-
Cathy Century	1.83%	1.56%
Cathay Securities	-	12.97%
Cathay II Venture	-	33.33%
Lin Yuan Property Management	33.33%	-
Cathay Venture	-	16.28%
Seaward Leasing	18.72%	-
Cathay Futures	33.33%	-

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(4) Information relating of undistributed earnings:

Year	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Prior to 1997	\$267,215	\$8,494	\$267,215	\$8,242
After 1998	30,640,997	973,967	28,146,255	868,176
Total	<u>\$30,908,212</u>	<u>\$982,461</u>	<u>\$28,413,470</u>	<u>\$876,418</u>

- A. Undistributed earnings after 1998 did not include the net income from January 1 to March 31, 2005 and 2006.
- B. The undistributed earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

### 23. Earnings per share

	For the three months ended March 31, 2005				
	Amount (Numerator)		Shares (in thousands of shares) (denominator)	EPS	
	After income taxes			After income taxes EPS (in dollars)	
	NT\$	US\$		NT\$	US\$
	NT\$	US\$		NT\$	US\$
Consolidated income before cumulative effect of accounting principles	\$4,822,366	\$153,286	8,349,828	\$0.58	\$0.02
Consolidated income	<u>\$4,822,366</u>	<u>\$153,286</u>	8,349,828	<u>\$0.58</u>	<u>\$0.02</u>
Consolidated income before cumulative effect of accounting principles	\$4,822,366	\$153,286	8,349,828		
Effect of potentially dilutive common stock					
Convertible notes payable	117,398	3,731	397,782		
Diluted consolidated income before cumulative effect of accounting principles	4,939,764	157,017	8,747,610	\$0.56	\$0.02
Consolidated income	<u>\$4,939,764</u>	<u>\$157,017</u>	8,747,610	<u>\$0.56</u>	<u>\$0.02</u>

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	Amount (Numerator)		Shares	EPS	
			(in thousands of shares)		
			(denominator)	After income taxes EPS	
	After income taxes			(in dollars)	
	NT\$	US\$		NT\$	US\$
Consolidated income before cumulative effect of accounting principles	\$4,754,311	\$146,647	8,525,463	\$0.56	\$0.02
Cumulative effect of changes in accounting principles	3,249,323	100,226	8,525,463	0.38	0.01
Consolidated income	\$8,003,634	\$246,873	8,525,463	\$0.94	\$0.03
Consolidated income before cumulative effect of accounting principles	\$4,754,311	\$146,647	8,525,463		
Effect of potentially dilutive common stock					
Convertible notes payable	68,436	2,111	239,234		
Diluted consolidated income before cumulative effect of accounting principles	\$4,822,747	\$148,758	8,764,697	\$0.55	\$0.02
Cumulative effect of changes in accounting principles	3,249,323	100,226	8,764,697	0.37	0.01
Consolidated income	\$8,072,070	\$248,984	8,764,697	\$0.92	\$0.03

### 24. Related party transactions

#### (1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank (merged)	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Pacific Venture	Subsidiary of the Company
Cathay II Venture	Subsidiary of the Company
Cathay Capital Management	Subsidiary of the Company
Lucky Bank	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company
Cathay Life (Shanghai)	Subsidiary of the Company
Symphox Information	Subsidiary of the Company

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Name	Relationship
Pao Shin Securities	Subsidiary of the Company
Cathay Futures	Subsidiary of the Company
Seaward Leasing	Subsidiary of the Company
Indovina Bank	Subsidiary of the Company
Cathay Pacific Partners	Subsidiary of the Company
Cathay Insurance (Bermuda)	Subsidiary of the Company
Cathay Securities Investment	Subsidiary of the Company
Cathay Life Insurance Agent	Subsidiary of the Company
Seaward Card	Subsidiary of the Company
Cathay Property Insurance Agent	Subsidiary of the Company
China England	Subsidiary of the Company
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Financial Corp.	The investee is accounted for using the equity method
Vista Technology Venture Capital Corp.	The investee is accounted for using the equity method
Taipei Smart Card Corp.	Investee company of Cathay United Bank (merged)
Cathay General Hospital	Their chairman is also the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is a second immediate family member of the Company's chairman
Yi Ru Corporation	Their chairman is a second immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the subsidiaries' chairman
Culture and Charity Foundation of the CUB	Cathay United Bank (merged) is the major sponsor of the foundation
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
Wu Ming-Yang	Senior manager of Cathay Century
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Charity Foundation	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Industrial and Commercial Bank of Vietnam	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate

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(2) Significant transactions with related parties:

A. Due from the Central Bank and call loans to banks

Name	For the three months ended March 31,								
	2005				2006				
	Ending balance		Interest revenue		Ending balance		Interest revenue		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Due from commercial banks									
Industrial and Commercial Bank of Vietnam	\$989	\$31	\$-	\$-	\$1,468	\$45	\$-	\$-	

B. Financial assets at fair value through profit and loss

Name	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$5,776,535	\$183,615	\$6,339,539	\$195,544

C. Receivables

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$7,599	\$242	\$8,880	\$274
Cathay Capital Management	36	1	11,804	364
Cathay General Hospital	38,505	1,224	40,582	1,252
Cathay Real Estate Development Co., Ltd.	1,591	51	219	7
Cathay Securities Investment Trust Co., Ltd.	609	19	103	3
<b>Total</b>	<b>\$48,340</b>	<b>\$1,537</b>	<b>\$61,588</b>	<b>\$1,900</b>

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D. Loans

For the three months ended March 31, 2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,192,411	\$2,192,213	2.60%~2.72%	\$14,714
Wu Ming-Yang	1,651	1,622	2.66%	11
Total		<u>\$2,193,835</u>		<u>\$14,725</u>

For the three months ended March 31, 2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$69,689	\$69,682	2.60%~2.72%	\$468
Wu Ming-Yang	52	52	2.66%	-
Total		<u>\$69,734</u>		<u>\$468</u>

For the three months ended March 31, 2006				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$3,750,544	\$3,750,409	3.03%~3.15%	\$26,831
Wu Ming-Yang	1,536	-	3.03%	5
Total		<u>\$3,750,409</u>		<u>\$26,836</u>

For the three months ended March 31, 2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$115,686	\$115,682	3.03%~3.15%	\$828
Wu Ming-Yang	47	-	3.03%	-
Total		<u>\$115,682</u>		<u>\$828</u>

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### E. Loans and deposits

March 31,												
2005						2006						
Account	(NT\$)	(US\$)	% of account	Interest revenue (expense)		(NT\$)	(US\$)	(NT\$)	(US\$)	% of account	Interest revenue (expense)	
				(NT\$)	(US\$)						(NT\$)	(US\$)
Bills and loans	\$1,373,397	\$43,655	0.41%	\$15,793	\$502	\$959,595	\$29,599	0.44%	\$13,932	\$430		
Deposits	\$3,381,022	\$107,471	5.59%	\$(8,149)	\$(259)	\$2,108,428	\$65,035	3.80%	\$(7,058)	\$(218)		

### F. Property transactions

- a. Transactions between Cathay Life and related parties are undertaking contracted projects, construction, and lease transactions. The terms of such transactions are based on market surveys and the contracts of both parties.

For the three months ended March 31, 2005			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$116,411	\$3,700
	Tainmu Base-A	1,238	39
	Cathay Golden & Sliver Bldg	3,791	121
	Sheraton Taipei Hotel	12,105	385
	Sainyang Building	4,222	134
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	589	19
	Total	\$138,637	\$4,407

For the three months ended March 31, 2006			
Name	Item	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	\$750	\$23
	Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building	1,291
	Li-Yuan Building	9,540	294
	Jhong Jheng Building	2,134	66
	International Building	1,077	33



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Name	Item	For the three months ended March 31, 2006	
		NT\$	US\$
	World commercial		
	Building	1,393	43
	Financial Center Hsing-E	1,317	41
	Yuanlin Building	1,554	48
	Changhua 2nd Building	1,431	44
	Central industrial &		
	commercial Building	1,406	43
	Taipei Royalty Building	9,610	296
	Jhong Gang Building	1,584	49
	Cathay Building	4,561	141
	Tun Nan Commercial		
	Building	2,618	81
	Other	4,846	149
	Total	<u>\$45,112</u>	<u>\$1,391</u>

The total amount of the contracted projects for real estate as of March 31, 2005 and 2006 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$7,306,738 (US\$232,255) and NT\$1,405,513 (US\$43,353), respectively.

b. Cathay Life acquire of real estate information:

Cathay Life did not acquire any real estate from its related parties for the three month ended March 31, 2005.

Name	Item	For the three months	
		ended March 31, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 65 Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$163,171</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$76,188</u>

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c. Real estate rental income from Cathay Life 、 Cathay United Bank (merged) and Seaward Leasing:

Name	Rental income			
	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$908	\$29	\$844	\$26
Cathay Capital Management	481	16	496	15
Cathay Real Estate Development Co., Ltd.	4,072	130	4,526	140
Cathay General Hospital	31,622	1,005	36,837	1,136
San Ching Engineering Co., Ltd.	1,893	60	1,864	58
Cathay Securities Investment Trust Co., Ltd.	2,906	92	3,184	98
Taiwan Asset Management Corporation	3,585	114	3,599	111
Taipei Smart Card Corp.	1,427	45	238	7
Culture and Charity Foundation of CUB	250	8	250	8
Total	\$47,144	\$1,499	\$51,838	\$1,599

Lease terms and collection of rental are governed by signed contracts, with lease terms generally 2 to 5 years. Rentals are collected monthly.

Name	Guarantee deposits in			
	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$877	\$28	\$877	\$27
Cathay Capital Management	479	15	479	15
Cathay Real Estate Development Co., Ltd.	4,286	136	3,645	112
Cathay General Hospital	2,354	75	6,857	212
San Ching Engineering Co., Ltd.	2,195	70	1,709	53
Cathay Securities Investment Trust Co., Ltd.	2,738	87	2,738	84
Taiwan Asset Management Corporation	3,477	111	3,477	107
Total	\$16,406	\$522	\$19,782	\$610

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d. Real estate rental expense from Cathay Life and Cathay United Bank (merged).

Name	Rental expense			
	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	\$10,868	\$346	\$10,807	\$333
Lin Yuan Investment Co., Ltd.	1,672	53	628	19
Yi Ru Corporation	-	-	1,022	32
Total	\$12,540	\$399	\$12,457	\$384

Name	Guarantee deposits paid			
	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,565	\$399	\$12,318	\$380
Yi Ru Corporation	-	-	1,190	37
Lin Yuan Investment Co., Ltd.	1,650	53	601	18
Total	\$14,215	\$452	\$14,109	\$435

According to the contracts, the terms of leases with third parties generally were 3 years, and rents were paid monthly.

G. Other assets

Prepayment

Name	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$-	\$-	\$15,615	\$482

H. Due to the Central Bank and call loans from banks

Name	For the three months ended March 31, 2005			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial Bank of Vietnam	\$104,371	\$2,314(Note)	\$3,318	\$74(Note)

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Name	For the three months ended March 31, 2006			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$2,955	\$248(Note)	\$91	\$8(Note)

I. Bankers acceptances and funds borrowed

Name	For the three months ended March 31, 2005			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Bank overdraft				
Industrial and Commercial				
Bank of Vietnam	\$100,808	\$- (Note)	\$3,204	\$- (Note)

Industrial and Commercial Bank of Vietnam did not bank overdraft from its related parties for the three month ended March 31, 2006.

Note: The interest expense from due to commercial banks and bank overdraft were recorded together.

J. Securities sold under agreements to repurchase

Name	March 31,			
	Ending balance			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.-Cathay				
Bond Fund	\$251,961	\$8,009	\$-	\$-

  

Name	For the three months ended March 31,			
	Interest expenses			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.-Cathay				
Bond Fund	\$449	\$14	\$-	\$-

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K. Payables

Name	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Seaward Card	\$82,946	\$2,637	\$30,863	\$952
Lin Yuan Property Management Co., Ltd.	-	-	55,151	1,701
San Ching Engineering Co., Ltd.	20,513	652	504	15
Cathay Real Estate Development Co., Ltd.	-	-	384	12
Industrial and Commercial Bank of Vietnam	-	-	60,125	1,855
Total	<u>\$103,459</u>	<u>\$3,289</u>	<u>\$147,027</u>	<u>\$4,535</u>

L. Other liabilities

Accounts collected in advance

Name	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay General Hospital	\$446	14	\$428	\$13

M. Net commission and handling fee

a. Handling fee Income

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$-	\$-	\$703	\$22
Cathay securities investment Trust Co., Ltd.	-	-	403	12
Total	<u>\$</u>	<u>\$-</u>	<u>\$1,106</u>	<u>\$34</u>

b. Commissions expense

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$50,389	\$1,602	\$27,924	\$861
Cathay Property Insurance Agent	6,557	208	8,634	267
Total	<u>\$56,946</u>	<u>\$1,810</u>	<u>\$36,558</u>	<u>\$1,128</u>

c. Reinsurance commissions expense

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$-	\$-	\$4,535	\$140

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### N. Net premiums from insurance business

#### a. Insurance income

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay General Hospital	\$2,254	\$72	\$7,988	\$246
CEA Futures Brokerage Co., Ltd.	814	26	-	-
CEA Finance Holding Co., Ltd.	791	25	283	9
CEA Finance Co., Ltd.	1,351	43	-	-
Cathay Real Estate Development Co., Ltd.	318	10	683	21
San Ching Engineering Co., Ltd.	-	-	300	9
Total	<u>\$5,528</u>	<u>\$176</u>	<u>\$9,254</u>	<u>\$285</u>

#### b. Reinsurance income

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	<u>\$6,144</u>	<u>\$195</u>	<u>\$36,745</u>	<u>\$1,133</u>

#### c. Reinsurance claims payment

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	<u>\$1,892</u>	<u>\$60</u>	<u>\$26,569</u>	<u>\$820</u>

### O. Net other non-interest income

#### a. Sales

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay General Hospital	\$280	\$9	\$8,608	\$265
Cathay Securities Investment Trust Co., Ltd.	931	29	1,189	37
Total	<u>\$1,211</u>	<u>\$38</u>	<u>\$9,797</u>	<u>\$302</u>

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b. Service Income

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay General Hospital	\$22,560	\$717	\$2,627	\$81
Cathay Securities Investment Trust Co., Ltd.	1,238	39	311	10
Cathay Real Estate Development Co., Ltd.	9,617	306	-	-
Lin Yuan Investment Co., Ltd.	3,488	111	-	-
Total	<u>\$36,903</u>	<u>\$1,173</u>	<u>\$2,938</u>	<u>\$91</u>

c. Miscellaneous income

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$1,343	\$43	\$2,002	\$62

P. Operating expense

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$13,125	\$417	\$13,125	\$405
Cathay Pacific Partners	3,750	119	3,750	116
Seaward Card	271,150	8,619	139,748	4,310
Cathy Capital Management	7,500	238	19,696	607
Lin Yuan Property Management Co., Ltd.	-	-	183,269	5,653
Cathay Real Estate Development Co., Ltd.	3,522	112	3,010	93
San Ching Engineering Co., Ltd.	1,440	46	1,008	31
Cathay Charity Foundation	-	-	850	26
Cathay General Hospital	-	-	605	19
Total	<u>\$300,487</u>	<u>\$9,551</u>	<u>\$365,061</u>	<u>\$11,260</u>

Q. Others

a. As of the March 31, 2005 and 2006, Seaward Leasing borrowed loans and lines of credit from financial institutions on behalf of China England. Seaward not only guaranteed the loans or lines of credit but also provided lands, houses and buildings as collaterals. Furthermore, a portion of the credit lines of Seaward Leasing and China England were jointly liable.

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- b. As of December 26, 2001, Seaward Leasing signed a construction management services contracts with the Taiwan Real-estate Management Corp for the purchased Taichung Jing T'ang Building (Renamed the Taichung Cathay financial buildings) which was still in construction. The amount of contract was NT\$17,010 (US\$525) and payments were based on percentage of completion. Seaward Leading has paid in full as of March 31, 2006.
- c. Seaward Leasing appointed San Ching Engineering, a related party of the Company, as the consultant of construction manage. Seaward Leasing paid in the amount NT\$6,510(US\$201) during the three month ended March 31, 2006.
- d. Cathay United Bank (merged) purchased automated systems for its 24-hour self-service banking centers from San Ching Engineering Co., Ltd. for the amounts of NT\$3,820 (US\$121) and NT\$72 (US\$2) during the three months ended March 31, 2005 and 2006, respectively.
- e. Cathay United Bank (merged) paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$6,202 (US\$191) during the three month ended March 31, 2006.

(3)The Company significant transactions with related parties

A. Cash in bank

		For the three months ended March 31, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$6,350,434	3.02%	\$8,718
	Cash in bank	4,568	0.10%	-
	Total	<u>\$6,355,002</u>		<u>\$8,718</u>

		For the three months ended March 31, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$201,858	3.02%	\$277
	Cash in bank	145	0.10%	-
	Total	<u>\$202,003</u>		<u>\$277</u>



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		For the three months ended March 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$3,257,165	4.375%~ 4.9175%	\$38,492
	Cash in bank	2,248	0.10%	61,861
	<b>Total</b>	<b>\$3,259,413</b>		<b>\$100,353</b>

		For the three months ended March 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$100,468	4.375%~ 4.9715%	\$1,187
	Cash in bank	69	0.10%	1,908
	<b>Total</b>	<b>\$100,537</b>		<b>\$3,095</b>

B. Receivable

		March 31,			
Name	Item	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay United Bank (merged)	Consolidated income tax return, interest	\$1,323,249	\$42,061	\$2,252,511	\$69,479
	Cathay Life				
Cathay Century	Consolidated income tax return	-	-	1,612,842	49,749
	Cathay Capital Management				
Cathay Securities	Consolidated income tax return	128,419	4,082	147,618	4,553
	Cathay Capital Management				
Cathay Securities	Consolidated income tax return	-	-	11,801	364
	Cathay Securities				
<b>Total</b>		<b>\$1,451,668</b>	<b>\$46,143</b>	<b>\$4,039,860</b>	<b>\$124,610</b>

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C. Payable

Name	Item	March 31,			
		2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life	Consolidated income tax return	\$769,892	\$24,472	\$2,171,620	\$66,984
Cathay United Bank (merged)	Consolidated income tax return	571,606	18,169	1,157,000	35,688
Cathay Pacific Venture	Consolidated income tax return	6,891	219	1,523	47
Cathay II Venture	Consolidated income tax return	-	-	3,845	118
Total		\$1,348,389	\$42,860	\$3,333,988	\$102,837

D. Operating expenses

Name	For the three months ended March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life	\$2,490	\$79	\$3,202	\$99
Lin Yuan Property Management Co., Ltd.	59	2	305	9
Total	\$2,549	\$81	\$3,507	\$108

(4)The subsidiaries significant transactions with related parties are follows:

A. Cathay Life

a. Cash in banks

Name	Item	For the three months ended March 31,2005		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposit Cash in bank	\$25,090,650 4,698,831	0.85%~2.00% 0.10%	\$78,622 1,315
Total		\$29,789,481		\$79,937

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		For the three months ended March 31,2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$797,541	0.85%~2.00%	\$2,499
Bank (merged)	Cash in bank	149,359	0.10%	42
Total		<u>\$946,900</u>		<u>\$2,541</u>

		For the three months ended March 31,2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$1,066,250	1.05%~1.85%	\$3,021
Bank (merged)	Cash in bank	19,982,811	0.01%~2.10%	55,508
Total		<u>\$21,049,061</u>		<u>\$58,529</u>

		For the three months ended March 31,2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$32,889	1.05%~1.85%	\$93
Bank (merged)	Cash in bank	616,373	0.01%~2.10%	1,712
Total		<u>\$649,262</u>		<u>\$1,805</u>

b. Other receivable-tax refund receivable

Name	March 31,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	<u>\$769,892</u>	<u>\$24,472</u>	<u>\$2,171,620</u>	<u>\$66,984</u>

c. Other financial assets – current

		For the three months ended March 31,2005		
Name		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)		<u>\$2,000,000</u>	0.12%~3.03%	<u>\$-</u>

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Name	For the three months ended March 31,2005		
	Ending balance		Interest income
	(US\$)	Rate	(US\$)
Cathay United Bank (merged)	\$63,573	0.12%~3.03%	\$-

Name	For the three months ended March 31,2006		
	Ending balance		Interest income
	(NT\$)	Rate	(NT\$)
Cathay United Bank (merged)	\$1,000,000	1.80%	\$-

Name	For the three months ended March 31,2006		
	Ending balance		Interest income
	(US\$)	Rate	(US\$)
Cathay United Bank (merged)	\$30,845	1.80%	\$-

d. Secured loans

Name	For the three months ended March 31,2005			
	Maximum amount	Ending balance		Interest income
	(NT\$)	(NT\$)	Rate	(NT\$)
Cathay General Hospital	\$2,192,411	\$2,192,213	2.60%~2.72%	\$14,714

Name	For the three months ended March 31,2005			
	Maximum amount	Ending balance		Interest income
	(US\$)	(US\$)	Rate	(US\$)
Cathay General Hospital	\$69,689	\$69,683	2.60%~2.72%	\$468

Name	For the three months ended March 31,2006			
	Maximum amount	Ending balance		Interest income
	(NT\$)	(NT\$)	Rate	(NT\$)
Cathay General Hospital	\$3,750,544	\$3,750,409	3.03%~3.15%	\$26,831

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For the three months ended March 31, 2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$115,686	\$115,682	3.03%~3.15%	\$828

e. Financial assets at fair value through profit and loss-beneficiary certificates

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$5,166,000	\$164,209	\$5,915,672	\$182,470

f. Property transactions

Transactions are undertaking contracted projects, 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 three months ended March 31, 2005 and 2006 are listed below:

For the three months ended March 31, 2005			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$116,411	\$3,700
	Sheraton Taipei Hotel	12,105	385
	Sainyang Building	4,222	134
	Cathay Golden & Silver Bldg	3,791	121
	Tianmu Base-A	1,238	39
	Other	281	9
	Total		\$138,048

Cathay Life did not undertaking contracted projects over 100 million from its related parties for the three months ended March 31, 2006.

The total amount of contracted projects for real estate as of March 31, 2005 and 2006 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$7,306,738 (US\$232,255) and NT\$1,405,513 (US\$43,353), respectively.

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(b) Real estates acquired from related parties for the three months ended March 31, 2005 and 2006 are as follows:

Cathay Life did not acquire any real estates from its related parties for the three month ended March 31, 2005.

Name	Item	For the three months ended March 31, 2006	
		Contract price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 65 Simen Rd, Tainan City.	\$5,290,000	\$163,171
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	\$2,470,000	\$76,188

g. Guarantee deposits paid

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Futures	\$-	\$-	\$461,569	\$14,237

h. Other payable-tax refund payable

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$-	\$-	\$1,612,842	\$49,748

i. Administrative and general expense

Name	For the three months ended March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Lin Yuan Property Management Co., Ltd.	\$206,917	\$6,577	\$180,595	\$5,570

j. Miscellaneous income

Name	For the three months ended March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Century Insurance	\$128,116	\$4,072	\$133,844	\$4,128

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The miscellaneous income was commission and cross-selling income received for fire and earthquake insurance bundled with loans to customers.

### k. Other

As of March 31, 2005 and 2006, the notional amount of the derivative financial instruments transactions with Cathay United Bank (merged) are listed below:

Item	March 31,	
	2005	2006
Forward foreign exchange contracts	USD 114,760	USD 159,267
CCS contracts	USD 545,000	USD 385,000

## B. Cathay United Bank (merged)

### a. Loans and deposits

Account	March 31,							
	2005				2006			
	Interest revenue (expense)		Interest revenue (expense)		Interest revenue (expense)		Interest revenue (expense)	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
Loans	\$2,437,787	\$77,488	\$13,791	\$438	\$2,736,216	\$84,399	\$13,168	\$406
Deposits	\$42,303,385	\$1,344,672	\$(101,730)	\$(3,234)	\$31,047,178	\$957,655	\$(109,240)	\$(3,370)

#### For the three months ended March 31, 2005

Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$585,895	\$18,623	\$490,885	\$15,603	2.48%~3.44%	\$3,781	\$120

#### For the three months ended March 31, 2006

Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$715,919	\$22,083	\$650,919	\$20,078	4.38%~7.80%	\$6,728	\$208

Transactions terms with related parties are similar to those with third parties.

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b. Receivable

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$571,606	\$18,169	\$1,157,000	\$35,688

c. Payable

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$1,314,730	\$41,790	\$2,245,837	\$69,273

d. Credit card processing charges etc

Name	For the three months ended March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Seaward Card	\$271,001	\$8,614	\$139,407	\$4,300

e. Other

- (a) As of March 31, 2005 and 2006, the notional amount of the forward and cross-currency swaps Cathay United Bank (merged) entered into transactions with Cathay Life were US\$698,000 and US\$544,000, respectively.
- (b) For organization restructuring, Cathay United Bank (merged) board of directors decided to sell its 64,944 thousand shares of Cathay Futures to Cathay Securities on February 10, 2006. The book value on the date when the transaction occurred was NT\$736,454 (US\$22,716) and net selling price was NT\$708,275 (US\$21,847) (the security transaction cost NT\$2,132 (US\$66) was deducted). The loss from the transaction was NT\$28,179 (US\$869) classified under investment income recognized by the equity method.



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C. Cathay Century

a. Cash in banks

		For the three months ended March 31, 2005		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank (merged)	Cash in banks	\$201,801	0.10%	\$-
	Time deposits	343,850	1.40%~1.565%	1,049
Total		<u>\$545,651</u>		<u>\$1,049</u>

		For the three months ended March 31, 2005		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank (merged)	Cash in banks	\$6,414	0.10%	\$-
	Time deposits	10,930	1.40%~1.565%	33
Total		<u>\$17,344</u>		<u>\$33</u>

		For the three months ended March 31, 2006		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank (merged)	Cash in banks	\$297,883	0.10%	\$-
	Time deposits	318,055	1.63%~1.95%	1,763
Total		<u>\$615,938</u>		<u>\$1,763</u>

		For the three months ended March 31, 2006		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank (merged)	Cash in banks	\$9,188	0.10%	\$-
	Time deposits	9,811	1.63%~1.95%	54
Total		<u>\$18,999</u>		<u>\$54</u>

b. Financial assets at fair value through profit and loss-beneficiary certificates

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$260,535</u>	<u>\$8,281</u>	<u>\$113,597</u>	<u>\$3,504</u>

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c. Marketing expense

Name	For the three months ended March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$136,144	\$4,328	\$155,037	\$4,782

D. Cathay Securities

a. Cash in bank

Name	Item	For the three months ended March 31, 2005		
		Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank (merged)	Cash in banks	\$72,441	0.10%	\$40
	Negotiable certificates of deposit	2,130,000	0.85%~1.125%	4,922
		<u>\$2,202,441</u>		<u>\$4,962</u>

Name	Item	For the three months ended March 31, 2005		
		Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank (merged)	Cash in banks	\$2,303	0.10%	\$1
	Negotiable certificates of deposit	67,705	0.85%~1.125%	157
		<u>\$70,008</u>		<u>\$158</u>

Name	Item	For the three months ended March 31, 2006		
		Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank (merged)	Cash in banks	\$125,257	0.10%	\$-
	Negotiable certificates of deposit	1,325,000	1.24%~1.37%	5,775
		<u>\$1,450,257</u>		<u>\$5,775</u>

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Name	Item	For the three months ended March 31, 2006		
		Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank (merged)	Cash in banks	\$3,863	0.10%	\$-
	Negotiable certificates of deposit	40,870	1.24%~1.37%	178
		<u>\$44,733</u>		<u>\$178</u>

As of March 31, 2005 and 2006, except for NT\$1,000,000 (US\$31,786) and NT\$700,000 (US\$21,592) pledged as collateral for the over-loaning of settlement accounts and recognized under restricted assets, the remaining negotiable certificates of deposit have not been pledged as collateral.

b. Open-end funds and currency market instruments

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	<u>\$350,000</u>	<u>\$11,125</u>	<u>\$310,270</u>	<u>\$9,570</u>

c. Securities sold under agreements to repurchase

Name	March 31,			
	Ending balance			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	<u>\$251,961</u>	<u>\$8,009</u>	<u>\$-</u>	<u>\$-</u>

Name	For the three months ended March 31,			
	Interest expense			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	<u>\$449</u>	<u>\$14</u>	<u>\$-</u>	<u>\$-</u>

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d. Clearing and settlement fees, dealing handling fee expense and margin for futures trading – own funds

Name	For the three months ended March 31, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures	\$101	\$3	\$98	\$3	\$99	\$3	\$302,127	\$9,319

From January 1 to March 31, 2005, there were no transactions.

E. Cathay Pacific Venture

Cash in bank

Name	Item	For the three months ended March 31, 2005		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Cash in bank	\$44,883	0.10%	\$-

Name	Item	For the three months ended March 31, 2005		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Cash in bank	\$1,427	0.10%	\$-

Name	Item	For the three months ended March 31, 2006		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$380,006	1.10%~1.15%	\$666
	Cash in bank	2,992	0.10%	-
	Total	\$382,998		\$666

Name	Item	For the three months ended March 31, 2006		
		Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$11,722	1.10%~1.15%	\$21
	Cash in bank	92	0.10%	-
	Total	\$11,814		\$21

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F. Lin Yuan Property Management Co., Ltd.

Service Income

Name	For the three months ended March 31, 2005	
	NT\$	US\$
Cathay Life	\$206,917	\$6,577

G. Seaward Leasing

Short-term debts

Name	For the three months ended March 31, 2005			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest expense
Cathay United Bank (merged)	\$1,340,000	\$1,310,000	1.50%	\$-

Name	For the three months ended March 31, 2005			
	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest expense
Cathay United Bank (merged)	\$42,594	\$41,640	1.50%	\$-

Name	For the three months ended March 31, 2006			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest expense
Cathay United Bank (merged)	\$1,880,000	\$1,880,000	1.53%~1.48%	\$6,600

Name	For the three months ended March 31, 2006			
	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest expense
Cathay United Bank (merged)	\$57,989	\$57,989	1.53%~1.48%	\$204

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H. Indovina Bank

a. Bank overdraft

Name	For the three months ended March 31, 2005			
	Ending balance (NT\$)	Interest expense (NT\$)	Ending balance (US\$)	Interest expense (US\$)
Cathay United Bank (merged)	\$493,288	\$3,929	\$15,680	\$125
Industrial and Commercial Bank of Vietnam	100,808	2,314	3,204	73
<b>Total</b>	<b>\$594,096</b>	<b>\$6,243</b>	<b>\$18,884</b>	<b>\$198</b>

Name	For the three months ended March 31, 2006			
	Ending balance (NT\$)	Interest expense (NT\$)	Ending balance (US\$)	Interest expense (US\$)
Cathay United Bank (merged)	\$650,919	\$6,789	\$20,078	\$209
Industrial and Commercial Bank of Vietnam	-	-	-	-
<b>Total</b>	<b>\$650,919</b>	<b>\$6,789</b>	<b>\$20,078</b>	<b>\$209</b>

b. Due to commercial banks

Name	For the three months ended March 31, 2005			
	Ending balance (NT\$)	Interest expense (NT\$)	Ending balance (US\$)	Interest expense (US\$)
Due to commercial banks Industrial and Commercial Bank of Vietnam	\$104,371	\$(Note)	\$3,318	\$(Note)

Name	For the three months ended March 31, 2006			
	Ending balance (NT\$)	Interest expense (NT\$)	Ending balance (US\$)	Interest expense (US\$)
Due to commercial banks Industrial and Commercial Bank of Vietnam	\$2,955	\$248	\$91	\$8

Note: The interest expenses from due to commercial banks and bank overdraft were recorded together.

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c. Dividends payable

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank (merged)	\$-	\$-	\$108,875	\$3,358
Industrial and Commercial Bank of Vietnam	-	-	60,125	1,855
<b>Total</b>	<b>\$-</b>	<b>\$-</b>	<b>\$169,000</b>	<b>\$5,213</b>

I. Cathay Futures

a. Cash in bank

		For the three months ended March 31, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$19,937	0.01%~0.60%	\$34
	Cash in bank	215,000	0.70%~1.40%	1,184
	<b>Total</b>	<b>\$234,937</b>		<b>\$1,218</b>

		For the three months ended March 31, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$634	0.01%~0.60%	\$1
	Cash in bank	6,834	0.70%~1.40%	38
	<b>Total</b>	<b>\$7,468</b>		<b>\$39</b>

		For the three months ended March 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank (merged)	Time deposits	\$2,975	0.01%~2.10%	\$39
	Cash in bank	270,000	0.95%~1.17%	2,716
	<b>Total</b>	<b>\$272,975</b>		<b>\$2,755</b>

		For the three months ended March 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank (merged)	Time deposits	\$92	0.01%~2.10%	\$1
	Cash in bank	8,328	0.95%~1.17%	84
	<b>Total</b>	<b>\$8,420</b>		<b>\$85</b>

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b. Customer's margin accounts

Name	March 31,					
	2005			2006		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank (merged)	\$575,618	\$18,297	0.01%~1.35%	\$758,644	\$23,400	0.01%~2.10%

c. Futures customer's equity

Name	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$448,997	\$14,272	\$461,569	\$14,237
Cathay Securities	-	-	303,127	9,350
Total	\$448,997	\$14,272	\$764,696	\$23,587

J. Lucky Bank

Loans and deposits

	March 31, 2006			
	(NT\$)	(US\$)	Interest revenue (expense)	
			(NT\$)	(US\$)
Loans	\$103,379	\$3,189	\$764	\$24
Deposits	\$763,833	\$23,561	\$(5,308)	\$(164)

Transactions terms with related parties are similar to those with third parties.

K. Pao Shin Securities

Cash in bank

Name	Item	For the three months ended March 31, 2006		
		Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Lucky Bank	Time deposits	\$109,000	1.60%~1.90%	\$587
	Cash in bank	1,629	0.10%	-
	Total	\$110,629		\$587



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		For the three months ended March 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Lucky Bank	Time deposits	\$3,362	1.60%~1.90%	\$18
	Cash in bank	50	0.10%	-
	Total	<u>\$3,412</u>		<u>\$18</u>

**25. Pledged assets**

As of March 31, 2005 and 2006, the Company and its subsidiaries pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, without any pay out by bank	\$1,378,750	\$43,825	\$1,024,770	\$31,609
Securities purchase	Collateral	16,982,995	539,828	17,310,793	533,954
Property and equipment—Buildings and construction	Loan, others financial or leasing	1,574,672	50,053	1,556,117	47,999
Property and equipment—Land	Loan, others financial or leasing	855,562	27,195	853,649	26,331
Government bonds	Guarantee deposits paid	8,450,957	268,625	8,387,734	258,721
Financial assets at fair value through profit and loss	Business reserves and guarantees	1,912,428	60,789	2,349,587	72,473
Available-for-sale financial assets	Business reserves and guarantees	418,259	13,295	302,829	9,341
Held-to-maturity financial assets	Business reserves and guarantees	52,308	1,663	58,377	1,801
Investments in debt securities with no active market	Business reserves and guarantees	14,600,000	464,081	14,600,000	450,339

**26. Commitment and contingent liabilities**

(1) Cathay United Bank (merged)

- A. In 1996, several clients of Cathay United Bank (merged) filed a lawsuit (the lawsuit) against Cathay United Bank (merged), claiming restitution in the amount of NT\$24,000 (US\$740) for theft of their properties stored in a safe at Chung-Li Branch. The High Court has held Cathay United Bank (merged) responsible for making restitution. Cathay United Bank (merged) subsequently appealed and the appeal is being reviewed by the High Court. Cathay United Bank (merged) also filed claim (the claim) against Taiwan Secom Co., Ltd. in relation to the loss mentioned above. The High Court has suspended the claim until the High Court has a determination on the lawsuit.
- B. In 1997, Cathay United Bank (merged), as requested by Polaris International Securities Investment Trust Co., Ltd., paid Chung Shing Bank (which merged with Union Bank of Taiwan) in an amount of NT\$600,000 (US\$18,507) for the purchase of a certain certificate of time deposit. Such certificate of time deposit was later found to have been forged by Mr. Chung-For Su (a clerk of another bank). Cathay United Bank (merged) filed a lawsuit against Chung Shing Bank for the return of unjustified benefits. Cathay United Bank (merged) obtained a judgment rendered by the Taiwan High Court in favor of Chung Shing Bank. Cathay United Bank (merged) appealed and the Taiwan High Court reversed its previous decision. The Chung Shing Bank subsequently filed an appeal to the Supreme Court. On September 8, 2005 the Supreme Court rendered a judgment in favor of Chung Shing Bank. This lawsuit is pending as Cathay United Bank (merged) subsequently filed an appeal to the Taiwan High Court.
- C. In 2001, embezzlement and illegal acts involving the amount of NT\$60,204 (US\$1,857) was committed by one of Cathay United Bank's (merged) employees. Cathay United Bank (merged) has filed a motion of injunction against the employee's personal properties. The Central Insurance Co., Ltd. has compensated for the loss in the amount of NT\$39,900 (US\$1,231). The District Prosecutors Office has taken a public prosecution. Cathay United Bank (merged) filed an incidental civil procedure.
- D. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank (merged) believes constitutes a breach of Pacific SOGO's co-branded card contract with Cathay United Bank (merged). Cathay United Bank (merged) has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. Cathay United Bank (merged) has won the lawsuit in the Taipei District Court on March 31, 2006. Cathay United Bank (merged) also has filed an incidental civil procedures and claim against Pacific SOGO.

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- E. On December 25, 2004, a charge of embezzlement in the amount of NT\$24,971 (US\$770) by one of Cathay United Bank's (merged) employees was brought to the Taipei District Prosecutors Office.
- F. As of March 31, 2006, Cathay United Bank (merged) has entered into certain contracts to purchase premises and equipments totaling NT\$997,079 (US\$30,755) with down payments of NT\$222,841 (US\$6,874).

### (2) Cathay Century

The tax authority has informed Cathay Century to pay additional corporate income taxes on the bond premium amortization for the tax returns of 2002, 2001 and 1999, in the amounts of NT\$1,944 (US\$60) · NT\$2,988 (US\$92) and NT\$3,112 (US\$96), respectively. Cathay Century has filed the dispute.

### (3) Lucky Bank

- A. In 2003, Lucky Bank together with one of its employees of Lucky Bank was jointly and severally sued by a third party for a dispute on a land transaction. The plaintiff sought reimbursement of NT\$22,000 (US\$679) plus interest. The plaintiff's claim had been overruled by Taiwan High Court. The plaintiff, however, appealed. As of the date of this report, the case is still being tried. It is the prudently optimistic view of Lucky Bank and its counselor that the case may end up favorably to Lucky Bank given the original judgment of Taiwan High Court. Lucky Bank believes, even if the case ends up unfavorably, it may still seek reimbursement from the employee who was jointly and severally being sued. Accordingly, Lucky Bank did not make any accrual.
- B. In July 2005, an ex-employee of Lucky Bank filed an action against Lucky Bank with Taichung District Court, seeking pension and wages payment of NT\$10,945 (US\$338) plus interest. The court judge Lucky Bank lose a lawsuit. Lucky Bank appealed the case to a higher court. The case is still being tried by Taiwan High Court. However, Lucky Bank estimate a loss NT\$5,500 (US\$170) on the basis of conservatism principle.

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- (4) As of March 31, 2005 and 2006, the bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	March 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Trust and security held for safekeeping	\$586,979,017	\$18,657,947	\$599,052,093	\$18,477,856
Travelers checks for sale	659,057	20,949	752,569	23,213
Bills for collection	51,871,700	1,648,814	54,724,001	1,687,970
Guarantees on duties and contracts	16,177,196	514,215	15,129,863	466,683
Unused commercial letters of credit	3,958,073	125,813	3,221,588	99,370
Irrevocable loan commitments	26,857,603	853,706	39,069,792	1,205,114
Credit card lines	282,661,154	8,984,779	287,734,235	8,875,208
Stamp tax, securities and memorial currency consignments	1,757	56	1,727	53

- (5) According to the effective operating leases agreement, rentals for the next five years are as follows:

Periods	NT\$	US\$
April 1, 2006~March 31, 2007	\$145,747	\$4,496
April 1, 2007~March 31, 2010	243,524	7,511
April 1, 2010~March 31, 2011	63,647	1,963
Total	<u>\$452,918</u>	<u>\$13,970</u>

**27. Serious damages:** None.

**28. Subsequent events:**

- (1) On March 15, 2006, the board of directors revoked the public offering and the revoke was approved by the government on April 7, 2006.
- (2) Lucky Bank's board of directors approved to dispose all shares of Pao Shin Securities on April 11, 2006.

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**29. Other important events**

(1) 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”.

(2) Financial instruments related information

A. The Company

a. Information of fair value

Item	March 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$17,824,536	\$17,824,536	\$566,578	\$566,578
Receivables	2,050,945	2,050,945	65,192	65,192
Investments under equity method	183,454,547	183,454,547	5,831,359	5,831,359
Other financial assets	100,000	100,000	3,179	3,179
<u>Liabilities-non-derivative</u>				
Payables	2,281,602	2,281,602	72,524	72,524
Bonds payable	15,257,124	15,257,124	484,969	484,969
Item	March 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$10,296,035	\$10,296,035	\$317,583	\$317,583
Receivables	4,699,553	4,699,553	144,958	144,958
Investments under equity method	204,926,247	204,926,247	6,320,982	6,320,982
Other financial assets	31,720	31,720	978	978
<u>Liabilities-non-derivative</u>				
Payables	4,951,407	4,951,407	152,727	152,727
Bonds payable	13,263,830	13,263,830	409,125	409,125
<u>Liabilities-derivative</u>				
Forward, option	1,411,270	1,411,270	43,531	43,531

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b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

(a) The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables payables and other financial assets.

(b) The fair value of derivative and bonds payable was recognized by the present value of anticipate cash flow.

c. The fair value of the Company financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	March 31,							
	2005				2006			
	Value determined by quoted		Value determined by pricing		Value determined by quoted		Value determined by	
	market price		models		market price		pricing models	
Financial instruments	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents	\$-	\$-	\$17,824,536	\$566,578	\$-	\$-	\$10,296,035	\$317,583
Receivables	-	-	2,050,945	65,192	-	-	4,699,553	144,958
Investments under equity method	-	-	183,454,547	5,831,359	-	-	204,926,247	6,320,982
Other financial assets	-	-	100,000	3,179	-	-	31,720	978
<u>Liabilities</u>								
Payables	-	-	2,281,602	72,524	-	-	4,951,407	152,727
Bonds payable	-	-	15,257,124	484,969	-	-	13,263,830	409,125
<u>Derivative financial instruments</u>								
<u>Liabilities</u>								
Forward, option	-	-	-	-	-	-	1,411,270	43,531

Note: The derivative financial instruments of the Company were valued using Discount Cash flow Model and Black-Scholes Model.

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### d. Information on financial risk

#### (a) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at March 31, 2006:

#### Fixed interest rate

Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through profit and loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,411,270	\$43,531
Item	Due in 4~5 year		Over 5 years		Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through profit and loss		\$-	\$-	\$-	\$-	\$-	\$1,411,270	\$43,531

#### Floating interest rate

Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through profit and loss	\$-	\$-	\$-	\$-	\$1,411,270	\$43,531	\$-	\$-
Item	Due in 4~5 year		Over 5 years		Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through profit and loss		\$-	\$-	\$-	\$-	\$-	\$1,411,270	\$43,531

The interest rate of floating interest rate financial instrument is repriced within a year. The interest rate of fixed interest rate financial instrument is fixed until the due date. Financial instruments excluded from the tables above due to absence of interest risk are financial instruments with no interest.

(b) Credit risk

The Company's exposure to credit risk is minimal.

e. Financial risk management objectives and policies

The Company's financial assets primarily consist of cash and cash equivalents, short-term notes and domestic common stocks.

The Company enters into derivative transactions such as foreign currency options and cross currency swaps to protect against the risks of interest rate and exchange rate from investment activities.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, the Company also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing the Company's risks.

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock value risk and exchange rate risk, etc.. The Company conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress test methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of the Company's financial assets.

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on a contract. An internal credit risk evaluation model for investments in financial instruments is also created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.



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### Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Company has adopted and implemented the internal control regulations and sheets. The Company is also commenced to develop the information systems to accommodate the aforementioned policies.

### Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions and short-term notes (includes repurchase agreement). In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

## B. Cathay Life

### a. Information of fair value

Item	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$196,294,686	\$196,294,686	\$6,239,500	\$6,239,500
Receivables	8,789,637	8,789,637	279,391	279,391
Financial assets at fair value				
through profit and loss - current	132,434,802	131,990,733	4,209,626	4,195,510
Available-for-sale financial assets - current	95,875,277	108,002,299	3,047,529	3,433,004
Held-to-maturity financial assets - current	686,390	686,390	21,818	21,818
Available-for-sale financial assets - noncurrent	119,884,080	119,289,927	3,810,683	3,791,797
Held-to-maturity financial assets - noncurrent	388,285,492	388,705,110	12,342,196	12,355,534
Financial assets carried at cost - noncurrent	20,995,331	-	667,366	-
Investments in debt securities with no active market - noncurrent	38,544,799	38,513,618	1,225,200	1,224,209
Investments under equity method	3,568,139	3,568,139	113,418	113,418
Guarantee deposits paid	8,371,499	8,371,499	266,100	266,100

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Item	March 31,2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss - current				
Futures	\$4,897,375	\$4,880,854	\$155,670	\$155,145
Option	81,166	86,715	2,580	2,756
Forward contracts	8,294,314	8,294,314	263,646	263,646
IRS	20,523	(20,704)	652	(658)
<u>Liabilities-non-derivative</u>				
Payables	104,018	104,018	3,306	3,306
Guarantee deposits received	1,633,451	1,633,451	51,921	51,921
<u>Liabilities-derivative</u>				
Financial liabilities at fair value through profit and loss - current				
Option	12,638	12,638	402	402
Item	March 31,2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$304,019,420	\$304,019,420	\$9,377,527	\$9,377,527
Receivables	8,764,453	8,764,453	270,341	270,341
Financial assets at fair value through profit and loss - current				
Available-for-sale financial assets - current	77,381,233	77,381,233	2,386,836	2,386,836
Held-to-maturity financial assets - current	2,115,025	2,115,025	65,238	65,238
Available-for-sale financial assets - noncurrent				
Held-to-maturity financial assets - noncurrent	130,146,321	130,146,321	4,014,384	4,014,384
Financial assets carried at cost - noncurrent				
Investments in debt securities with no active market - noncurrent	20,760,193	-	640,351	-
Long-term investments in stocks	45,039,171	44,290,676	1,389,240	1,366,153
Guarantee deposits paid	4,239,990	4,239,990	130,783	130,783
	8,207,978	8,207,978	253,176	253,176

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Item	March 31,2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-derivative</u>				
Financial assets at fair value				
through profit and loss - current				
Futures	\$2,773,674	\$2,773,674	\$85,554	\$85,554
Option	17,218	17,218	531	531
Forward	3,442,445	3,442,445	106,183	106,183
IRS	105,333	105,333	3,249	3,249
Derivative financial assets for hedging - current				
IRS	474,155	474,155	14,625	14,625
<u>Liabilities-non-derivative</u>				
Payables	102,010	102,010	3,147	3,147
Guarantee deposits received	1,572,014	1,572,014	48,489	48,489
<u>Liabilities-derivative</u>				
Financial liabilities at fair value				
through profit and loss - current				
Option	2,776	2,776	86	86
Forward	11,401,667	11,401,667	351,686	351,686
IRS	723,364	723,364	22,312	22,312
Derivative financial liabilities for hedging - current				
IRS	15,188	15,188	468	468

b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

- (a) The fair value of Cathay Life's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables and payables.

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- (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- (c) Quoted market prices, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Life's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Life uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- (d) The fair value of Cathay Life's current and noncurrent financial asset or liability is based on market price on the reporting date if market price is available. When market price is not available, the fair value is based on relevant financial or other information.
- c. The following table summarizes the fair value information of Cathay Life's financial assets and liabilities at March 31, 2006:

Financial Instruments	March 31, 2006			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current				
	\$119,913,749	\$119,913,749	\$-	\$-
Available-for-sale financial assets-current	77,381,233	77,381,233	-	-
Held-to-maturity financial assets-current	2,115,025	2,115,025	-	-
Available-for-sale financial assets-noncurrent				
	130,146,321	130,146,321	-	-
Held-to-maturity financial assets-noncurrent	38,980,291	42,183,622	466,082,515	456,263,470
Financial assets carried at cost-noncurrent	20,760,193	-	-	-
Investment in debt securities with no active market-noncurrent				
	14,568,482	14,568,482	30,470,689	29,722,194
Long-term investments in stocks under the equity method				
	4,239,990	4,239,990	-	-

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Financial Instruments	March 31,2006			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	2,773,674	2,773,674	-	-
Option	17,218	17,218	-	-
Forward contracts	3,442,445	3,442,445	-	-
IRS	105,333	105,333	-	-
Derivative financial assets for hedging-current				
IRS	474,155	474,155	-	-
<u>Liability-non-derivative</u>				
Financial liability at fair value through profit and loss-current				
Option	2,776	2,776	-	-
Forward contracts	11,401,667	11,401,667	-	-
IRS	723,364	723,364	-	-
Derivative financial assets for hedging-current				
IRS	15,188	15,188	-	-

Financial Instruments	March 31,2006			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current				
	\$3,698,759	\$3,698,759	\$-	\$-
Available-for-sale financial assets-current	2,386,836	2,386,836	-	-
Held-to-maturity financial assets-current	65,238	65,238	-	-
Available-for-sale financial assets-noncurrent				
	4,014,384	4,014,384	-	-
Held-to-maturity financial assets-noncurrent	1,202,353	1,301,160	14,376,389	14,073,519
Financial assets carried at cost-noncurrent	640,351	-	-	-
Investment in debt securities with no active market-noncurrent				
	449,367	449,367	939,873	916,786
Investments under equity method	130,783	130,783	-	-

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Financial Instruments	March 31, 2006			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	85,554	85,554	-	-
Option	531	531	-	-
Forward contracts	106,183	106,183	-	-
IRS	3,249	3,249	-	-
Derivative financial assets for hedging-current				
IRS	14,625	14,625	-	-
<u>Liability-non-derivative</u>				
Financial liability at fair value through profit and loss-current				
Option	86	86	-	-
Forward contracts	351,686	351,686	-	-
IRS	22,312	22,312	-	-
Derivative financial assets for hedging-current				
IRS	468	468	-	-

d. Information on financial risk

(a) Risk of interest rate

The following table summarizes the maturities of Cathay Life's financial instruments at March 31, 2006:

Item	<u>Fixed interest rate</u>							
	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit and loss	\$2,322,399	\$71,635	\$339,041	\$10,458	\$1,273,090	\$39,269	\$286,779	\$8,846
Available-for-sale financial assets	1,578,044	48,675	1,426,934	44,014	542,777	16,742	425,619	13,128
Held-to-maturity financial assets	89,837,040	2,771,038	8,129,329	250,751	2,082,737	64,242	11,053,349	340,942
Investments in debt securities								
with no active market	452,379	13,954	50,962	1,572	954,945	29,455	1,788,135	55,155
Financial liabilities at fair value								
through profit and loss	(2,707)	(84)	-	-	(69)	(2)	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$1,174,760	\$36,235	\$161,991,428	\$4,996,651	\$167,387,497	\$5,163,094
Available-for-sale financial						
assets	5,107,710	157,548	80,327,989	2,477,730	89,409,073	2,757,837
Held-to-maturity financial assets	5,545,800	171,061	250,297,698	7,720,472	366,945,953	11,318,506
Investments in debt securities						
with no active market	718,048	22,148	27,264,237	840,970	31,228,706	963,254
Financial liabilities at fair value						
through profit and loss	-	-	-	-	(2,776)	(86)

### Float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit and loss	\$1,854,586	\$57,205	\$25,688	\$792	\$441,829	\$13,628	\$10,647	\$329
Available-for-sale financial								
assets	73,082	2,254	3,724,580	114,885	8,754,592	270,037	67,139	2,071
Held-to-maturity financial assets	-	-	-	-	-	-	779,040	24,030
Investments in debt securities								
with no active market	-	-	4,815,724	148,542	2,403,579	74,139	5,000,000	154,226
Derivative financial assets for								
hedging	-	-	26,918	830	60,588	1,869	-	-
Financial liabilities at fair value								
through profit and loss	(39,131)	(1,207)	(150,924)	(4,655)	-	-	(22,689)	(700)
Derivative financial liabilities								
for hedging	-	-	(9,555)	(295)	(3,551)	(109)	(1,772)	(55)

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$2,926	\$90	\$3,687,682	\$113,747	\$6,023,358	\$185,791
Available-for-sale financial						
assets	8,148,270	251,335	19,969,586	615,965	40,737,249	1,256,547
Held-to-maturity financial assets	-	-	91,672,999	2,827,668	92,452,039	2,851,698
Investments in debt securities						
with no active market	-	-	1,591,163	49,079	13,810,466	425,986
Derivative financial assets for						
hedging	162,978	5,027	223,671	6,899	474,155	14,625
Financial liabilities at fair value						
through profit and loss	(22,639)	(698)	(487,982)	(15,052)	(723,365)	(22,312)
Derivative financial liabilities						
for hedging	(310)	(9)	-	-	(15,188)	(468)

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(b) Credit risk

Cathay Life's exposure to credit risk is minimal.

e. Hedged of derivative financial instruments related information:

Cash flow hedges-IRS

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$11,030,000	\$340,222	90DCP	Each quarter	August 2008~ April 2015
585,000	18,044	ARMS~ARMS+65bps	Each quarter	March 2009~ October 2009
1,800,000	55,521	0~7.6%-90DCP	Half year	July 2007~ October 2007
200,000	6,169	4.003%-6ML,the floor of interest rate is 0%	Half year	June 2007
500,000	15,423	If 6ML<1.1%,6ML If 1.1%<6ML<2.0%,3.8% If 6ML>2.0%,Max(5.50%-6ML,0)	Half year	June 2011
500,000	15,423	If 6ML<0.95%,Libor If 0.95%<6ML<2.0%,3.5% If 2.0%<6ML;4.8%-6ML	Half year	January 2009
200,000	6,169	0.5Y:3.8%, 0.5y +6Ml:3.0%, 0.5-1.5Y:0.75-2.0%, 1.5-2.5Y:1.0-2.5%, 2.5-3.5Y:1.0-3.0%, 3.5-4.5Y:1.0-3.5%, 4.5-5.5Y;1.0-4.0%, 5.5-6.5Y:1.0-4.5%, 6.5-7.0Y:1.0-5.0%	Half year	March 2011
4,350,000	134,176	4.00%-6ML~7.75%-6ML	Half year to one year	July 2007~ March 2011
800,000	24,676	4%-12ML~4.3%-12ML	Yearly	June 2008~ June 2010



f. Financial risk management objectives and policies

Cathay Life's financial assets primarily consist of domestic or foreign common stocks, preferred stocks, bonds, corporate bonds, short-term notes, mortgage-backed securities, mutual funds, short-term notes, cash and cash equivalents.

Cathay Life enters into derivative transactions such as stock options, index futures, interest rate futures, interest rate swaps, currency forwards and cross currency swap to protect against the risks of stock value, interest rate and exchange rate from investment activities.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, Cathay Life also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing Cathay Life's risks.

Market Risk

Market risk is the exposure to uncertain market value of a portfolio, including interest rate risk, stock value risk and exchange rate risk, etc.. Cathay Life conducts analysis and assessments of the investment targets before any investment decisions are made. In addition, VaR model in connection with atmosphere simulation methods, stress test methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of Cathay Life's financial assets.

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on a contract. Cathay Life has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. An internal credit risk evaluation model for investments in financial instruments is also created based on external credit assessments and various characteristics of financial instruments. Cathay Life also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.

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### Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Life has adopted and implemented the internal control regulations and sheets. Cathay Life is also commenced to develop the information systems to accommodate the aforementioned policies.

### Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. Cathay Life primarily has sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, Cathay Life also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

### C. Cathay United Bank (merged)

#### a. Information of fair value

	March 31,							
	2005				2006			
	Book value		Fair value		Book value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
Assets								
Financial assets at fair value								
through profit and loss	\$43,882,732	\$1,394,874	\$46,964,845	\$1,492,843	\$50,282,653	\$1,550,976	\$50,282,653	\$1,550,976
Available-for-sale financial assets	37,226,973	1,183,311	37,331,870	1,186,646	51,517,533	1,589,066	51,517,533	1,589,066
Held-to-maturity financial assets and debt securities with no active market	184,027,576	5,849,573	183,507,293	5,833,035	209,573,793	6,464,337	208,454,799	6,429,821
Investment accounted for using equity method	5,126,955	162,967	5,126,955	162,967	4,389,423	135,392	4,389,423	135,392
Others	730,397,471	23,216,703	730,397,471	23,216,703	756,049,012	23,320,451	756,049,012	23,320,451
Liabilities								
Financial liabilities at fair value through profit and loss								
Financial debentures payable	2,350,000	74,698	2,335,824	74,247	17,859,078	550,866	17,859,078	550,866
Others	897,637,505	28,532,661	897,637,505	28,532,661	955,826,095	29,482,606	955,826,095	29,482,606

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	March 31,							
	2005				2006			
	Book value		Fair value		Book value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>								
Assets								
Financial assets at fair value								
through profit and loss	2,692,409	85,582	2,692,409	85,582	4,808,784	148,328	4,808,784	148,328
Liabilities								
Financial assets at fair value								
through profit and loss	64,748	2,058	64,748	2,058	2,337,892	72,113	2,337,892	72,113
Others	-	-	-	-	694,201	21,413	694,201	21,413

b. The methodologies and assumptions used by Cathay United Bank (merged) to estimate the above fair value of financial instruments are summarized as following:

(a) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.

(b) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit and loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of the Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay United Bank (merged) uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.

(c) The value of debt securities with no active market, financial assets carried at cost and investments accounted for using equity method is determined by pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. If fair value of equity security can not reliable measurement, fair value is equal to carrying value.

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- (d) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments. The carrying value of loans and deposits approximates fair value.
- (e) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, Cathay United Bank (merged) assesses fair value by using pricing models.
- c. The fair values of Cathay United Bank's (merged) financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	March 31,							
	2005				2006			
	Value determined by quoted market price		Value determined by pricing models		Value determined by quoted market price		Value determined by pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
Assets								
Financial assets at fair value								
through profit and loss	\$46,964,845	\$1,492,843	\$-	\$-	\$50,282,653	\$1,550,976	\$-	\$-
Available-for-sale financial								
Assets	37,331,870	1,186,646	-	-	51,201,267	1,579,311	316,266	9,755
Held-to-maturity financial assets								
and debt securities with no active market	168,346,489	5,351,128	15,160,804	481,907	160,952,042	4,964,591	47,502,757	1,465,230
Liabilities								
Financial liabilities at fair value								
through profit and loss	-	-	48,145,353	1,530,367	-	-	48,961,449	1,510,223
Financial debentures payable	-	-	2,335,824	74,247	-	-	17,859,078	550,866
<u>Derivative financial instruments</u>								
Assets								
Financial assets at fair value								
through profit and loss	865	28	2,691,544	85,554	1,358,258	41,896	3,450,526	106,432
Liabilities								
Financial liabilities at fair value								
through profit and loss	967	31	63,781	2,027	5,670	175	2,332,222	71,938
Others	-	-	-	-	-	-	694,201	21,413

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- d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT\$78,268(US\$2,414) for the three months ended March 31, 2006.
- e. Cathay United Bank (merged) recognized NT\$9,904,680(US\$305,511) and NT\$3,462,218(US\$106,793) as interest income and expense from financial assets or liabilities not at fair value through profit and loss, respectively, for the three months period ended March 31, 2006.
- f. Cathay United Bank (merged) recognized an unrealized gains or losses of NT\$87,127(US\$2,687) in shareholders' equity for the changes in fair value of available-for-sale financial assets and an realized gains or losses of NT\$18,757(US\$579) in income statement for the three months period ended March 31, 2006.
- g. The impairment of interest income from financial assets was NT\$9(US\$0.28), and such amount was assessed by discount rate of cash flow.
- h. Information on financial risk

- (a) Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

- Ⓐ Interest rate risk

If interest rates are rising, the fair value of Cathay United Bank's (merged) fixed-rate bond investments such as government bonds and corporate bonds may decline.

- Ⓑ Foreign exchange risk

Cathay United Bank (merged) manages foreign exchange risk by matching foreign currency assets and liabilities. Cathay United Bank (merged) trade in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, to manage asset and liability positions and hedge against Cathay United Bank's (merged) commercial positions. As most of foreign currency assets and liabilities are matched, the foreign exchange risk is insignificant.

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### © Equity securities price risk

Cathay United Bank (merged) may expose to risk when the price of equity securities, such as stocks, mutual funds and TAIEX Futures and Options, moves in adverse direction.

Cathay United Bank (merged) adopts many methodologies to manage its market risk. Value-at-risk (VAR) is one of the methodologies. VAR is statistical measure that assesses potential losses and may predict worst-case loss that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Interest rate	\$97,919	\$3,020	\$146,077	\$4,506	\$55,596	\$1,715
Foreign exchange	20,669	638	117,919	3,637	164	5
Equity Securities price	54,232	1,673	92,809	2,863	17,301	534

### (b) Credit risk

Credit risk represents the risk of loss that Cathay United Bank (merged) would incur if counterparty fails to perform Cathay United Bank's (merged) contractual obligations.

To centralize risk management functions currently handled by different departments, Cathay United Bank's (merged) board of directors resolved that a risk management department would be established to manage the credit risks. The objectives of credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balance loan portfolio. Cathay United Bank's (merged) board of directors sets the counterparty credit limits, which are then implemented by credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. Cathay United Bank (merged) performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios.

Cathay United Bank (merged) maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank (merged) retains the legal right to foreclose on or liquidate the collateral.

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① Information on concentrations of credit risk

Financial assets	March 31							
	2005				2006			
	Book value		Maximum credit risk exposed		Book value		Maximum credit risk exposed	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value through profit and loss	\$46,575,141	\$1,480,456	\$46,575,141	\$1,480,456	\$55,091,437	\$1,699,304	\$55,091,437	\$1,699,304
Available-for-sale financial assets	37,226,973	1,183,311	37,226,973	1,183,311	51,517,533	1,589,066	51,517,533	1,589,066
Held-to-maturity financial assets	8,282,145	263,260	8,282,145	263,260	6,540,298	201,737	6,540,298	201,737
Loans and advances to customers	594,619,272	18,900,803	594,619,272	18,900,803	625,694,410	19,299,642	625,694,410	19,299,642
Debt securities with no active market and others	182,769,731	5,809,591	182,769,731	5,809,591	207,780,293	6,409,016	207,780,293	6,409,016
Off-balance sheet commitments and guarantees	329,654,025	10,478,513	329,654,025	10,478,513	329,932,614	10,176,823	329,932,614	10,176,823
<b>Total</b>	<b>\$1,199,127,287</b>	<b>\$38,115,934</b>	<b>1,199,127,287</b>	<b>\$38,115,934</b>	<b>\$1,276,556,585</b>	<b>\$39,375,588</b>	<b>\$1,276,556,585</b>	<b>\$39,375,588</b>

② Cathay United Bank (merged) does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, Cathay United Bank (merged) is likely to be exposed to region or industry concentration risk. Cathay United Banks' (merged) information of concentration of credit risk is as follows:

Loans, customers' liabilities under acceptances and guarantees account	March 31,			
	2005		2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Industry type				
Manufacturing	\$72,692,566	\$2,310,635	\$78,241,697	\$2,413,378
Financial institutions and insurance	72,939,276	2,318,477	42,304,381	1,304,885
Leasing and real estate	25,858,815	821,958	67,190,636	2,072,506
Individuals	332,416,564	10,566,324	368,197,001	11,357,094
Others	113,537,242	3,608,940	98,377,361	3,034,465
Total	617,444,463	19,626,334	654,311,076	20,182,328
Valuation allowance	(5,809,398)	(184,660)	(12,995,637)	(400,852)
Maximum risk exposed	<b>\$611,635,065</b>	<b>\$19,441,674</b>	<b>\$641,315,439</b>	<b>\$19,781,476</b>

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	March 31,			
	2005		2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans, customers' liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$584,323,533	\$18,573,539	\$618,792,841	\$19,086,762
South East Asia	11,267,333	358,148	9,456,971	291,702
North East Asia	45,450	1,445	37,383	1,153
North America	8,263,541	262,668	8,819,431	272,037
Others	13,544,606	430,534	17,204,450	530,674
Total	617,444,463	19,626,334	654,311,076	20,182,328
Valuation allowance	(5,809,398)	(184,660)	(12,995,637)	(400,852)
Maximum risk exposed	<u>\$611,635,065</u>	<u>\$19,441,674</u>	<u>\$641,315,439</u>	<u>\$19,781,476</u>

(c) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations.

Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds Cathay United Bank (merged) believe Cathay United Bank (merged) can generate within that period. As part of our liquidity risk management, Cathay United Bank (merged) focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

Cathay United Bank's (merged) asset and liability management committee is responsible for overall liquidity risk management. Cathay United Bank's (merged) liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning. Cathay United Bank (merged) manages liquidity risks across all classes of assets and liabilities with the goal that even under adverse conditions.



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### (d) Cash flow risk and fair value risk of interest rate fluctuation

Cathay United Bank's (merged) financial debentures payable was matched with an interest rate swap contract and was transferred from fixed rate to floating rate.

Expected repricing date and maturity date:

Expected repricing date and maturity date of Cathay United Bank's financial instruments are not affected by contract date.

### i. Fair value hedge

The interest rate swap is used to hedge interest rate fluctuations of financial debentures payable with fixed rate:

<u>Hedged item</u>	<u>Hedging instruments</u>	
	<u>Derivative designated as hedging instruments</u>	<u>Fair value March 31, 2006</u>
Financial debentures payable	Interest rate swap	NT\$694,201/ (US\$21,413)

The hedge is regarded as highly effective, at inception and throughout the life of the hedge, Cathay United Bank (merged) can expect changes in the fair value of the hedged item that are attributable to the hedged risk to be almost fully offset by the changes in the fair value of the hedging instrument and actual results are within a range of 80~125 percent.

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D. Cathay Century

a. Information of fair value

Assets	March 31, 2005			
	NT\$		US\$	
	Carving amount	Fair value	Carving amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$3,026,730	\$3,026,730	\$96,209	\$96,209
Financial assets at fair value through profit and loss - current	795,595	795,595	25,289	25,289
Available-for-sale financial assets - current	1,376,643	1,376,643	43,759	43,759
Receivables	1,107,151	1,107,151	35,192	35,192
Claims recoverable from reinsurers Due from reinsurers and ceding Companies	180,286	180,286	5,731	5,731
Secured loans	29,622	29,622	941	941
Held-to-maturity financial assets - noncurrent	1,100,891	1,100,891	34,994	34,994
Financial assets carried at cost - noncurrent	2,890,447	2,890,447	91,877	91,877
Investments in debt securities with no active market – noncurrent	75,000	75,000	2,384	2,384
Long-term investments under equity method	460,383	460,383	14,634	14,634
Guarantee deposits paid	230,984	230,984	7,342	7,342
Derivative financial instruments:				
Financial assets at fair value through profit and loss - current				
Futures Contract	1,345	1,345	43	43
Options Contract	-	-	-	-
Foreign exchange SWAP	42,934	42,934	1,365	1,365

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Liabilities				
Non-derivative financial instrument :				
Claims outstanding	789	789	25	25
Due to reinsurers and ceding companies	261,623	261,623	8,316	8,316
Operating and debt reserve	7,477,020	7,477,020	237,668	237,668
Derivative financial instruments:				
Financial liabilities at fair value through profit and loss - current				
Foreign exchange SWAP	-	-	-	-
March 31, 2006				
	NT\$		US\$	
Assets	Carving amount	Fair value	Carving amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,536,270	\$2,536,270	\$78,232	\$78,232
Financial assets at fair value through profit and loss - current				
Available-for-sale financial assets - current	403,702	403,702	12,453	12,453
Receivables	1,826,050	1,826,050	56,325	56,325
Claims recoverable from reinsurers	1,302,011	1,302,011	40,161	40,161
Due from reinsurers sand ceding companies	189,372	189,372	5,841	5,841
Secured loans	71,098	71,098	2,193	2,193
Held-to-maturity financial assets - noncurrent	1,558,924	1,558,924	48,085	48,085
Financial assets carried at cost - noncurrent	3,560,634	3,560,634	109,828	109,828
Investments in debt securities with no active market – noncurrent	36,000	-	1,111	-
Long-term investments under equity method	560,417	560,417	17,286	17,286
Guarantee deposits paid	426,107	426,107	13,143	13,143
Derivative financial instruments:	382,159	382,159	11,788	11,788
Financial assets at fair value through profit and loss - current				
Futures Contract	7,785	7,785	240	240
Options Contract	557	557	17	17
Foreign exchange SWAP	-	-	-	-

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	March 31, 2006			
	NT\$		US\$	
	Carving amount	Fair value	Carving amount	Fair value
<u>Assets</u>				
Non-derivative financial instruments:				
<u>Liabilities</u>				
Non-derivative financial instrument:				
Claims outstanding	684	684	21	21
Due to reinsurers and ceding companies	260,845	260,845	8,046	8,046
Operating and debt reserve	8,498,329	8,498,329	262,132	262,132
Derivative financial instruments:				
Financial liabilities at fair value through profit and loss - current				
Foreign exchange SWAP	12,648	12,648	390	390

- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:
- (a) The fair value of Cathay Century's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies and operating and liability reserve.
  - (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
  - (c) The fair value of Cathay Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are available. When market prices are not available, the fair value was based on relevant financial or any other information.

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c. Derivative financial instruments hedging :

(a) Purpose

As of March 31, 2006, Cathay Century has entered into forward foreign exchange contracts, futures and option contracts. The forward foreign exchange contracts are to hedge against risks of foreign currency and net assets exchange rate fluctuations while the futures and option contracts are mainly to hedge against the volatile risks of stock quotes decline. The purpose of Cathay Century's hedging strategy is to minimize most of the market price fluctuation risks. The derivatives instruments highly correlated with the fair values of the hedged items are used as hedge tools and assessed on a regular basis. The strategy of Cathay Century is not to engage in derivative financial instruments for the trading purpose.

(b) Forward foreign exchange contracts

- Ⓐ Forward foreign exchange contracts are revaluated at market value on the balance sheet date. The differences should be recognized as financial assets (liabilities) at fair value through profit and loss - current.

Item	March 31, 2005		March 31, 2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Foreign exchange SWAP	\$42,934	\$1,365	\$(12,648)	\$(390)

- Ⓑ As of March 31, 2005 and 2006, Cathay Century has outstanding forward exchange contracts of approximately US\$91,300 and US\$108,700, respectively, in notional value. The forward foreign exchange contracts as of March 31, 2005 were due between April 12, 2005 and March 14, 2006. In addition, the forward contracts as of March 31, 2006 were due between April 6, 2006 and March 29, 2007.

		March 31, 2005		
		Fair value		
Item	Contract amount	(NT\$)	(US\$)	Range of exchange rate
Forward	US\$91,300	\$42,934	\$1,365	30.050~33.875

  

		March 31, 2006		
		Fair value		
Item	Contract amount	(NT\$)	(US\$)	Range of exchange rate
Forward	US\$108,700	\$(12,648)	\$(390)	31.188~32.842

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The aforementioned forward foreign exchange contracts are to hedge against risks associated with exchange rate fluctuations for the held-to-maturity investment-non current of the oversea long-term investments in bonds.

### d. Futures and Options Contract

(a) Cathay Century recognized NT\$76 (US\$2) and NT\$644 (US\$20) losses on trading of futures as of March 31, 2005 and March 31, 2006, respectively (includes unrealized losses-future contracts of NT\$41 (US\$1) and NT\$300 (US\$9), respectively).

(b)

Type	Open Interest		March 31, 2006			
	Buy/Sell	Position	Contract amount		Fair value	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan Stock Exchange Option Contracts Index	Sell	246	\$857	\$26	\$557	\$17

(c)

Type	Open Interest		March 31, 2005			
	Buy/Sell	Position	Contract amount		Fair value	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan Stock Exchange Electronic Sector Index	Sell	4	\$3,735	\$119	\$3,694	\$117

### e. Financial risk management objectives policies

Cathay Century's primary financial instruments other than derivatives consists cash and cash equivalents, current and non current investments. The main purpose of holding these financial instruments is to manage cash flow. Cathay Century has other financial assets and liabilities such as notes receivable, due to and from reinsurers and ceding companies, reinsurance account, receivable and payable and secured loans, etc.

Cathay Century also conducts derivative transactions, primarily including futures, option contracts and forward currency contracts. The purpose is to manage the stock price fluctuation and currency exchange risks arising from Cathay Century's investment activities. Cathay Century does not conduct derivative transactions based on trading purpose.

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The major risks of Cathay Century's financial instruments are foreign currency risk, credit risk and liquidity risk.

The risk management policies reviewed and approved by the board of directors are as follows:

### Foreign currency risk

As a result of significant overseas designated purpose pecuniary trust funds, Cathay Century's balance sheet can be affected significantly by the fluctuation of the US\$/NT\$ exchange rates. Cathay Century utilizes forward currency contracts to hedge this exposure.

Cathay Century also has transactional currency exposures. Such exposure arise from reinsurance transactions. These transactions with foreign reinsurance company usually receive on time and the fluctuation of exchange rate is not significant. Thus Cathay Century did not seek to hedge this exposure.

### Credit risk

Cathay Century only conducts business with recognized and creditworthy third parties. Customers are subject to credit verification procedures, and the collection of premium receivable and notes receivable are subsequently assessed. In addition, once the credit of the third party is impaired, Cathay Century will freeze the related contracts until the credit of the third party recovers. Thus Cathay Century has minimal bad debts.

### Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

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E. Cathay Securities

a. Information of fair Value

Item	March 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative</u></b>				
Assets				
Cash and cash equivalents	\$1,353,564	\$1,353,564	\$43,025	\$43,025
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	720,000	722,136	22,886	22,954
Operating securities – net	8,258	8,258	262	262
Securities purchased under agreements to resell	836,860	836,860	26,601	26,601
Receivable amount for margin loans	91,239	91,239	2,900	2,900
Receivables – net	12,097	12,097	384	384
Restricted assets – current	1,000,000	1,000,000	31,786	31,786
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	150,098	150,098	4,771	4,771
Settlement and clearance funds	56,435	56,435	1,794	1,794
Guarantee deposits paid	20,253	20,253	644	644
Liabilities				
Securities sold under agreements to repurchase	837,897	837,897	26,634	26,634
Payables	28,402	28,402	903	903
<b><u>Derivative</u></b>				
Liabilities				
Financial liabilities at fair value through profit and loss – current				
Derivative financial instrument liabilities – GreTai(over-the-counter)	48	48	1	1
Other financial liabilities – current	9,215	9,215	293	293



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Item	March 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative</u></b>				
Assets				
Cash and cash equivalents	\$896,630	\$896,630	\$27,657	\$27,657
Financial assets at fair value through profit and loss – current				
Open-end funds and currency market instruments	822,526	822,526	25,371	25,371
Operating securities – net	106,508	106,508	3,285	3,285
Receivable amount for margin loans	299,232	299,232	9,230	9,230
Receivables – net	5,815	5,815	179	179
Restricted assets – current	700,000	700,000	21,592	21,592
Long-term investments under equity method	714,872	714,872	22,050	22,050
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,097	215,097	6,635	6,635
Settlement and clearance funds	47,535	47,535	1,466	1,466
Guarantee deposits paid	19,225	19,225	593	593
Liabilities				
Securities sold under agreements to repurchase	50,000	50,000	1,542	1,542
Securities financing guarantee deposits-in	3,173	3,173	98	98
Deposit payable for securities financing	3,503	3,503	108	108
Payables	30,178	30,178	931	931
<b><u>Derivative</u></b>				
Assets:				
Financial assets at fair value through profit and loss – current				
Call options – futures	\$2,449	\$2,449	\$76	\$76
Margin for futures trading – own funds	303,127	303,127	9,350	9,350
Derivative financial instrument assets – GreTai (over-the-counter)	3,029	3,029	93	93
Liabilities				
Financial liabilities at fair value through profit and loss – current				
Put options – futures	1,432	1,432	44	44
Other financial liabilities – current	115,750	115,750	3,570	3,570

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- b. The methods and assumptions used to estimating the fair value of the financial instruments are as follows:
- (a) Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, securities purchased under agreements to resell, receivable amount for margin loans, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities sold under agreements to repurchase, securities financing guarantee deposits-in, deposit payable for securities financing and payables.
- (b) The fair value of open-end funds and currency market instruments, operating securities, long-term investments under equity method and available-for-sale financial assets – noncurrent are estimated based on market prices or net asset values, if available. If the investment is not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.
- c. Financial derivatives
- (a) Structured notes transactions
- ① Nominal principal or contract amount and credit risk

	March 31, 2005		March 31, 2006	
	Nominal principal	Credit risk	Nominal principal	Credit risk
<u>Financial instruments</u>	<u>/contract amount</u>	<u>risk</u>	<u>/contract amount</u>	<u>risk</u>
<u>For trading purposes</u>				
Equity-linked notes	\$-	\$-	NT\$113,200 (US\$3,492)	\$-
Principal guaranteed notes	NT\$9,700 (US\$308)	\$-	\$-	\$-

Cathay Securities' credit risk derives from a breach of contract by a counterparty. Cathay Securities believes it is not exposed to credit risk because contract amounts are collected in advance of structured notes being issued.

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### ⓑ Market risk

In structured notes transactions, Cathay Securities receives proceeds from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. Since the hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range.

### ⓒ Risk from liquidity, cash flow, and other uncertainties

Cathay Securities receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities has anticipated the risk from liquidity of rescission in advance of investing in fixed income securities. Therefore, no significant cash requirements are expected at expiration of the contract.

### ⓓ Types, purposes, and strategies for financial derivatives

The structured notes transactions of Cathay Securities can be divided into principal guaranteed notes and equity-linked notes.

Principal guaranteed notes transactions involve receiving proceeds from investors on the contract date and providing them with a guaranteed payment and returns, if any, of linked assets.

Equity-linked notes transactions involve receiving proceeds from investors, investing in fixed-income products and selling options that settle in cash on the expiration date. Proceeds received by investors consist of returns from the fixed income products and value of the options at expiration.

### (b) Financial statement presentation of derivative financial instruments

As of March 31, 2005 and 2006, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

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<b><u>Balance sheet</u></b>	March 31, 2005			
	Financial assets at fair value through profit and loss – current (derivative instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit and loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	NT\$	US\$	NT\$	US\$
Principal guaranteed notes	\$-	\$-	\$9,263	\$294

<b><u>Statement of income</u></b>	For the three months ended March 31, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT\$	US\$	
Principal guaranteed notes	\$3,863	\$123	Market value method

<b><u>Balance sheet</u></b>	March 31, 2006			
	Financial assets at fair value through profit and loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit and loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	NT\$	US\$	NT\$	US\$
Equity-linked notes	\$3,029	\$93	\$115,750	\$3,570

<b><u>Statement of income</u></b>	For the three months ended March 31, 2006		
	Gain (loss) from derivative financial instruments – GreTai (over-the-counter)		Comments
	NT\$	US\$	
Equity-linked notes	\$(8,842)	\$(273)	Market value method

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d. Futures and options transactions

As of March 31, 2006, Cathay Securities' unexercised futures and options were as follows:

Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Options	TXO-Call	Sell	150	\$757	\$23	\$1,432	\$44
Options	TXO-Call	Buy	450	\$1,229	\$38	\$2,220	\$69
Options	TXO-Put	Buy	150	\$301	\$9	\$229	\$7
Futures	TAIEX futures	Buy	30	\$39,194	\$1,209	\$39,366	\$1,214

(a) Nominal principal or contract amount and credit risk

Financial instruments	March 31, 2006	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$2,287 (US\$70)	\$-
TAIEX futures	NT\$39,194 (US\$1,209)	\$-

Cathay Securities believes it has no significant credit risk exposure since it has entered into futures trading transactions with the Taiwan Futures Exchange and the risk of default is low.

(b) Market risk

Cathay Securities' market risk from futures and options transactions arise from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, Cathay Securities' believes it can limit its losses to within an expected range. Hence, no significant market risk is expected.

(c) Risk from liquidity, cash flow, and other uncertainties

Cathay Securities' unexercised options could all be liquidated at reasonable prices in the market. As a result liquidity risk is low.

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Cathay Securities' trading in Taiwan stock index futures requires an initial margin and additional margin depending on the daily valuation of open positions. In the event additional margin is required, Cathay Securities' has sufficient working capital to meet its requirements, and hence funding risk and cash flow risk are low. With respect to Cathay Securities' trading in options, prior to any transaction Cathay Securities' pays or receives option premium. If Cathay Securities' sells call options and the counterparty exercises its option, Cathay Securities' has sufficient working capital to cover the exercise and hence funding risk and cash flow risk are low.

(d) Types, purposes, and strategies for financial derivatives

Cathay Securities' purpose in trading futures and options is to increase the scope of its investment activities and its capital efficiency.

e. Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in "financial assets at fair value through profit and loss – current" and "margin for futures trading – own funds" on the balance sheet. From January 1 to March 31, 2006, the related gain (loss) of futures and options on the statement of income was as follows:

	For the three months ended March 31, 2006	
	<u>(NT\$)</u>	<u>(US\$)</u>
Gain from derivative financial instruments – futures		
Gain on futures contracts (Includes unrealized gain on futures contracts of NT\$427 (US\$13))	<u>\$1,300</u>	<u>\$40</u>
Gain from options transactions (Includes unrealized gain from options transactions of NT\$153 (US\$5))	<u>\$1,164</u>	<u>\$36</u>

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F. Cathay Futures

a. Information of fair value

Non-derivative financial instruments

	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$164,988	\$164,988	\$5,244	\$5,244
Financial assets at fair value through profit and loss-current	62,989	62,989	2,002	2,002
Customers' margin accounts	842,883	842,883	26,792	26,792
Other receivables (contain transactions with related parties)	4,396	4,396	140	140
Available-for-sale financial assets-noncurrent	30,500	30,500	969	969
Operating deposits	70,000	70,000	2,225	2,225
Settlement and clearance funds	72,000	72,000	2,289	2,289
Guarantee deposits paid	1,443	1,443	46	46
<u>Liabilities</u>				
Futures customers' equity	841,765	841,765	26,757	26,757
Payables (contain transactions with related parties)	3,155	3,155	100	100
Receipts under custody	487	487	15	15
Other payable (contain transactions with related parties)	3,557	3,557	113	113
Guarantee deposits in	158	158	5	5
<u>Derivative financial instruments</u>				
Buy options	2,005	175	64	6
Sell options	1,695	(15,403)	54	(490)

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	March 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$193,026	\$193,026	\$5,954	\$5,954
Financial assets at fair value through profit and loss-current	2,656	2,656	82	82
Customers' margin accounts	1,060,158	1,060,158	32,701	32,701
Futures trading deposits receivable	761	761	23	23
Accounts receivable-related parties	99	99	3	3
Other receivable (contain transactions with related parties)	1,690	1,690	52	52
Available-for-sale financial assets-noncurrent	30,500	30,500	941	941
Operating deposits	80,000	80,000	2,468	2,468
Settlement and clearance funds	57,000	57,000	1,758	1,758
Guarantee deposits paid	1,767	1,767	55	55
<b>Liabilities</b>				
Futures customers' equity	1,059,540	1,059,540	32,682	32,682
Payables (contain transactions with related parties)	1,539	1,539	47	47
Receipts under custody	171	171	5	5
Other payable (contain transactions with related parties)	2,312	2,312	71	71
Guarantee deposits in	146	146	5	5
<u>Derivative financial instruments</u>	-	-	-	-
Buy options	-	-	-	-
Sell options	-	-	-	-

b. Methods and assumptions applied in estimating the fair value of financial instruments are as follows:

(a) The carrying amounts of the financial instruments such as cash and cash equivalent, customers' margin accounts, futures trading deposits receivable, accounts receivable-related parties, other receivable, operation bond, settlement and clearance funds, refundable deposits, futures customers' equity, payables, receipts under custody, other payable and guarantee deposits in, approximate their fair values because of the short maturities of these instruments.



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(b) The fair value of Financial assets at fair value through profit and loss is valued at market prices.

(c) The fair value of available-for-sale financial assets-noncurrent is valued at market price or other financial information when available.

c. The fair value of the Cathay Futures financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	March 31,							
	2005				2006			
	Value determined by quoted market price		Value determined by pricing models		Value determined by quoted market price		Value determined by pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Cash and cash								
equivalents	\$-	\$-	\$164,988	\$5,244	\$-	\$-	\$193,026	\$5,954
Financial assets at fair								
value through profit and								
loss-current	2,908	92	60,081	1,910	2,656	82	-	-
Customer's margin								
accounts	-	-	842,883	26,792	-	-	1,060,158	32,701
Futures trading deposits								
receivable	-	-	-	-	-	-	761	23
Accounts								
receivable-related parties	-	-	-	-	-	-	99	3
Other receivable (contain								
transactions with related								
parties)	-	-	4,396	140	-	-	1,690	52
Available-for-sale								
financial assets-non								
current	-	-	30,500	969	-	-	30,500	941
Operating deposits	-	-	70,000	2,225	-	-	80,000	2,468
Settlement and clearance								
funds	-	-	72,000	2,289	-	-	57,000	1,758
Guarantee deposits paid	-	-	1,443	46	-	-	1,767	55

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	March 31,							
	2005				2006			
	Value determined by quoted market price		Value determined by pricing models		Value determined by quoted market price		Value determined by pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Liabilities</u>								
Futures customer's equity	-	-	841,765	26,757	-	-	1,059,540	32,682
Payable (contain transactions with related parties)	-	-	3,155	100	-	-	1,539	47
Receipts under custody	-	-	487	15	-	-	171	5
Other payable (contain transactions with related parties)	-	-	3,557	113	-	-	2,312	71
Guarantee deposits in	-	-	158	5	-	-	146	5
<u>Derivative financial instruments</u>								
Buy options	-	-	175	6	-	-	-	-
Sell options	-	-	(15,403)	(490)	-	-	-	-

d. Information on financial risk

(a) Market risk - The derivative transactions of funds and options were based on the day trade. The market risk is insignificant.

(b) Credit risk - The credit of customers should be got the approval and turnovers should be controlled and limited. All deals via Taiwan Futures Exchanges, Hence, no significant credit risk is expected.

(c) Risk from liquidity and cash flow – Cathay Futures has sufficient working capital to cover the exercise. Hence, there is no default risk. In additions, Cathay Futures invests the listed stocks, Therefore, the market price which is fair value is expected.

e. Cathy Futures uses of financial derivatives including Taiwan Stock Index Futures, TAIEX (Taiwan Futures Exchange), government futures and options for trading purposes. As of March 31, 2006, Cathay Futures expects insignificant exposuret to credit risks. As of March 30, 2005, Cathy Futures has the non-offset position contract of the above goods transaction as follows:

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Item	Transaction type	Lot	Contract amount			Net gain/loss of fair value estimated		
			(NT\$)	(US\$)	(JPY)	(NT\$)	(US\$)	(JPY)
TXO	Non-hedging	579	\$176,595	\$-	\$	\$63	\$-	\$-
TXO	Non-hedging	733	226,985	-	-	221	-	-
TX	Non-hedging	Sell 3	299	-	-	5	-	-
TE	Non-hedging	Buy 3	2,742	-	-	29	-	-
TF	Non-hedging	Buy 3	1,932	-	-	5	-	-
TX	Non-hedging	Sell 15	12,017	-	-	(2)	-	-
ES	Non-hedging	Sell 1	-	59	-	-	(495)	-
SSI	Non-hedging	Buy 2	-	-	11,595	-	-	50
STW	Non-hedging	Buy 16	-	393	-	-	2	-

- f. Cathy Futures risk evaluation and control of the above operation transaction is as following:

Cathay Futures needs to maintain adequate liquidity in case its clients fail to fulfill the contracts in the futures transactions with low margin of financial leverage and unpredictable market fluctuation. If the dealing business fails to maintain its margin, the open contracts may be closed and the margin may be lost entirely, Otherwise, the dealing business should pay more margins since the balance of trading margin account is lower than the maintenance margin.

- g. For the three months ended March 31, 2005 and 2006, the balance of excess deposit with NT\$60,081 (US\$1,910) and NT\$0 (US\$0) which is recognized “deposit of futures transaction-Operation Assets” in the Cathy Futures. For the three months ended March 31, 2005 and 2006, the gain on futures contract-realized of the derivative financial instruments transaction (Taiwan Stock Index Futures and Taiwan Stock Exchange) were as followings:

	March 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Gain from derivative financial instruments	\$11,715	\$372	\$6,783	\$209
Loss from derivative financial instruments	(9,432)	(299)	(3,763)	(116)
Net income	\$2,283	\$73	\$3,020	\$93

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G. Symphox Information

a. Information of fair value

Item	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$81,095	\$81,095	\$2,578	\$2,578
Financial assets at fair value through profit and loss-current	200,454	200,454	6,372	6,372
Receivables (contain transactions with related parties)	93,283	93,283	2,965	2,965
Guarantee deposits paid	3,233	3,233	103	103
<u>Liabilities-non-derivative</u>				
Payables (contain transaction with related parties)	47,512	47,512	1,510	1,510
Guarantee deposits in	89	89	3	3

Item	March 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$86,649	\$86,649	\$2,673	\$2,673
Financial assets at fair value through profit and loss-current	164,230	164,230	5,066	5,066
Receivables (contain transactions with related parties)	176,891	176,891	5,456	5,456
Guarantee deposits paid	9,877	9,877	305	305
<u>Liabilities-non-derivative</u>				
Payables (contain transaction with related parties)	63,047	63,047	1,945	1,945
Guarantee deposits in	81	81	3	3

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b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

(a) The fair value of Symphon Information short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, financial assets at fair value through profit and loss-current, receivables.

(b) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.

H. Cathay Life (Shanghai)

a. Information of fair value

Item	March 31,2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$1,786,565	\$1,786,565	\$56,788	\$56,788
Financial assets at fair value				
through profit and loss-current	472,689	472,689	15,025	15,025
Held-to-maturity financial				
assets-noncurrent	152,590	152,590	4,850	4,850
Guarantee deposits paid	621,594	621,594	19,758	19,758
<u>Liabilities-non-derivative</u>				
Guarantee deposits in	71	71	2	2
Item	March 31,2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$709,887	\$709,887	\$21,897	\$21,897
Financial assets at fair value				
through profit and loss-current	610,686	622,600	18,837	19,204

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Item	March 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Other financial assets-current	421,321	421,321	12,996	12,996
Available-for-sale financial assets-noncurrent	310,073	310,073	9,564	9,564
Held-to-maturity financial assets-noncurrent	900,441	900,441	27,774	27,774
Guarantee deposits paid	660,546	660,546	20,375	20,375
<u>Liabilities-non-derivative</u>				
Guarantee deposits in	464	464	14	14

b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

- (a) The fair value of Cathay Life (Shanghai) short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents and other financial assets-current.
- (b) Quoted market price, if available, are utilized as estimates of the fair value of available-for –sale financial assets-noncurrent.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.

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I. Lucky Bank

a. Information of fair value

	March 31,							
	2005				2006			
	Book value		Fair value		Book value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<b><u>Financial Assets</u></b>								
Cash and cash equivalents	\$4,201,292	\$133,544	\$4,201,292	\$133,544	\$2,752,541	\$84,903	\$2,752,541	\$84,903
Due from Central Bank and call loans to banks	2,405,359	76,458	2,405,359	76,458	2,454,077	75,696	2,454,077	75,696
Financial assets at fair value through profit or loss								
Stocks	77,330	2,458	77,330	2,458	-	-	-	-
Mutual funds	106,212	3,376	106,212	3,376	50,219	1,549	50,219	1,549
Receivables	264,318	8,402	264,318	8,402	241,101	7,437	241,101	7,437
Bills and loans	61,944,697	1,968,999	61,944,697	1,968,999	56,468,229	1,741,772	56,468,229	1,741,772
Available-for sale financial assets	939,550	29,865	939,550	29,865	459,527	14,174	459,527	14,174
Investment accounted for using equity method	114,807	3,649	114,807	3,649	107,055	3,302	107,055	3,202
Other financial assets	16,960,235	539,105	16,960,235	539,105	24,910,235	768,360	24,910,235	768,360
<b><u>Financial liabilities</u></b>								
Due to commercial banks	233,014	7,407	233,014	7,407	243,061	7,497	243,061	7,497
Payables	894,829	28,443	894,829	28,443	703,887	21,711	703,887	21,711
Deposits and remittances	84,611,028	2,689,480	84,611,028	2,689,480	84,885,183	2,618,297	84,885,183	2,618,297

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- b. The methodologies and assumptions used by Lucky Bank to estimate the above fair value of financial instruments are summarized as following:
- (a) The carrying value of short-term financial instruments, such as cash and cash equivalents, due from the Central Bank and call loans to banks, receivables, due to the commercial banks and payables arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.
  - (b) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss and available-for-sale financial instruments.
  - (c) Bills and loans, deposits are interest bearing of financial assets and liabilities, the carrying value approximates fair value. The carrying value of delinquent accounts is determined by the recoverable amount of estimating after decreasing doubtful accounts. The carrying value is equal to fair value.
  - (d) If there is a published price quotation in an active market, the quoted market price of investment accounted for using equity method is regarded as fair value. Otherwise, if the quoted market price is not available, Lucky Bank is determined fair value by using valuation techniques.
  - (e) Lucky Bank held financial assets carried at cost, such as unlisted stock, do not have significant influence shall be measured at cost according to the “Regulation of Governing the Preparation of Financial Reports by Public Banks”.
  - (f) The value of debt securities with no active market, the carrying value is equal to fair value.



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- c. The fair values of Lucky Bank's financial assets or liabilities determined by quoted market price or valuation techniques are summarized as following:

	March, 31							
	2005				2006			
	Value determined by quoted market price		Value determined by valuation technique		Value determined by quoted market price		Value determined by valuation technique	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
<b><u>Financial instruments</u></b>								
Cast and cash equivalents	\$-	\$-	\$4,201,292	\$133,544	\$-	\$-	\$2,752,541	\$84,903
Due from Central Bank and call loans to banks	-	-	2,405,359	76,458	-	-	2,454,077	75,696
Financial assets at fair value through profit or loss	183,542	5,834	-	-	50,219	1,549	-	-
Receivables	-	-	264,318	8,402	-	-	241,101	7,437
Bills and loans	-	-	61,944,697	1,968,999	-	-	56,468,229	1,741,772
Available-for-sale financial assets	939,550	29,865	-	-	459,527	14,174	-	-
Investment accounted for using equity method	-	-	114,807	3,649	-	-	107,055	3,202
Other financial assets	-	-	16,960,235	539,105	-	-	24,910,235	768,360
<b><u>Financial liabilities</u></b>								
Due to commercial banks	-	-	233,014	7,407	-	-	243,061	7,497
Payables	-	-	894,829	28,443	-	-	703,887	21,711
Deposits and remittances	-	-	84,611,028	2,689,480	-	-	84,885,183	2,618,297

- d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by valuation techniques both were NT\$0 (US\$0) for the three months ended March 31, 2005 and 2006.
- e. Lucky Bank recognized NT\$487,857 (US\$15,507) (unreviewed) and NT\$510,304 (US\$15,740) as interest income, NT\$207,303 (US\$6,589) (unreviewed) and NT\$251,974 (US\$7,772) as interest expense from financial assets or liabilities not at fair value through profit or loss, respectively, for the three months ended March 31, 2005 and 2006. Lucky Bank recognized an unrealized gains or losses of NT\$20,855 (US\$663) (unreviewed) and NT\$7,530 (US\$232) in shareholders' equity for the changes in fair value of available-for-sale financial assets and realized gains or losses both of NT\$0 (US\$0) in income statements for the three months ended March 31, 2005 and 2006. There were no impairment loss of financial assets for the three months ended March 31, 2005 and 2006.

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### f. Information of financial risk

Lucky Bank holds non-derivative financial instruments mainly including: cash and cash equivalents, due from Central Bank and call loans to banks, financial assets at fair value through profit or loss, bills and loans, available-for-sale financial assets, due to commercial banks, deposits and remittances. Lucky Bank utilizes the above financial instruments for the operating cash flow. Lucky Bank also holds other financial assets and liabilities, such as receivables and payables from operating activities, financial assets carried at cost, debt securities with no active market and investments accounted for using equity method.

#### (a) Market risk

The fair values of the financial assets at fair value through profit or loss and available-for-sale-financial assets held by Lucky Bank will fluctuate along with the stock market factors and the trend of the interest rates.

#### (b) Credit risk

The financial instruments held or issued by Lucky Bank may result in loss due to the counterparty or the third party fail to fulfill the obligation of the contracts. Lucky Bank maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and letters of credit transactions. Seventy percent of the total loans are collateralized loans. Collaterals are mostly cash, liquid securities or other assets. If the counterparty or the third party breaches the contracts, Lucky Bank has the right to foreclose or liquidate the collaterals and therefore can effectively reduce the credit risk of Lucky Bank. However, the fair values of the collaterals are not considered in the disclosure of the maximum credit risk exposures.

Financial assets	March 31							
	2005				2006			
	Book value		Maximum credit risk exposure		Book value		Maximum credit risk exposed	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Available-for-sale financial assets	\$801,378	\$25,473	\$801,378	\$25,473	\$362,142	\$11,170	\$362,142	\$11,170
Other financial assets								
Preferred stocks	149,730	4,760	149,730	4,760	149,730	4,618	149,730	4,618
Certificate of deposits	16,665,000	529,720	16,665,000	529,720	24,615,000	759,254	24,615,000	759,254
Bills and loans	61,944,697	1,968,999	61,944,697	1,968,999	56,468,229	1,741,772	50,468,229	1,741,772
Off-balance sheet commitments and guarantees	20,771,152	660,240	20,771,152	660,240	15,222,864	469,552	15,222,864	469,552
<b>Total</b>	<b>\$100,331,957</b>	<b>\$3,189,192</b>	<b>\$100,331,957</b>	<b>\$3,189,192</b>	<b>\$96,817,965</b>	<b>\$2,986,366</b>	<b>\$96,817,965</b>	<b>\$2,986,366</b>

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The credit risk exposure amounts above are determined based on the positive fair value off-balance sheet commitments and contracts as of the balance sheet date. Concentrations of credit risk exist when the counterparty to financial instrument transactions are either concentrated in certain individuals or group of individuals or engaged in business activities in the same industry, which would impair their ability to meet contractual obligations under negative economic or other conditions. Lucky Bank's information on concentration of credit risk is as follows:

Item	March 31,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Industry type				
Government institution	\$9,467,429	\$300,936	\$8,047,485	\$248,226
Leasing and real estate	2,570,888	81,719	2,945,093	90,842
Manufacturing	3,813,214	121,209	3,329,803	102,708
Individuals	39,393,840	1,252,188	35,667,531	1,100,171
Others	7,275,825	231,272	7,039,322	217,129
Total	<u>\$62,521,196</u>	<u>\$1,987,324</u>	<u>\$57,029,234</u>	<u>1,759,076</u>

The credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties fail to perform as contracted and the values of the impaired collaterals are not able to cover the loss.

### (c) Liquidity risk

Lucky Bank has sufficient fund to fulfill the operating cash demand and there is no liquidity risks related to breach of contracts due to insufficient fund. Except for the financial assets carried at cost, investments accounted for using equity method and preferred stocks, all stocks held by Lucky Bank have active markets which mean the stocks can be converted into cash quickly at a price approximate to fair value.

### (d) Cash flow risk of interest rate fluctuation

The floating interest rates assets and liabilities held by Lucky Bank may have cash flow risk due to the future cash flow from those assets affected by the fluctuations of the market interest rates.

**English Translation of Financial Statements Originally Issued in Chinese**

J. Pao Shin Securities

a. Fair value information

Item	March 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$145,113	\$145,113	\$4,613	\$4,613
Financial assets at fair value through profit and loss	15,678	15,678	498	498
Receivable (contain other receivable)	1,311	1,311	42	42
Restricted assets	10,000	10,000	318	318
Available-for –sale financial assets	9,150	9,150	291	291
Operating deposits	85,000	85,000	2,702	2,702
Settlement and clearance funds	14,344	14,344	456	456
Guarantee deposits paid	694	694	22	22
<u>Liabilities</u>				
Payables (contain other payable)	12,160	12,160	387	387
Item	March 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$140,936	\$140,936	\$4,347	\$4,347
Financial assets at fair value through profit and loss	14,508	14,508	448	448
Receivable (contain other receivable)	1,408	1,408	43	43
Restricted assets	10,000	10,000	308	308
Available-for –sale financial assets	9,150	9,150	282	282
Operating deposits	85,000	85,000	2,622	2,622
Settlement and clearance funds	14,344	14,344	442	442
Guarantee deposits paid	660	660	20	20
<u>Liabilities</u>				
Payables (contain other payable)	4,090	4,090	126	126

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b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:

(a) The fair values of short-term financial instruments are stated their carrying amount on the balance sheet date. Because the maturity dates of these instruments are very close to the balance sheet date, it is reasonable that their carrying amounts are approximate to their fair values. The assumption is applied on the following accounts: cash and cash equivalents, receivables (other receivable) and payable (other payables).

(b) Quoted market prices, if available, are utilized as estimates of the fair value of financial assets at fair value through profit and loss-current. Pao Shin Securities held available-for-sale financial assets-noncurrent that are unlisted stocks with no significant influence shall be measured at cost according to the “Regulation of Governing the Preparation of Financial Reports by Public Securities Firms”.

(c) The fair values of the restricted assets, operating deposits, settlement and clearance funds and guarantee deposits paid are based on the carrying amount.

c. The fair values of Pao Shin Securities financial assets and liabilities determined by quoted market prices or pricing models are summarized as following:

Financial instruments	March 31,							
	2005				2006			
	Value determined by quoted market price		Value determined by pricing models		Value determined by quoted market price		Value determined by pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets								
Cash and cash equivalents	\$-	\$-	\$145,113	\$4,613	\$-	\$-	\$140,936	\$4,347
Financial assets at fair value through profit and loss	15,678	498	-	-	14,508	448	-	-
Receivables (contain other receivable)	-	-	1,311	42	-	-	1,408	43
Restricted assets	-	-	10,000	318	-	-	10,000	308
Operating deposits	-	-	85,000	2,702	-	-	85,000	2,622
Settlement and clearance funds	-	-	14,344	456	-	-	14,344	442
Guarantee deposits paid	-	-	694	22	-	-	660	20
Financial liabilities								
Payables (contain other payable)	-	-	12,160	387	-	-	4,090	126

## **English Translation of Financial Statements Originally Issued in Chinese**

- d. Losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT\$0 (US\$0) for the three months ended March 31, 2005 and 2006.
- e. The financial assets of fair value risks associated with interest rates fluctuations were NT\$144,943 (US\$4,607) and NT\$140,760 (US\$4,342), for the three months ended March 31, 2005 and 2006, respectively. The financial liabilities were both NT\$0 (US\$0). The financial assets and liabilities of cash flow risk of interest rates fluctuations were both NT\$0 (US\$0).
- f. Pao Shin Securities recognized NT\$749(US\$24) and NT\$1,009 (US\$31) as interest income, were both NT\$0 (US\$0) as interest expense from financial assets or liabilities at fair value through profit or loss, respectively, for the three months ended March 31, 2005 and 2006. Pao Shin Securities recognized an unrealized gains or losses both of NT\$0 (US\$0) in shareholders' equity for the changes in fair value of available-for-sale financial assets and realized gains or losses both of NT\$0 (US\$0) in income statements for the three months ended March 31, 2005 and 2006. The impairment loss of financial assets had not take place for the three months ended March 31, 2005 and 2006.
- g. Information on financial risk

(a) Market risk

The securities of Pao Shin Securities are valued at fair value and Pao Shin are exposed on the risks of equity security price fluctuations.

(b) Credit risk

The main potential credit risks are from cash and cash equivalents, account receivable and securities brokerage receivable. The cash in banks of Pao Shin Securities was deposited in several banks to control the risk exposed of each financial institution. In addition, Pao Shin evaluates the credit of the counterparty before the transaction and continues to assess periodically. All counterparties' credit limits are established to control the credit risks. Therefore, no significant credit risks are identified.

## English Translation of Financial Statements Originally Issued in Chinese

### (c) Liquidity risk

Pao Shin Securities has sufficient fund to fulfill the operating cash demand and there is no liquidity risk related to breach of contracts due to insufficient fund. Except for the financial assets carried at cost, investments accounted for using equity method and preferred stocks, all stocks held by Pao Shin Securities have active markets which mean the stocks can be converted into cash quickly at a price approximate to fair value.

### (d) Cash flow of interest rate risk

There is no investments in short-term, long-term loans and bonds. Hence, there is no cash flow risk of interest rate fluctuations.

### (3) Discretionary account management

Item	March 31, 2005			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,713,415	\$86,250	\$2,663,346	\$84,658
Repurchase bonds	7,772,783	247,069	7,772,783	247,069
Convertible bonds	55,391	1,761	53,504	1,701
Short-term notes	16,002	508	16,002	508
Bonds	1,895,460	60,250	1,908,634	60,669
Cash in banks	278,967	8,867	278,967	8,867
Net other assets less liabilities	(77,701)	(2,470)	(77,701)	(2,470)
<b>Total</b>	<b>\$12,654,317</b>	<b>\$402,235</b>	<b>\$12,615,535</b>	<b>\$401,002</b>

  

Item	March 31, 2006			
	Carrying value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$4,103,352	\$126,569	\$4,103,352	\$126,569
Repurchase bonds	6,611,071	203,919	6,613,396	203,991
Convertible bonds	35,867	1,106	35,867	1,106
Short-term notes	37,163	1,146	37,163	1,146
Bonds	3,565,507	109,979	3,565,507	109,979
Cash in banks	195,393	6,027	195,472	6,029
Net other assets less liabilities	(2,599)	(80)	(2,599)	(80)
<b>Total</b>	<b>\$14,545,754</b>	<b>\$448,666</b>	<b>\$14,548,158</b>	<b>\$448,740</b>

## **English Translation of Financial Statements Originally Issued in Chinese**

As of March 31, 2005 and 2006, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$11,650,000 (US\$370,312), and NT\$12,600,000 (US\$388,649), respectively.

(4) Business or trading behaviors within subsidiaries:

A. Business or trading behaviors

Please find appendix five (business with stakeholders) for your reference.

B. Integrate business activities:

By integrating the insurance, securities, banking and other diversified financial institutions, the Company has become a full-functioning financial platform. Through the branches and professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

C. Cross utilization of information:

With respect to customers' confidentiality, the Company FHC has established related regulations to ensure the safety and confidentiality of customer information.

D. Locations and business utilities:

The Company has established national presence to provide customers with one-stop services not only in insurance but also in banking and securities services. Since July 2002, The Company has built up four flagship stores of wealth management in Taipei, Taichung and Kaohsiung. In November 2002, we upgraded 5 insurance branches into wealth management service locations.

E. Allocation on revenues, costs, expenses, profits and losses:

Allocated to each subsidiaries by business features.

(5) Material contract: None.



## English Translation of Financial Statements Originally Issued in Chinese

### (6) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the three months ended March 31, 2005 have been reclassified in order to be comparable with those in the consolidated financial statements for the three months ended March 31, 2006.

### 30. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of March 31, 2006, Cathay Life's remittances to this new company totaled approximately US\$48,330.

### 31. Segment information

For the three months ended 31, 2005

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	6,440,533	12,786,820	59,408	(2,425)	(125,491)	19,158,845
Net income other than interest	1,830,616	32,703,985	725,780	43,206	90,152	35,393,739
Provision for premiums reserve	-	(36,041,141)	(233,753)	-	-	(36,274,894)
Total income	8,271,149	9,449,664	551,435	40,781	(35,339)	18,277,690
Operating expenses	(3,379,224)	(8,576,154)	(269,957)	(52,297)	(300,909)	(12,578,541)
Income from continuing operations before income taxes	4,891,925	873,510	281,478	(11,516)	(336,248)	5,699,149
Income taxes (expense) benefit	(1,135,000)	473,378	(55,395)	758	(160,524)	(876,783)
Consolidated income	3,756,925	1,346,888	226,083	(10,758)	(496,772)	4,822,366

For the three months ended 31, 2005

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Others division (US\$)	Total(US\$)
Net interest income	204,721	406,447	1,888	(77)	(3,988)	608,991
Net income other than interest	58,189	1,039,542	23,070	1,373	2,865	1,125,039
Provision for premiums reserve	-	(1,145,618)	(7,430)	-	-	(1,153,048)
Total income	262,910	300,371	17,528	1,296	(1,123)	580,982
Operating expenses	(107,413)	(272,605)	(8,581)	(1,662)	(9,565)	(399,826)
Income from continuing operations before income taxes	155,497	27,766	8,947	(366)	(10,688)	181,156
Income taxes (expense) benefit	(36,078)	15,047	(1,761)	24	(5,102)	(27,870)
Consolidated income	119,419	42,813	7,186	(342)	(15,790)	153,286

## English Translation of Financial Statements Originally Issued in Chinese

For the three months ended 31, 2006

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	7,007,712	14,796,167	71,113	4,100	(174,574)	21,704,518
Net income other than interest	1,644,172	33,801,503	760,876	77,634	15,962	36,300,147
Provision for premiums reserve	-	(37,172,283)	(252,069)	-	-	(37,424,352)
Total income	8,651,884	11,425,387	579,920	81,734	(158,612)	20,580,313
Bad debt expenses -Loan	(2,923,947)	-	-	-	-	(2,923,947)
Operating expenses	(3,005,804)	(9,457,322)	(303,361)	(79,178)	(220,892)	(13,066,557)
Income from continuing operations before income taxes	2,722,133	1,968,065	276,559	2,556	(379,504)	4,589,809
Income taxes (expense) benefit	(851,515)	953,569	(44,880)	(1,010)	108,338	164,502
Cumulative effect of changes in accounting principles	726,679	3,319,319	60,141	29	(856,845)	3,249,323
Consolidated income	2,597,297	6,240,953	291,820	1,575	(1,128,011)	8,003,634

For the three months ended 31, 2006

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Others division (US\$)	Total(US\$)
Net interest income	216,154	456,390	2,193	126	(5,384)	669,479
Net income other than interest	50,715	1,042,613	23,469	2,395	492	1,119,684
Provision for premiums reserve	-	(1,146,585)	(7,775)	-	-	(1,154,360)
Total income	266,869	352,418	17,887	2,521	(4,892)	634,803
Bad debt expenses -Loan	(90,190)	-	-	-	-	(90,190)
Operating expenses	(92,715)	(291,713)	(9,357)	(2,442)	(6,813)	(403,040)
Income from continuing operations before income taxes	83,964	60,705	8,530	79	(11,705)	141,573
Income taxes (expense) benefit	(26,265)	29,413	(1,384)	(31)	3,341	5,074
Cumulative effect of changes in accounting principles	22,415	102,385	1,855	1	(26,430)	100,226
Consolidated income	80,114	192,503	9,001	49	(34,794)	246,873

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Unaudited balance sheets**

**As of March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

	March 31, 2005		March 31, 2006	
	NT \$	US \$	NT \$	US \$
<b>Assets</b>				
Cash and cash equivalents	\$17,824,536	\$566,578	\$10,296,035	\$317,583
Receivable -net	2,050,945	65,192	4,699,553	144,959
Investments under -equity method	183,454,547	5,831,359	204,926,247	6,320,982
Other financial assets -net	100,000	3,178	31,720	978
Property and equipment -net	5,227	166	4,670	144
Other assets -net	2,714,547	86,286	3,171,163	97,815
<b>Total assets</b>	<b>\$206,149,802</b>	<b>\$6,552,759</b>	<b>\$223,129,388</b>	<b>\$6,882,461</b>
<b>Liabilities &amp; stockholders' equity</b>				
Financial liabilities at fair value through profit and loss	\$-	\$-	\$1,411,270	\$43,531
Payables	2,281,602	72,524	4,951,407	152,727
Bonds payable	15,257,124	484,969	13,263,830	409,125
Other liabilities	32,741	1,041	12,133	374
<b>Total liabilities</b>	<b>17,571,467</b>	<b>558,534</b>	<b>19,638,640</b>	<b>605,757</b>
<b>Stockholders' equity</b>				
Common stock	84,741,672	2,693,632	85,258,878	2,629,823
Capital surplus	65,851,309	2,093,176	68,168,225	2,102,660
Retained earnings				
Legal reserve	3,026,715	96,208	6,009,431	185,362
Special reserve	122,653	3,899	226,579	6,989
Unappropriated retained earnings	35,435,374	1,126,363	36,087,845	1,113,135
Other stockholders' equity				
Cumulative conversion adjustments	(96,426)	(3,065)	45,998	1,419
Unrealized valuation losses on long-term equity investments	(142,447)	(4,528)	7,695,629	237,373
Treasury stock	(354,955)	(11,283)	-	-
Net loss not yet recognized as net pension cost	(5,560)	(177)	(1,837)	(57)
<b>Total stockholders' equity</b>	<b>188,578,335</b>	<b>5,994,225</b>	<b>203,490,748</b>	<b>6,276,704</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$206,149,802</b>	<b>\$6,552,759</b>	<b>\$223,129,388</b>	<b>\$6,882,461</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Unaudited statements of income**

**For the three months ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars, except earning per share)**

	January 1 ~ March 31, 2005		January 1 ~ March 31, 2006	
	NT \$	US \$	NT \$	US \$
<b>Income</b>				
Income from long-term equity investments	\$5,081,464	\$161,522	\$9,128,716	\$281,577
Gain on foreign exchange	106,786	3,394	1,137	35
Other operating income	30	1	8,567	264
<b>Total income</b>	<b>5,188,280</b>	<b>164,917</b>	<b>9,138,420</b>	<b>281,876</b>
<b>Expenses and loss</b>				
Interest income	112,328	3,570	244,160	7,531
Less: interest expenses	(218,840)	(6,956)	(375,595)	(11,585)
Net interest income	(106,512)	(3,386)	(131,435)	(4,054)
Loss on financial assets and liabilities at fair value through profit	-	-	(266,185)	(8,210)
Operating expenses	(129,819)	(4,126)	(49,466)	(1,526)
<b>Income from continuing operations before income taxes</b>	<b>4,951,949</b>	<b>157,405</b>	<b>8,691,334</b>	<b>268,086</b>
<b>Income taxes expense</b>	<b>(157,572)</b>	<b>(5,009)</b>	<b>109,070</b>	<b>3,364</b>
<b>Cumulative effect of changes in accounting principles</b>	<b>-</b>	<b>-</b>	<b>(858,814)</b>	<b>(26,490)</b>
<b>Net income</b>	<b>\$4,794,377</b>	<b>\$152,396</b>	<b>\$7,941,590</b>	<b>\$244,960</b>
<b>Earnings per share(expressed in dollars)</b>				
Primary earnings per share:				
Net income from continuing operations	\$0.57	\$0.02	\$1.03	\$0.03
Cumulative effect of changes in accounting principles	-	-	(0.10)	(0.00)
Net income	<u>\$0.57</u>	<u>\$0.02</u>	<u>\$0.93</u>	<u>\$0.03</u>
Fully-diluted earnings per share:				
Net income from continuing operations	\$0.56	\$0.02	\$1.01	\$0.03
Cumulative effect of changes in accounting principles	-	-	(0.10)	(0.00)
Net income	<u>\$0.56</u>	<u>\$0.02</u>	<u>\$0.91</u>	<u>\$0.03</u>
<b>Pro-forma information as if subsidiaries' investment in the Company were not treated as treasury stock:</b>				
Income from continuing operations before income taxes	\$4,943,593	\$157,139	\$7,546,249	\$232,765
Net income	<u>\$4,786,020</u>	<u>\$152,130</u>	<u>\$7,941,590</u>	<u>\$244,960</u>
<b>Earnings per share(expressed in dollars)</b>				
Primary earnings per share:				
Net income from continuing operations	\$0.57	\$0.02	\$1.03	\$0.03
Cumulative effect of changes in accounting principles	-	-	(0.10)	(0.00)
Net income	<u>\$0.57</u>	<u>\$0.02</u>	<u>\$0.93</u>	<u>\$0.03</u>
Fully-diluted earnings per share:				
Net income from continuing operations	\$0.56	\$0.02	\$1.01	\$0.03
Cumulative effect of changes in accounting principles	-	-	(0.10)	(0.00)
Net income	<u>\$0.56</u>	<u>\$0.02</u>	<u>\$0.91</u>	<u>\$0.03</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.  
 Unaudited statements of changes in stockholders' equity  
 For the three months ended March 31, 2005 and 2006  
 (Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity								Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not yet recognized as net pension cost			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
<b>Balance on January 1, 2005</b>	\$83,167,130	\$2,643,583	\$58,958,697	\$1,874,085	\$3,026,715	\$96,208	\$122,653	\$3,899	\$30,640,997	\$973,967	\$(96,005)	\$(3,052)	\$(110,435)	\$(3,510)	\$(354,955)	\$(11,283)	\$(5,560)	\$(177)	\$175,349,237	\$5,573,720
Convertible notes converted into common stock	1,574,542	50,049	6,891,826	219,066															8,466,368	269,115
Capital surplus			786	25															786	25
Cumulative conversion adjustments											(421)	(13)							(421)	(13)
Unrealized gains or losses of financial instruments													(32,012)	(1,018)					(32,012)	(1,018)
Net income for the three months ended March 31, 2005									4,794,377	152,396									4,794,377	152,396
<b>Balance on March 31, 2005</b>	\$84,741,672	\$2,693,632	\$65,851,309	\$2,093,176	\$3,026,715	\$96,208	\$122,653	\$3,899	\$35,435,374	\$1,126,363	\$(96,426)	\$(3,065)	\$(142,447)	\$(4,528)	\$(354,955)	\$(11,283)	\$(5,560)	\$(177)	\$188,578,335	\$5,994,225
<b>Balance on January 1, 2006</b>	\$85,242,234	\$2,629,310	\$68,095,085	\$2,100,404	\$6,009,431	\$185,362	\$226,579	\$6,989	\$28,146,255	\$868,176	\$81,154	\$2,503	\$(68,263)	\$(2,106)	\$-	\$-	\$(1,837)	\$(57)	\$187,730,638	\$5,790,581
Convertible notes converted into common stock	16,644	513	74,228	2,290															90,872	2,803
Capital surplus			(1,088)	(34)															(1,088)	(34)
Cumulative conversion adjustments											(35,156)	(1,084)							(35,156)	(1,084)
Unrealized gains or losses of financial instruments													7,763,892	239,479					7,763,892	239,479
Net income for the three months ended March 31, 2006									7,941,590	244,959									7,941,590	244,959
<b>Balance on March 31, 2006</b>	\$85,258,878	\$2,629,823	\$68,168,225	\$2,102,660	\$6,009,431	\$185,362	\$226,579	\$6,989	\$36,087,845	\$1,113,135	\$45,998	\$1,419	\$7,695,629	\$237,373	\$-	\$-	\$(1,837)	\$(57)	\$203,490,748	\$6,276,704

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Financial Holding Co., Ltd.**

**Unaudited statements of cash flows**

**For the three months ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

	January 1 ~ March 31, 2005		January 1 ~ March 31, 2006	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$4,794,377	\$152,396	\$7,941,590	\$244,960
Adjustments:				
Amortizations	43,922	1,396	-	-
Depreciation	303	10	306	9
Investment income recognized by equity method excess of cash dividends received	(5,081,464)	(161,521)	(9,098,216)	(280,636)
Increase in bonds payable redemption premium	156,531	4,976	91,248	2,815
Effects of exchange rate changes	5,470	174	102,180	3,152
Cumulative effect of changes in accounting principles	-	-	858,814	26,490
Decrease (increase) on operating assets and liabilities				
Increase in accounts receivable	(876,733)	(27,868)	(1,695,550)	(52,300)
Increase in deferred income tax assets	(23,836)	(758)	(86,638)	(2,672)
Decrease in other financial assets	-	-	68,280	2,106
Increase in other assets	(18)	(1)	(285)	(9)
Increase in accounts payable	387,497	12,317	561,385	17,316
Increase in financial liabilities at fair value through profit and loss	-	-	266,185	8,211
Increase in income taxes payable	703,868	22,373	1,049,828	32,382
Decrease in deferred income tax liabilities	(27,467)	(873)	-	-
Increase in other liabilities	1,669	53	1,153	36
<b>Net cash provided by operating activities</b>	<b>84,119</b>	<b>2,674</b>	<b>60,280</b>	<b>1,860</b>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(709)	(23)	-	-
(Increase) decrease in other assets	(2,518,289)	(80,047)	31,213	963
<b>Net cash used in investing activities</b>	<b>(2,518,998)</b>	<b>(80,070)</b>	<b>31,213</b>	<b>963</b>
<b>Cash flows from financing activities</b>				
Decrease in bonds payable	(207,598)	(6,599)	(141,717)	(4,371)
Remuneration paid to directors and supervisors		0		0
Bonus paid to employees		0		0
Cash dividends		0		0
Disposal of treasury stock		0		-
<b>Net cash used in financing activities</b>	<b>(207,598)</b>	<b>(6,599)</b>	<b>(141,717)</b>	<b>(4,371)</b>
<b>Effects of exchange rate changes</b>	<b>(5,470)</b>	<b>(174)</b>	<b>(102,180)</b>	<b>(3,152)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,647,947)</b>	<b>(84,169)</b>	<b>(152,404)</b>	<b>(4,700)</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>20,472,483</b>	<b>650,746</b>	<b>10,448,439</b>	<b>322,284</b>
<b>Cash and cash equivalents at the end of year</b>	<b>\$17,824,536</b>	<b>\$566,577</b>	<b>\$10,296,035</b>	<b>\$317,584</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$-	\$-	\$276,546	\$8,530
Income tax paid	\$2,675	\$85	\$4,781	\$147
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$8,466,368	\$269,115	\$90,872	\$2,803

**English Translation of Financial Statements Originally Issued in Chinese**

**33. The major Subsidiaries' concise balance sheets and statements of income**

**Cathay Life Insurance Co., Ltd.  
Concise balance sheets  
As of March 31, 2005 and 2006  
(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$477,407,749	\$15,175,072	\$569,557,746	\$17,568,098
Loans	447,242,584	14,216,230	444,544,089	13,712,033
Funds and investments	672,513,886	21,376,792	810,581,149	25,002,503
Property and equipment	14,790,521	470,137	13,261,326	409,048
Intangible assets	89,200	2,835	246,461	7,602
Other assets	54,251,088	1,724,447	119,523,016	3,686,706
Total assets	<u>\$1,666,295,028</u>	<u>\$52,965,513</u>	<u>\$1,957,713,787</u>	<u>\$60,385,990</u>
Current liabilities	\$6,281,136	\$199,655	\$35,923,021	\$1,108,051
Long-term liabilities	1,499,458	47,662	1,645,179	50,746
Other liabilities	1,566,570,352	49,795,625	1,808,864,979	55,794,725
Total liabilities	<u>1,574,350,946</u>	<u>50,042,942</u>	<u>1,846,433,179</u>	<u>56,953,522</u>
Capital stock	50,686,158	1,611,130	50,686,158	1,563,423
Capital surplus	13,153	418	12,065	372
Retained earnings	41,386,839	1,315,538	53,420,780	1,647,772
Total stockholders' equity	<u>92,086,150</u>	<u>2,927,086</u>	<u>104,119,003</u>	<u>3,211,567</u>
Total liabilities and stockholders' equity	<u>\$1,666,437,096</u>	<u>\$52,970,028</u>	<u>\$1,950,552,182</u>	<u>\$60,165,089</u>

**Cathay Life Insurance Co., Ltd.  
Concise statements of income  
For the three months ended March 31, 2005 and 2006  
(Expressed in thousands of dollars, except earnings per share)**

Item	January 1-March 31, 2005		January 1-March 31, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$110,051,733	\$3,498,148	\$139,372,560	\$4,298,969
Operating costs	(106,292,842)	(3,378,666)	(134,522,867)	(4,149,379)
Operating gross profit	3,758,891	119,482	4,849,693	149,590
Operating expenses	(2,853,486)	(90,702)	(2,918,505)	(90,022)
Non-operating revenues & gains	350,921	11,154	332,369	10,252
Non-operating expenses & losses	(299,381)	(9,516)	(9,074)	(280)
Income from continuing operations before income taxes	<u>\$956,945</u>	<u>\$30,418</u>	<u>\$2,254,483</u>	<u>\$69,540</u>
Cumulative effect of changes in accounting principles	<u>\$-</u>	<u>\$-</u>	<u>\$3,315,855</u>	<u>\$102,278</u>
Net income	<u>\$1,430,323</u>	<u>\$45,465</u>	<u>\$6,523,907</u>	<u>\$201,231</u>
Earnings per share (In dollars)				
Net income from continuing operations	<u>\$0.19</u>	<u>\$0.01</u>	<u>\$1.03</u>	<u>\$0.03</u>
Cumulative effect of changes in accounting principles	<u>\$-</u>	<u>\$-</u>	<u>\$0.66</u>	<u>\$0.02</u>
Net income	<u>\$0.19</u>	<u>\$0.01</u>	<u>\$1.69</u>	<u>\$0.05</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Century Insurance Co., Ltd.**

**Concise balance sheets**

**As of March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$6,639,811	\$211,056	\$6,408,391	\$197,669
Loans	1,100,891	34,994	1,558,924	48,085
Funds and investments	3,656,814	116,237	4,583,158	141,368
Fixed assets	59,025	1,876	50,780	1,566
Intangible assets	19,554	621	14,955	461
Other assets	562,167	17,869	716,437	22,099
<b>Total assets</b>	<b>\$12,038,262</b>	<b>\$382,653</b>	<b>\$13,332,645</b>	<b>\$411,248</b>
Current liabilities	\$1,137,875	\$36,169	\$1,267,511	\$39,097
Long-term liabilities	9,450	300	6,869	212
Other liabilities	7,522,363	239,109	8,590,021	264,960
<b>Total liabilities</b>	<b>8,669,688</b>	<b>275,578</b>	<b>9,864,401</b>	<b>304,269</b>
Capital stock	2,317,006	73,649	2,317,006	71,468
Capital surplus	2,021	64	2,021	63
Retained earnings	1,050,012	33,377	1,135,430	35,023
Equity adjustment	(465)	(15)	-	-
<b>Total stockholders' equity</b>	<b>3,368,574</b>	<b>107,075</b>	<b>3,454,457</b>	<b>106,554</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$12,038,262</b>	<b>\$382,653</b>	<b>\$13,318,858</b>	<b>\$410,823</b>

**Cathay Century Insurance Co., Ltd.**

**Concise statements of income**

**For the three months ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31, 2005		January 1-March 31, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$6,726,095	\$213,799	\$7,490,311	\$231,040
Operating costs	(6,073,886)	(193,067)	(6,794,327)	(209,572)
Operating gross profit	652,209	20,732	695,984	21,468
Operating expenses	(411,591)	(13,083)	(451,734)	(13,933)
Non-operating revenues	3,435	109	594	18
Non-operating expenses	(5)	-	(23)	(1)
Income from continuing operations before income taxes	\$244,048	\$7,758	\$244,821	\$7,552
Cumulative effect of changes in accounting principles	\$-	\$-	\$60,141	\$1,855
<b>Net income</b>	<b>\$188,654</b>	<b>\$5,997</b>	<b>\$260,082</b>	<b>\$8,023</b>
Earning per share (In dollars)				
Income before income taxes	\$1.05	\$0.03	\$1.32	\$0.04
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.26	\$0.01
<b>Net income</b>	<b>\$0.81</b>	<b>\$0.03</b>	<b>\$1.12</b>	<b>\$0.03</b>



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Securities Corporation  
Concise balance sheets  
As of March 31, 2005 and 2006  
(Expressed in thousands of dollars)**

ASSETS	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$4,032,155	\$128,167	\$3,142,148	\$96,920
Funds and investments	18	1	714,890	22,051
Property and equipment	57,419	1,826	104,438	3,221
Intangible assets	1,552	49	1,934	60
Other assets	237,586	7,552	300,812	9,279
Total assets	<u>\$4,328,730</u>	<u>\$137,595</u>	<u>\$4,264,222</u>	<u>\$131,531</u>
Current liabilities	\$876,749	\$27,869	\$207,960	\$6,414
Long-term liabilities	-	-	77	2
Other liabilities	5,237	167	35,428	1,094
Total liabilities	<u>881,986</u>	<u>28,036</u>	<u>243,465</u>	<u>7,510</u>
Capital stock	3,500,000	111,252	3,700,000	114,127
Capital surplus	-	-	258,434	7,972
Retained earnings	(53,256)	(1,693)	62,323	1,922
Total stockholders' equity	<u>3,446,744</u>	<u>109,559</u>	<u>4,020,757</u>	<u>124,021</u>
Total liabilities and stockholders' equity	<u>\$4,328,730</u>	<u>\$137,595</u>	<u>\$4,264,222</u>	<u>\$131,531</u>

**Cathay Securities Corporation  
Concise statements of income  
For three months ended March 31, 2005 and 2006  
(Expressed in thousands of dollars, except for earnings per share)**

ITEMS	January 1 - March 31, 2005		January 1 - March 31, 2006	
	NT\$	US\$	NT\$	US\$
Revenue	\$52,252	\$1,660	\$91,963	\$2,837
Expenses	(64,700)	(2,056)	(85,702)	(2,644)
Income (loss) from continuing operations before income taxes	(12,448)	(396)	6,261	193
Cumulative effect of changes in accounting principles	-	-	173	5
Net income (loss)	<u>\$(11,690)</u>	<u>\$(372)</u>	<u>\$(5,424)</u>	<u>\$167</u>
Earnings per share (in dollars)				
Net income (loss) from continuing operations	<u>\$(0.04)</u>	<u>\$-</u>	<u>\$0.02</u>	<u>\$-</u>
Cumulative effect of changes in accounting principles	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Net income (loss)	<u>\$(0.03)</u>	<u>\$-</u>	<u>\$0.01</u>	<u>\$-</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay United Bank  
Concise balance sheets  
As of March 31, 2005 and 2006  
(Expressed in thousands of dollars)**

ASSETS	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	\$17,184,701	\$546,240	\$20,723,275	\$639,213
Due from the Central Bank and call loans to banks	56,626,405	1,799,949	44,476,999	1,371,900
Financial assets at fair value through profit and loss	46,575,141	1,480,456	55,091,437	1,699,304
Securities purchased under agreements to resell	1,928,750	61,308	2,387,631	73,647
Available-for-sale financial assets, net	37,226,973	1,183,311	51,517,533	1,589,066
Receivables, net	54,813,881	1,742,336	58,019,899	1,789,633
Loans and advances to customers, net	594,619,272	18,900,803	625,694,410	19,299,642
Held-to-maturity financial assets, net	8,282,145	263,260	6,540,298	201,737
Investments accounted for using equity method, net	5,126,955	162,967	4,389,423	135,392
Premises and equipment, net	24,835,784	789,440	24,479,952	755,088
Other financial assets, net	182,769,731	5,809,591	207,780,293	6,409,016
Other assets, net	5,587,334	177,601	6,803,891	209,867
<b>TOTAL ASSETS</b>	<b>\$1,035,577,072</b>	<b>\$32,917,262</b>	<b>\$1,107,905,041</b>	<b>\$34,173,505</b>
<b>LIABILITIES</b>				
Due to the Central Bank and call loans from banks	\$79,855,960	\$2,538,333	\$82,565,262	\$2,546,738
Payables	14,445,226	459,162	17,726,173	546,767
Deposits and remittances	756,979,392	24,061,646	817,383,166	25,212,312
Financial liabilities at fair value through profit and loss	49,764,748	1,581,842	51,299,341	1,582,336
Securities sold under agreements to repurchase	45,133,652	1,434,636	36,229,930	1,117,518
Banker's acceptances and funds borrowed	791,750	25,167	812,500	25,062
Financial debentures payable	2,350,000	74,698	17,859,078	550,866
Other financial liabilities	431,525	13,716	1,803,265	55,622
Other liabilities	1,978,511	62,890	1,696,216	52,320
<b>TOTAL LIABILITIES</b>	<b>951,730,764</b>	<b>30,252,090</b>	<b>1,027,374,931</b>	<b>31,689,541</b>
Capital stock	43,182,407	1,372,613	46,420,518	1,431,848
Capital reserves	13,463,186	427,946	13,464,276	415,308
Retained earnings	27,288,614	867,407	20,165,431	622,006
Equity adjustment	(87,899)	(2,794)	479,885	14,802
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>83,846,308</b>	<b>2,665,172</b>	<b>80,530,110</b>	<b>2,483,964</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,035,577,072</b>	<b>\$32,917,262</b>	<b>\$1,107,905,041</b>	<b>\$34,173,505</b>

**Cathay United Bank  
Concise statements of income  
For the three months ended March 31, 2005 and 2006  
(Expressed in thousands of dollars, except per share information)**

ITEMS	January 1 - March 31, 2005		January 1 - March 31, 2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$6,292,446	\$200,014	\$6,570,623	\$202,672
Noninterest income	1,820,544	57,868	1,621,778	50,024
Net operating revenue	8,112,990	257,882	8,192,401	252,696
Provision for loan losses	-	-	(2,923,947)	(90,190)
Operating expenses	(3,520,262)	(111,896)	(3,003,858)	(92,654)
Income from continuing operations before income taxes	\$4,592,728	\$145,986	\$2,264,596	\$69,852
Cumulative effect of changes in accounting principles	\$-	\$-	\$726,679	\$22,414
<b>Net income</b>	<b>\$3,457,728</b>	<b>\$109,909</b>	<b>\$2,197,275</b>	<b>\$67,775</b>
Earnings per share (in dollars)				
Net income (loss) from continuing operations	\$0.99	\$0.03	\$0.49	\$0.02
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.15	\$-
<b>Net income (loss)</b>	<b>\$0.99</b>	<b>\$0.03</b>	<b>\$0.64</b>	<b>\$0.02</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Indovina Bank Limited**  
**Concise balance sheets**  
**As of March 31, 2005 and 2006**  
**(Expressed in thousands of dollars)**

ASSETS	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	\$781,587	\$24,844	\$971,463	\$29,965
Due from the Central Bank and call loans to banks	336,688	10,702	278,890	8,602
Available-for-sale financial assets, net	487,731	15,503	487,759	15,045
Receivables, net	34,882	1,109	41,222	1,271
Loans and advances to customers, net	5,551,285	176,455	6,239,711	192,465
Premises and equipment, net	36,837	1,171	96,993	2,992
Other financial assets, net	6,754	215	409	13
<b>TOTAL ASSETS</b>	<b>\$7,235,764</b>	<b>\$229,999</b>	<b>\$8,116,447</b>	<b>\$250,353</b>
<b>LIABILITIES</b>				
Due to the Central Bank and call loans from banks	\$1,079,197	\$34,304	\$1,423,978	\$43,923
Payables	346,945	11,028	445,345	13,737
Deposits and remittances	4,788,877	152,221	5,234,859	161,470
<b>TOTAL LIABILITIES</b>	<b>6,215,019</b>	<b>197,553</b>	<b>7,104,182</b>	<b>219,130</b>
Capital stock	791,658	25,164	791,658	24,419
Retained earnings	228,249	7,255	187,055	5,769
Equity adjustment	838	27	33,552	1,035
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,020,745</b>	<b>32,446</b>	<b>1,012,265</b>	<b>31,223</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$7,235,764</b>	<b>\$229,999</b>	<b>\$8,116,447</b>	<b>\$250,353</b>

**Indovina Bank Limited**  
**Concise statements of income**  
**For the three months ended March 31, 2005 and 2006**  
**(Expressed in thousands of dollars, except per share information)**

ITEMS	January 1 - March 31, 2005		January 1 - March 31, 2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$52,730	\$1,676	\$75,025	\$2,314
Noninterest income	8,920	284	40,444	1,248
Net operating revenue	61,650	1,960	115,469	3,562
Operating expenses	(29,941)	(952)	(30,593)	(944)
Income from continuing operations before income taxes	\$31,709	\$1,008	\$84,876	\$2,618
Net income	\$31,709	\$1,008	\$67,697	\$2,088

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Ltd.(Shanghai)**

**Concise balance sheets**

**As of March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$2,264,873	\$71,992	\$1,795,635	\$55,387
Funds and investments	152,590	4,850	1,216,766	37,531
Fixed assets	21,311	677	27,348	844
Intangible assets	2,625	84	2,542	78
Other assets	624,280	19,844	881,647	27,194
<b>Total assets</b>	<b>\$3,065,679</b>	<b>\$97,447</b>	<b>\$3,923,938</b>	<b>\$121,034</b>
Current liabilities	\$17,943	\$570	\$17,365	\$536
Other liabilities	60,607	1,927	874,642	26,978
<b>Total liabilities</b>	<b>78,550</b>	<b>2,497</b>	<b>892,007</b>	<b>27,514</b>
Capital stock	3,257,376	103,540	3,257,376	100,474
Retained earnings	(61,077)	(1,941)	(202,921)	(6,259)
Equity adjustment	(209,170)	(6,649)	(22,524)	(695)
<b>Total stockholders' equity</b>	<b>2,987,129</b>	<b>94,950</b>	<b>3,031,931</b>	<b>93,520</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$3,065,679</b>	<b>\$97,447</b>	<b>\$3,923,938</b>	<b>\$121,034</b>

**Cathay Life Insurance Ltd.(Shanghai)**

**Concise statements of income**

**For the three months ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31,2005		January 1-March 31,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$79,196	\$2,517	\$240,330	\$7,413
Operating costs	(69,503)	(2,209)	(193,882)	(5,980)
Operating gross profit	9,693	308	46,448	1,433
Operating expenses	(31,885)	(1,013)	(54,324)	(1,676)
Non-operating revenues	7	-	-	-
Non-operating expenses	-	-	(8,272)	(255)
Income from continuing operations before income taxes	\$(22,185)	\$(705)	\$(16,148)	\$(498)
Cumulative effect of changes in accounting principles	\$-	\$-	\$3,463	\$107
<b>Net income</b>	<b>\$(22,185)</b>	<b>\$(705)</b>	<b>\$(12,685)</b>	<b>\$(391)</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Lucky Bank**  
**Concise balance sheets**  
**As of March 31, 2005 and 2006**  
**(Expressed in thousands of dollars)**

ASSETS	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	\$4,201,292	\$133,544	\$2,752,541	\$84,903
Due from the Central Bank and call loans to banks	2,405,359	76,458	2,454,077	75,697
Financial assets at fair value through profit and loss	183,542	5,834	50,219	1,549
Securities purchased under agreements to resell	939,550	29,865	459,527	14,174
Available-for-sale financial assets, net	264,318	8,402	241,101	7,437
Receivables, net	61,944,697	1,968,998	56,468,229	1,741,771
Loans and advances to customers, net	114,807	3,649	107,055	3,302
Investments accounted for using equity method, net	1,715,020	54,514	1,685,039	51,975
Premises and equipment, net	16,960,235	539,105	24,910,235	768,360
Other financial assets, net	888,874	28,254	682,023	21,037
<b>TOTAL ASSETS</b>	<b>\$89,617,694</b>	<b>\$2,848,623</b>	<b>\$89,810,046</b>	<b>\$2,770,205</b>
<b>LIABILITIES</b>				
Due to the Central Bank and call loans from banks	\$233,014	\$7,407	\$243,061	\$7,497
Payables	894,829	28,443	703,887	21,711
Deposits and remittances	84,611,028	2,689,480	84,885,183	2,618,297
Other liabilities	310,553	9,871	285,325	8,801
<b>TOTAL LIABILITIES</b>	<b>86,049,424</b>	<b>2,735,201</b>	<b>86,117,456</b>	<b>2,656,306</b>
Capital stock	3,146,000	100,000	3,146,000	97,039
Capital reserves	463,482	14,732	463,482	14,296
Retained earnings	(3,250)	(103)	161,882	4,994
Equity adjustment	(37,962)	(1,207)	(78,774)	(2,430)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>3,568,270</b>	<b>113,422</b>	<b>3,692,590</b>	<b>113,899</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$89,617,694</b>	<b>\$2,848,623</b>	<b>\$89,810,046</b>	<b>\$2,770,205</b>

**Lucky Bank**  
**Concise statements of income**  
**For the three months ended March 31, 2005 and 2006**  
**(Expressed in thousands of dollars, except per share information)**

ITEMS	January 1 - March 31, 2005		January 1 - March 31, 2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$293,581	\$9,332	\$261,323	\$8,061
Noninterest income	(348,757)	(11,086)	21,963	677
Net operating revenue	(55,176)	(1,754)	283,286	8,738
Operating expenses	(221,341)	(7,035)	(187,934)	(5,797)
Income from continuing operations before income taxes	\$(276,517)	\$(8,789)	\$95,352	\$2,941
Net income	\$(276,904)	\$(8,802)	\$55,016	\$1,697
Earnings per share (in dollars)				
Net income (loss) from continuing operations	\$(0.88)	\$-	\$0.30	\$-
Net income (loss)	\$(0.88)	\$-	\$0.17	\$-

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Pacific Venture Capital Co., Ltd**

**Concise balance sheets**

**As of March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$456,805	\$14,520	\$387,615	\$11,956
Funds and investments	120,904	3,843	254,978	7,865
Other assets	-	-	2,434	75
<b>Total assets</b>	<b>\$577,709</b>	<b>\$18,363</b>	<b>\$645,027</b>	<b>\$19,896</b>
Current liabilities	\$236	\$7	\$127	\$4
<b>Total liabilities</b>	<b>236</b>	<b>7</b>	<b>127</b>	<b>4</b>
Capital stock	600,000	19,072	600,000	18,507
Retained earnings	(21,629)	(688)	(32,820)	(1,012)
Equity adjustment	(898)	(29)	77,720	2,397
<b>Total stockholders' equity</b>	<b>577,473</b>	<b>18,356</b>	<b>644,900</b>	<b>19,892</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$577,709</b>	<b>\$18,363</b>	<b>\$645,027</b>	<b>\$19,896</b>

**Cathay Pacific Venture Capital Co., Ltd**

**Concise statements of income**

**For the three months ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31,2005		January 1-March 31,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$-	\$-	\$1,300	\$40
Operating gross profit	-	-	1,300	40
Operating expenses	(3,921)	(125)	(3,937)	(121)
Non-operating expenses	(3,200)	(102)	-	-
<b>Income from continuing operations before income taxes</b>	<b>\$(7,121)</b>	<b>\$(226)</b>	<b>\$(2,637)</b>	<b>\$(81)</b>
<b>Net income</b>	<b>\$(6,136)</b>	<b>\$(195)</b>	<b>\$(1,780)</b>	<b>\$(55)</b>
Earning per share (In dollars)				
Income before income taxes	\$(0.12)	\$-	\$(0.04)	\$-
<b>Net income</b>	<b>\$(0.10)</b>	<b>\$-</b>	<b>\$(0.03)</b>	<b>\$-</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Pao shin Securities Co., Ltd**  
**Concise balance sheets**  
**As of March 31, 2005 and 2006**  
**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$172,526	\$5,484	\$167,189	\$5,157
Funds and investments	9,150	291	9,150	282
Fixed assets	64,291	2,044	58,703	1,811
Other assets	100,460	3,193	100,414	3,097
<b>Total assets</b>	<b>\$346,427</b>	<b>\$11,012</b>	<b>\$335,456</b>	<b>\$10,347</b>
Current liabilities	\$12,553	\$399	\$4,369	\$135
Other liabilities	50,254	1,597	51,935	1,602
<b>Total liabilities</b>	<b>62,807</b>	<b>1,996</b>	<b>56,304</b>	<b>1,737</b>
Capital stock	312,000	9,917	312,000	9,624
Retained earnings	(28,380)	(903)	(32,848)	(1,013)
Total stockholders' equity	283,620	9,015	279,152	8,610
<b>Total liabilities and stockholders' equity</b>	<b>\$346,427</b>	<b>\$11,012</b>	<b>\$335,456</b>	<b>\$10,347</b>

**Pao shin Securities Co., Ltd**  
**Concise statements of income**  
**For the three months ended March 31, 2005 and 2006**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31, 2005		January 1-March 31, 2006	
	NT\$	US\$	NT\$	US\$
Revenue	\$9,416	\$299	\$11,732	\$362
Expenses	(49,430)	(1,571)	(13,209)	(407)
Income (loss) from continuing operations before income taxes	\$(40,014)	\$(1,272)	\$(1,477)	\$(46)
Cumulative effect of changes in accounting principles	\$-	\$-	\$(144)	\$(4)
<b>Net income</b>	<b>\$(40,014)</b>	<b>\$(1,272)</b>	<b>\$(1,621)</b>	<b>\$(50)</b>
Earning per share (In dollars)				
Income before income taxes	\$(1.28)	\$(0.04)	\$(0.05)	\$-
Cumulative effect of changes in accounting principles	\$-	\$-	\$-	\$-
<b>Net income</b>	<b>\$(1.28)</b>	<b>\$(0.04)</b>	<b>\$(0.05)</b>	<b>\$-</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Venture Capital Co., Ltd**  
**Concise balance sheets**  
**As of March 31, 2005 and 2006**  
**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$56,657	\$1,801	\$725,103	\$22,366
Funds and investments	839,116	26,672	953,194	29,401
Total assets	<u>\$895,773</u>	<u>\$28,473</u>	<u>\$1,678,297</u>	<u>\$51,767</u>
Current liabilities	\$3,752	\$119	\$5,648	\$174
Total liabilities	<u>3,752</u>	<u>119</u>	<u>5,648</u>	<u>174</u>
Capital stock	900,000	28,608	1,500,000	46,268
Retained earnings	(6,117)	(194)	95,498	2,945
Equity adjustment	(1,862)	(60)	77,151	2,380
Total stockholders' equity	<u>892,021</u>	<u>28,354</u>	<u>1,672,649</u>	<u>51,593</u>
Total liabilities and stockholders' equity	<u>\$895,773</u>	<u>\$28,473</u>	<u>\$1,678,297</u>	<u>\$51,767</u>

**Cathay Venture Capital Co., Ltd**  
**Concise statements of income**  
**For the three months ended March 31, 2005 and 2006**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31,2005		January 1-March 31,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$66,277	\$2,107	\$117,317	\$3,619
Operating costs	(307)	(10)	(11,002)	(340)
Operating gross profit	65,970	2,097	106,315	3,279
Operating expenses	(4,583)	(146)	(7,588)	(234)
Non-operating expenses	-	-	(3)	-
Income from continuing operations before income taxes	<u>\$61,387</u>	<u>\$1,951</u>	<u>\$98,727</u>	<u>\$3,045</u>
Net income	<u>\$58,661</u>	<u>\$1,865</u>	<u>\$(96,589)</u>	<u>\$(2,979)</u>
Earning per share (In dollars)				
Income before income taxes	<u>\$0.68</u>	<u>\$0.02</u>	<u>\$0.66</u>	<u>\$0.02</u>
Net income	<u>\$0.65</u>	<u>\$0.02</u>	<u>\$0.64</u>	<u>\$0.02</u>



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay II Venture Capital Co., Ltd**

**Concise balance sheets**

**As of March 31, 2005 and 2006**

**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$136,577	\$4,341	\$107,006	\$3,301
Funds and investments	445,843	14,172	623,084	19,219
<b>Total assets</b>	<b>\$582,420</b>	<b>\$18,513</b>	<b>\$730,090</b>	<b>\$22,520</b>
Current liabilities	\$80	\$3	\$200	\$6
<b>Total liabilities</b>	<b>80</b>	<b>3</b>	<b>200</b>	<b>6</b>
Capital stock	600,000	19,072	600,000	18,507
Retained earnings	(10,271)	(327)	69,237	2,136
Equity adjustment	(7,389)	(235)	60,653	1,871
<b>Total stockholders' equity</b>	<b>582,340</b>	<b>18,510</b>	<b>729,890</b>	<b>22,514</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$582,420</b>	<b>\$18,513</b>	<b>\$730,090</b>	<b>\$22,520</b>

**Cathay II Venture Capital Co., Ltd**

**Concise statements of income**

**For the three months ended March 31, 2005 and 2006**

**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31,2005		January 1-March 31,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$714	\$23	\$66,928	\$2,064
Operating gross profit	714	23	66,928	2,064
Operating expenses	(3,081)	(98)	(3,060)	(94)
<b>Income from continuing operations before income taxes</b>	<b>\$(2,367)</b>	<b>\$(75)</b>	<b>\$63,868</b>	<b>\$1,970</b>
<b>Net income</b>	<b>\$(2,367)</b>	<b>\$(75)</b>	<b>\$63,868</b>	<b>\$1,970</b>
Earning per share (In dollars)				
Income before income taxes	\$(0.04)	\$-	\$1.06	\$0.03
<b>Net income</b>	<b>\$(0.04)</b>	<b>\$-</b>	<b>\$1.06</b>	<b>\$0.03</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Symphox Information Co., Ltd**  
**Concise balance sheets**  
**As of March 31, 2005 and 2006**  
**(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$382,060	\$12,144	\$479,365	\$14,786
Fixed assets	134,924	4,289	155,861	4,808
Intangible assets	3,100	98	4,308	133
Other assets	5,121	163	20,571	634
<b>Total assets</b>	<b>\$525,205</b>	<b>\$16,694</b>	<b>\$660,105</b>	<b>\$20,361</b>
Current liabilities	\$76,818	\$2,441	\$228,161	\$7,038
Other liabilities	88	3	81	2
<b>Total liabilities</b>	<b>76,906</b>	<b>2,444</b>	<b>228,242</b>	<b>7,040</b>
Capital stock	499,000	15,862	499,000	15,392
Retained earnings	(50,701)	(1,612)	(67,138)	(2,071)
<b>Total stockholders' equity</b>	<b>448,299</b>	<b>14,250</b>	<b>431,862</b>	<b>13,321</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$525,205</b>	<b>\$16,694</b>	<b>\$660,104</b>	<b>\$20,361</b>

**Symphox Information Co., Ltd**  
**Concise statements of income**  
**For the three months ended March 31, 2005 and 2006**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31, 2005		January 1-March 31, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$152,014	\$4,832	\$191,726	\$5,914
Operating costs	(137,718)	(4,378)	(190,305)	(5,870)
Operating gross profit	14,296	454	1,421	44
Operating expenses	(12,558)	(399)	(18,130)	(559)
Non-operating revenues	1,034	33	993	31
Non-operating expenses	(49)	(1)	(16)	(1)
Income from continuing operations before income taxes	\$2,723	\$87	\$(15,732)	\$(485)
Cumulative effect of changes in accounting principles	\$-	\$-	\$1,809	\$56
<b>Net income</b>	<b>\$2,723</b>	<b>\$87</b>	<b>\$(13,923)</b>	<b>\$(429)</b>
Earning per share (In dollars)				
Income before income taxes	\$0.05	\$-	\$(0.28)	\$(0.01)
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.04	\$-
<b>Net income</b>	<b>\$0.05</b>	<b>\$-</b>	<b>\$(0.28)</b>	<b>\$(0.01)</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Futures Corp.  
Concise balance sheets  
As of March 31, 2005 and 2006  
(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$1,077,858	\$34,261	\$1,259,002	\$38,834
Funds and investments	30,500	969	30,500	941
Fixed assets	321,382	10,216	336,775	10,388
Other assets	152,222	4,839	159,306	4,914
<b>Total assets</b>	<b>\$1,581,962</b>	<b>\$50,285</b>	<b>\$1,785,583</b>	<b>\$55,077</b>
Current liabilities	\$850,654	\$27,039	\$1,063,562	\$32,806
Other liabilities	12,676	403	7,073	218
<b>Total liabilities</b>	<b>863,330</b>	<b>27,442</b>	<b>1,070,635</b>	<b>33,024</b>
Capital stock	650,000	20,661	650,000	20,049
Retained earnings	68,632	2,182	64,948	2,003
<b>Total stockholders' equity</b>	<b>718,632</b>	<b>22,843</b>	<b>714,948</b>	<b>22,053</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,581,962</b>	<b>\$50,285</b>	<b>\$1,785,583</b>	<b>\$55,077</b>

**Cathay Futures Corp.  
Concise statements of income  
For the three months ended March 31, 2005 and 2006  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31, 2005		January 1-March 31, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$32,240	\$1,025	\$29,737	\$917
Operating costs	(19,808)	(630)	(10,021)	(309)
Operating gross profit	12,432	395	19,716	608
Operating expenses	(19,347)	(615)	(18,560)	(572)
Non-operating revenues	1,467	47	11,847	365
Non-operating expenses	(246)	(8)	(9,234)	(285)
Income from continuing operations before income taxes	\$(5,694)	\$(181)	\$3,769	\$116
Cumulative effect of changes in accounting principles	\$-	\$-	\$159	\$5
<b>Net income</b>	<b>\$(4,738)</b>	<b>\$(151)</b>	<b>\$4,475</b>	<b>\$138</b>
Earning per share (In dollars)				
Income before income taxes	\$(0.09)	\$-	\$0.06	\$-
Cumulative effect of changes in accounting principles	\$-	\$-	\$-	\$-
<b>Net income</b>	<b>\$(0.07)</b>	<b>\$-</b>	<b>\$0.07</b>	<b>\$-</b>

**English Translation of Financial Statements Originally Issued in Chinese**

**Seaward Leasing Ltd.  
Concise balance sheets  
As of March 31, 2005 and 2006  
(Expressed in thousands of dollars)**

Assets	March 31, 2005		March 31, 2006	
	NT\$	US\$	NT\$	US\$
Current assets	\$2,982,919	\$94,816	\$2,450,721	\$75,593
Funds and investments	496,204	15,772	486,204	14,997
Fixed assets	2,777,752	88,295	3,311,362	102,140
Other assets	25,283	804	164,932	5,087
<b>Total assets</b>	<b>\$6,282,158</b>	<b>\$199,687</b>	<b>\$6,413,219</b>	<b>\$197,817</b>
Current liabilities	\$3,865,795	\$122,879	\$4,023,559	\$124,107
Other liabilities	86,632	2,754	123,473	3,809
<b>Total liabilities</b>	<b>3,952,427</b>	<b>125,633</b>	<b>4,147,032</b>	<b>127,916</b>
Capital stock	2,000,000	63,573	2,000,000	61,690
Retained earnings	328,681	10,448	265,336	8,185
Equity adjustment	1,050	33	851	26
<b>Total stockholders' equity</b>	<b>2,329,731</b>	<b>74,054</b>	<b>2,266,187</b>	<b>69,901</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$6,282,158</b>	<b>\$199,687</b>	<b>\$6,413,219</b>	<b>\$197,817</b>

**Seaward Leasing Ltd.  
Concise statements of income  
For the three months ended March 31, 2005 and 2006  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1-March 31,2005		January 1-March 31,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$260,241	\$8,272	\$59,841	\$1,846
Operating costs	(215,844)	(6,861)	(7,574)	(234)
Operating gross profit	44,397	1,411	52,267	1,612
Operating expenses	(33,561)	(1,066)	(46,524)	(1,435)
Non-operating revenues	2,612	83	6,269	194
Non-operating expenses	(31,296)	(995)	(13,647)	(421)
Income from continuing operations before income taxes	<u>\$(17,848)</u>	<u>\$(567)</u>	<u>\$(1,635)</u>	<u>\$(50)</u>
Net income	<u>\$(16,653)</u>	<u>\$(529)</u>	<u>\$(1,635)</u>	<u>\$(50)</u>
Earning per share (In dollars)				
Income before income taxes	<u>\$(0.09)</u>	<u>\$-</u>	<u>\$(0.01)</u>	<u>\$-</u>
Net income	<u>\$(0.08)</u>	<u>\$-</u>	<u>\$(0.01)</u>	<u>\$-</u>