

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
As of June 30, 2005 and 2006
With Independent Auditors' Report

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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 Report Originally Issued in Chinese
Independent auditors' report

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2005 and 2006 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of June 30, 2005 and 2006 and the results of its operations and its cash flows for the six months ended June 30, 2005 and 2006 in conformity with 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 and Subsidiaries has adopted the Republic of China Statements of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments".

Ernst & Young
Taipei, Taiwan
The Republic of China
August 4, 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 audit 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

Consolidated balance sheets

June 30, 2005 and 2006

(Expressed in thousands of dollars)

	Notes	June 30, 2005		June 30, 2006	
		NT \$	US \$	NT \$	US \$
Assets					
Cash and cash equivalents	2,4	\$279,329,321	\$8,828,360	\$321,797,908	\$9,953,539
Due from the Central Bank and call loans to banks		58,061,784	1,835,075	38,725,879	1,197,831
Financial assets at fair value through profit and loss	2,5	173,888,732	5,495,851	170,679,532	5,279,293
Securities purchased under agreements to resell	2	5,571,397	176,087	5,678,456	175,640
Receivables -net		82,428,361	2,605,195	106,886,552	3,306,110
Loans -net	6	1,064,643,185	33,648,647	1,155,141,959	35,729,723
Available-for-sale financial assets -net	2,7	276,738,026	8,746,461	278,319,450	8,608,705
Held-to-maturity financial assets -net	2,8	384,549,107	12,153,891	538,136,199	16,645,104
Investments under equity method	2,9	3,053,875	96,519	3,472,401	107,405
Other financial assets -net	2,10	87,252,956	2,757,679	164,363,162	5,083,921
Investments in debt securities with no active market	2	187,984,026	5,941,341	275,154,191	8,510,801
Investments in real estate	2,11	102,134,181	3,228,008	105,141,141	3,252,123
Property and equipment -net	2,	42,337,477	1,338,100	39,974,400	1,236,449
Goodwill and intangible assets -net		174,921	5,529	1,340,942	41,477
Other assets -net		22,109,071	698,770	46,179,101	1,428,367
Total assets		\$2,770,256,420	\$87,555,513	\$3,250,991,273	\$100,556,488
Liabilities & stockholders' equity					
Liabilities					
Due to the Central Bank and call loans from banks		\$76,643,412	\$2,422,358	\$107,737,997	\$3,332,447
Bankers acceptances and funds borrowed		791,500	25,016	811,625	25,104
Commercial paper payable	12	1,438,511	45,465	-	-
Financial liabilities at fair value through profit and loss	2,13	51,507,823	1,627,934	71,593,049	2,214,446
Securities sold under agreements to repurchase	2	31,284,009	988,749	28,846,247	892,244
Payables		42,160,037	1,332,492	55,138,823	1,705,500
Deposits	14	744,192,514	23,520,623	896,612,787	27,733,151
Bonds payable	2,15	17,588,962	555,909	28,455,272	880,151
Reserve for operations and liabilities	2,16	1,565,161,265	49,467,802	1,732,169,448	53,577,774
Other financial liabilities	2,17	56,072,224	1,772,194	122,322,255	3,783,553
Other liabilities		7,298,760	230,681	11,501,329	355,748
Total liabilities		2,594,139,017	81,989,223	3,055,188,832	94,500,118
Stockholders' Equity attributable to equity holders of the parent					
Capital stock	18				
Common stock		84,758,914	2,678,853	85,646,481	2,649,133
Stock dividend to be distributed		-	-	4,263,443	131,873
Capital surplus	19	65,908,422	2,083,073	69,953,056	2,163,720
Retained earnings	20				
Legal reserve		6,009,431	189,931	8,188,136	253,267
Special reserve		226,579	7,161	-	-
Unappropriated retained earnings		16,998,517	537,248	18,113,107	560,257
Other stockholders' equity					
Land revaluation increment		3,048	96	2,106	65
Cumulative conversion adjustments		(95,048)	(3,004)	43,856	1,357
Unrealized gains or losses on financial instruments		(4,961)	(157)	6,207,343	191,999
Treasury stock	2,21	(146,221)	(4,621)	-	-
Net loss not yet recognized as net pension cost		(5,560)	(176)	(1,837)	(57)
Total stockholder's equity attributable to equity holders of the parent		173,653,121	5,488,404	192,415,691	5,951,614
Minority interest		2,464,282	77,886	3,386,750	104,756
Total stockholders' equity		176,117,403	5,566,290	195,802,441	6,056,370
Total liabilities and stockholders' equity		\$2,770,256,420	\$87,555,513	\$3,250,991,273	\$100,556,488

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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

Consolidated statements of income

For the six months ended June 30, 2005 and 2006

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

	Notes	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006			
		NT \$	US \$	NT \$	US \$		
Interest income	2	\$45,401,748	\$1,434,948	\$52,717,658	\$1,630,611		
Interest expenses	2	(6,099,467)	(192,777)	(9,211,568)	(284,923)		
Net interest income		39,302,281	1,242,171	43,506,090	1,345,688		
Non-interest income							
Net commission and handling fee		2,981,978	94,247	2,418,485	74,806		
Net premiums from insurance business		60,783,016	1,921,081	57,887,621	1,790,523		
Gain on financial assets and liabilities at fair value through profit and loss		2,511,981	79,393	(5,031,716)	(155,636)		
Realized gains on available-for-sale financial assets		1,668,999	52,750	7,805,926	241,445		
Realized gains on held-to-maturity financial assets		998,156	31,547	(54,867)	(1,697)		
Gain on investments under -equity method		114,804	3,628	240,487	7,439		
Gain on investments in real estate		2,674,002	84,513	5,419,794	167,640		
Loss on foreign exchange		(662,390)	(20,935)	(5,139,182)	(158,960)		
Impairment loss		(698,849)	(22,087)	(208,971)	(6,464)		
Provision for premiums reserve		(74,380,735)	(2,350,845)	(72,852,655)	(2,253,407)		
Net other non-interest income		472,420	14,931	2,763,595	85,481		
Subtotal		35,765,663	1,130,394	36,754,607	1,136,858		
Provision for loan losses		(855,007)	(27,023)	(8,927,651)	(276,141)		
Operating expenses							
Personnel expenses		(17,171,563)	(542,717)	(18,086,604)	(559,437)		
Depreciation and amortizations expenses		(1,876,271)	(59,300)	(1,938,145)	(59,949)		
Other general and administration expenses		(3,796,827)	(120,001)	(3,900,563)	(120,649)		
Income from continuing operations before income taxes		12,065,995	381,353	3,901,644	120,682		
Income taxes (expense) benefit	2,22	(1,394,393)	(44,071)	(1,945,329)	(60,171)		
Consolidated income before cumulative effect of accounting principles		10,671,602	337,282	5,846,973	180,853		
Cumulative effect of changes in accounting principles		-	-	3,249,323	100,505		
Consolidated income		\$10,671,602	\$337,282	\$9,096,296	\$281,358		
Include:							
Parent company		\$10,639,315	\$336,262	\$8,980,158	\$277,766		
Minority interest		32,287	1,020	116,138	3,592		
Consolidated income		\$10,671,602	\$337,282	\$9,096,296	\$281,358		
Earnings per share (expressed in dollars) :	23						
Primary earnings per share:							
		Before income taxes	After income taxes	Before income taxes	After income taxes	Before income taxes	After income taxes
Consolidated income before cumulative effect of accounting principles		\$1.43	\$1.27	\$0.05	\$0.04	\$0.46	\$0.69
Cumulative effect of changes in accounting principles		-	-	-	-	0.51	0.38
Consolidated income		\$1.43	\$1.27	\$0.05	\$0.04	\$0.97	\$1.07
Fully-diluted earnings per share:							
Consolidated income before cumulative effect of accounting principles		\$1.41	\$1.24	\$0.04	\$0.04	\$0.47	\$0.68
Cumulative effect of changes in accounting principles		-	-	-	-	0.49	0.37
Consolidated income		\$1.41	\$1.24	\$0.04	\$0.04	\$0.96	\$1.05

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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
 Consolidated statements of changes in stockholders' equity
 For the six months ended June 30, 2005 and 2006
 (Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings								Other stockholders' equity										Total						
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		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 \$	NT \$	US \$	NT \$	US \$	NT \$	US \$			
Balance on January 1, 2005	\$83,167,130	\$2,628,544	\$-	\$-	\$58,955,649	\$1,863,327	\$3,026,715	\$95,661	\$122,653	\$3,877	\$30,640,997	\$968,426	\$3,048	\$96	\$96,005	\$3,034	\$110,435	\$3,490	\$354,955	\$11,219	\$5,560	\$176	\$-	\$-	\$175,349,237	\$5,542,012			
Minority interest-first time inclusion of subsidiaries																							2,431,995	76,866	2,431,995	76,866			
Appropriations and distribution for 2004																													
Legal reserve							2,982,716	94,270			(2,982,716)	(94,270)														-	-		
Special reserve									103,926	3,284	(103,926)	(3,284)															-	-	
Cash dividends											(21,187,333)	(669,638)														(21,187,333)	(669,638)		
Remuneration paid to directors and supervisors											(5,700)	(181)														(5,700)	(181)		
Bonus paid to employees											(2,120)	(67)														(2,120)	(67)		
Convertible notes converted into common stock	1,591,784	50,309			6,908,363	220,239																				8,560,147	270,548		
Capital surplus					1,009	32																				1,009	32		
Cumulative conversion adjustments															957	30										957	30		
Unrealized gains or losses of financial instruments																	105,474	3,333								105,474	3,333		
Treasury stock					(16,599)	(525)														208,734	6,598					192,135	6,073		
Consolidated income for the six months ended June 30, 2005											10,639,315	336,262														32,287	1,020	10,671,602	337,282
Balance on June 30, 2005	\$84,758,914	\$2,678,853	\$-	\$-	\$65,908,422	\$2,083,073	\$6,009,431	\$189,931	\$226,579	\$7,161	\$16,998,517	\$537,248	\$3,048	\$96	\$95,048	\$3,004	\$4,961	\$157	\$146,221	\$4,621	\$5,560	\$176	\$2,464,282	\$77,886	\$176,117,403	\$5,566,290			
Balance on January 1, 2006	\$85,242,234	\$2,636,630	\$-	\$-	\$68,092,037	\$2,106,157	\$6,009,431	\$185,878	\$226,579	\$7,008	\$28,146,255	\$870,592	\$3,048	\$94	\$81,154	\$2,510	\$68,263	\$2,111	\$-	\$-	\$1,837	\$57	\$3,430,369	\$106,105	\$191,161,007	\$5,912,806			
Minority interest																							(159,757)	(4,941)	(159,757)	(4,941)			
Appropriations and distribution for 2005																													
Legal reserve							2,178,705	67,389			(2,178,705)	(67,389)															-	-	
Special reserve									(226,579)	(7,008)	226,579	7,008															-	-	
Cash dividends											(12,790,330)	(395,618)														(12,790,330)	(395,618)		
Stock dividend to be distributed			4,263,443	131,873							(4,263,443)	(131,873)															-	-	
Remuneration paid to directors and supervisors											(5,700)	(176)														(5,700)	(176)		
Bonus paid to employees											(1,707)	(53)														(1,707)	(53)		
Convertible notes converted into common stock	404,247	12,503			1,861,019	57,563																				2,265,266	70,066		
Land revaluation increment													(942)	(29)												(942)	(29)		
Cumulative conversion adjustments															(37,298)	(1,153)										(37,298)	(1,153)		
Unrealized gains or losses of financial instruments																	6,275,606	194,110								6,275,606	194,110		
Consolidated income for the six months ended June 30, 2006											8,980,158	277,766														116,138	3,592	9,096,296	281,358
Balance on June 30, 2006	\$85,646,481	\$2,649,133	\$4,263,443	\$131,873	\$69,953,056	\$2,163,720	\$8,188,136	\$253,267	\$-	\$-	\$18,113,107	\$560,257	\$2,106	\$65	\$43,856	\$1,357	\$6,207,343	\$191,999	\$-	\$-	\$1,837	\$57	\$3,386,750	\$104,756	\$195,802,441	\$6,056,370			

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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

Consolidated statements of cash flows

For the six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated income	\$10,671,602	\$337,282	\$9,096,296	\$281,358
Adjustments:				
Depreciation and amortizations expenses	1,876,271	59,301	1,938,145	59,949
Investment income recognized by equity method excess of cash dividends received	198,369	6,270	495,051	15,312
Bad debt expenses -loans	855,007	27,023	8,927,651	276,141
Provision for premiums reserve from insurance business	74,380,735	2,350,845	72,852,655	2,253,407
Gain on disposal of property and equipment	466,423	14,741	(1,463,979)	(45,282)
Impairment loss	698,849	22,087	208,971	6,464
Cumulative effect of changes in accounting principles	-	-	(3,249,323)	(100,505)
Other adjustments	(1,367,840)	(43,231)	(340,999)	(10,547)
Change in operating assets and liabilities				
Decrease (increase) in receivables	1,386,058	43,807	(16,802,515)	(519,719)
Increase in deferred income tax assets	(291,424)	(9,211)	(4,384,216)	(135,608)
Decrease (increase) in financial assets at fair value through profit and loss	21,486,683	679,099	(3,717,909)	(114,999)
Increase in other financial assets	(74,481,554)	(2,354,031)	(9,699,755)	(300,023)
Decrease (increase) in other assets	1,958,470	61,898	(2,718,319)	(84,080)
(Decrease) increase in payables	(5,386,865)	(170,255)	7,982,265	246,899
Increase in financial liabilities at fair value through profit and loss	35,356,727	1,117,469	16,515,373	510,837
Decrease in deferred income tax liabilities	(272,814)	(8,622)	(397,810)	(12,305)
(Decrease) increase in other financial liabilities	(518,019)	(16,372)	36,815	1,139
Decrease in other liabilities	(380,654)	(12,031)	(5,334,003)	(164,986)
Net cash provided by operating activities	66,636,024	2,106,069	69,944,394	2,163,452
Cash flows from investing activities				
Restricted assets	(800,000)	(25,284)	(600,000)	(18,559)
Increase in loans	(19,188,168)	(606,453)	(31,408,829)	(971,507)
(Increase) decrease in due from the Central Bank and call loans to banks	(1,875,567)	(59,278)	14,194,670	439,056
Decrease in available-for-sale financial assets	605,465	19,136	3,361,141	103,964
Increase in held-to-maturity financial assets	(52,381,819)	(1,655,557)	(68,679,167)	(2,124,317)
Decrease in investments under -equity method	163,137	5,156	2,031,123	62,825
Increase investments in real estate	(867,700)	(27,424)	(2,705,034)	(83,670)
(Disposal) acquisition of property and equipment	(478,537)	(15,124)	902,240	27,907

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT \$	US \$	NT \$	US \$
Decrease in securities purchased under agreements to resell	-	-	380,787	11,778
Decrease (increase) in other financial assets	17,012,263	537,682	(41,527,337)	(1,284,483)
Increase in other assets	(1,779,259)	(56,235)	(137,042)	(4,239)
Net cash used in investing activities	(59,590,185)	(1,883,381)	(124,187,448)	(3,841,245)
Cash flows from financing activities				
(Decrease) increase in due to the Central Bank and call loans from banks	(5,326,647)	(168,352)	35,026,860	1,083,417
Increase in deposits	28,336,631	895,595	20,533,322	635,117
Decrease in securities sold under agreements to repurchase	-	-	(5,018,688)	(155,233)
Increase (decrease) in banker's acceptances and funds borrowed	679,977	21,491	(8,875)	(275)
Decrease in bonds payable	(255,962)	(8,090)	(1,636,399)	(50,616)
(Decrease) increase in other financial liabilities	(1,737,935)	(54,928)	588,151	18,192
Increase in other liabilities	3,405	107	27,309	845
Cash dividends	(900)	(28)	(241)	(7)
Disposal of treasury stock	192,134	6,072	-	-
Bonus paid to employees	(11,205)	(354)	(901)	(28)
Capital increase from cash	150,000	4,741	-	-
Net cash provided by financing activities	22,029,498	696,254	49,510,538	1,531,412
Effects of exchange rate changes	559,524	17,684	(325,938)	(10,082)
Increase (decrease) in cash and cash equivalents	29,634,861	936,626	(5,058,454)	(156,463)
Cash and cash equivalents at the beginning of period	249,694,460	7,891,734	326,856,362	10,110,002
Cash and cash equivalents at the end of period	\$279,329,321	\$8,828,360	\$321,797,908	\$9,953,539
Supplemental disclosure of cash flows information				
Interest paid during the period (excluding capitalized interest)	\$5,732,485	\$181,178	\$8,921,814	\$275,961
Income tax paid	\$709,685	\$22,430	\$3,850,861	\$119,111
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$8,560,147	\$270,548	\$2,265,266	\$70,067

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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 consolidated financial statements
(Expressed in thousands of dollars except
for share and per share data and unless otherwise stated)
June 30, 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”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. As of June 30, 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 Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of June 30, 2005 and 2006, the total numbers of the employees of the Company and its subsidiaries were 32,020 and 33,620, respectively.

Lucky Bank and Pao Shin Securities were excluded from the consolidation as of June 30, 2005 as both investments were acquired during the period between June 30, 2005 and June 30, 2006. Lin Yuan Property Management Co., Ltd was excluded from the consolidation as of June 30, 2006 as 80% of the capital held by Cathay Life Insurance Co., Ltd in Lin Yuan Property Management Co., Ltd was disposed on January 13, 2006 and hence Cathay Life Insurance Co., Ltd lost its control over Lin Yuan Property Management Co., Ltd. As of and for the six months ended June 30, 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	Commercial banking operations	100%	Cathay United Bank, 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 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 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、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 United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50%	Indovina Bank was incorporated in Vietnam on October 29, 1992.

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Investors	Investees	Business	Ownership interest	Notes
Cathay United Bank · Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Further related business	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. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.
Cathay United Bank	Seaward Leasing Ltd. (“Seaward Leasing”)	Leasing for all kinds of equipments	100%	Seaward Leasing was incorporated on February, 1996, under the Company Law. As of June 30, 2006, all Seaward Leasing shares held by Cathay United Bank were disposed.
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 April 10, 2006, all Pao Shin Securities shares held by Lucky Bank were disposed.

As of and for the six months ended June 30, 2005 and 2006, the consolidated financial statements excluded following subsidiaries due to 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	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	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	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. As of June 30, 2006, all Seaward Leasing shares held by Cathay United Bank were disposed and therefore the Company lost control over China England.

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 significant 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 or 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 or 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 or loss are categorized as held for trading or designated as at fair value through profit or 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

Financial assets measured at initial cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss will be recognized. The impairment loss can not be reversed.

G. Financial liabilities

The Company uses amortized cost for subsequent valuation of financial liabilities, except for “financial liabilities at fair value through profit or 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.

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

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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.

Hedging instruments are subsequently measured at fair value or the gains (losses) resulting from the exchange rate changes are recognized in current period earnings by to the Statements of Financial Accounting Standards No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements".

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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.

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

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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 and its subsidiaries have considered the impact of the “Alter native Minimum Tax Act” to estimate its income tax liabilities.

(22) Capital expenditure

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 June 30, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$31.64 and NT\$32.33 provided by Federal Reserve Bank of New York of June 30, 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 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.

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.

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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.
- 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.

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- 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”).

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The above change in accounting principles increased consolidated assets, liabilities and stockholders' equity by NT\$16,386,601 (US\$506,854), NT\$2,488,601 (US\$76,975) and NT\$10,648,677 (US\$329,374) as of January 1, 2006, respectively, and increased consolidated net income and earnings per share by NT\$3,249,323 (US\$100,505) and NT\$0.38 (US\$0.01), respectively, for the six months ended June 30, 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 decrease investment under equity method by NT\$1,372 (US\$42) as of June 30, 2006, and decrease consolidated net income by NT\$1,372 (US\$42) for the six months ended June 30, 2006. The Company considers the effect insignificant to its financial statements.

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 the increases of investment under-equity method by NT\$21,554 (US\$681), cumulative conversion adjustments by NT\$347 (US\$11), capital surplus decrease by NT\$97 (US\$3) unrealized valuation losses on investment under-equity decrease by NT\$27,230 (US\$861) and a decrease in net income for the six months ended June 30, 2005 by NT\$5,926 (US\$187). The Company considers 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\$199,599 (US\$6,308), NT\$183,801 (US\$5,809) and NT\$295,449 (US\$9,338) as of June 30, 2005, respectively, due to the change of accounting principles under ROC SFAS No. 35. Net income of the Company decreased NT\$678,849 (US\$21,455) for the six months ended June 30, 2005. Such effect is insignificant to the Company financial statement.

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4. Cash and cash equivalents

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Petty cash and cash on hand	\$9,731,937	\$307,583	\$11,485,180	\$355,248
Cash in banks	47,488,018	1,500,885	6,802,621	210,412
Time deposits	133,140,745	4,207,988	242,938,596	7,514,340
Cash equivalents	78,675,822	2,486,594	38,332,027	1,185,649
Checks for clearance	5,529,466	174,762	5,885,076	182,031
Due from commercial banks	4,763,333	150,548	16,354,408	505,859
Total	<u>\$279,329,321</u>	<u>\$8,828,360</u>	<u>\$321,797,908</u>	<u>\$9,953,539</u>

5. Financial assets at fair value through profit and loss

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Common stock	\$30,022,945	\$948,892	\$23,056,282	\$713,155
Mutual funds	43,725,293	1,381,962	55,573,728	1,718,952
Commercial papers	6,412,625	202,675	10,693,532	330,762
Corporate bonds	732,697	23,157	804,975	24,899
Government bonds	58,926,388	1,862,402	49,354,757	1,526,593
Overseas financial instruments	26,859,396	848,906	19,000,024	587,690
Financial debentures	525,324	16,603	518,779	16,047
Derivative financial instruments	6,694,801	211,593	3,874,436	119,840
Call options	-	-	11	-
Adjustment of valuation	(10,737)	(339)	7,803,008	241,355
Total	<u>\$173,888,732</u>	<u>\$5,495,851</u>	<u>\$170,679,532</u>	<u>\$5,279,293</u>

As of June 30, 2005 and 2006, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$28,667,700 (US\$906,059) and NT\$8,494,700 (US\$262,750), respectively. Such repurchase agreements amounting of NT\$30,742,828 (US\$971,644) and NT\$8,475,636 (US\$262,160), respectively, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements entered prior to June 30, 2005 and 2006 are settled at NT\$30,795,857 (US\$973,320) and NT\$8,480,454 (US\$262,309) prior to December, 2005 and July, 2006, respectively.

As of June 30, 2005, the above financial assets were valued at the lower of cost or market value.

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6. Loans-net

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Inward-outward documentary bills	\$858,196	\$27,124	\$623,566	\$19,288
Loans	1,059,338,942	33,481,003	1,150,096,797	35,573,671
Overdrafts	397,338	12,558	636,324	19,682
Discounted	5,937,544	187,659	7,052,149	218,130
Delinquent accounts	6,757,053	213,561	9,012,234	278,758
Subtotal	1,073,289,073	33,921,905	1,167,421,070	36,109,529
Less: Allowance for bad debts	(8,645,888)	(273,258)	(12,279,111)	(379,806)
Total	\$1,064,643,185	\$33,648,647	\$1,155,141,959	\$35,729,723

7. Available-for-sale financial assets-net

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Common stock	\$80,161,116	\$2,533,537	\$67,411,914	\$2,085,120
Mutual funds	1,858,801	58,748	3,055,675	94,515
Government bonds	50,732,162	1,603,419	46,522,293	1,438,982
Corporate bonds	11,248,342	355,510	34,412,710	1,064,420
Financial debentures	14,438,705	456,343	28,613,587	885,047
Overseas financial instruments	118,300,686	3,738,960	89,243,590	2,760,396
Real estate investment trust	-	-	3,302,115	102,138
Adjustment of valuation	(1,786)	(56)	5,757,566	178,087
Total	\$276,738,026	\$8,746,461	\$278,319,450	\$8,608,705

As of June 30, 2006, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$18,720,400 (US\$579,041). Such repurchase agreements amounting of NT\$20,360,571 (US\$629,773) were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements entered prior to June 30, 2006 will be settled at NT\$20,396,183 (US\$630,875) prior to December, 2006.

As of June 30, 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

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Government bonds	\$18,225,261	\$576,020	\$14,120,653	\$436,766
Corporate bonds	8,438,403	266,700	8,095,991	250,417
Financial debentures	7,924,282	250,451	16,520,634	511,000
Overseas financial instruments	349,752,042	11,054,110	485,451,969	15,015,527
Collateralized loans obligation and collateralized bonds obligation	110,417	3,490	9,454,009	292,422
Short-term notes	98,702	3,120	4,494,949	139,034
Subtotal	384,549,107	12,153,891	538,138,205	16,645,166
Less: Accumulated impairment	-	-	(2,006)	(62)
Total	<u>\$384,549,107</u>	<u>\$12,153,891</u>	<u>\$538,136,199</u>	<u>\$16,645,104</u>

As of June 30, 2005, the above financial assets were valued at the lower of cost or market value.

9. Investments under equity method

Investee	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$29,710	\$939	\$104,103	\$3,220
Cathay Capital Management	23,103	730	40,610	1,256
Seaward Card	49,097	1,552	38,463	1,190
Cathay Property Insurance Agent	8,800	278	8,469	262
Cathay Life Insurance Agent	78,702	2,487	63,194	1,955
Cathay Insurance (Bermuda)	59,492	1,880	66,403	2,054
WK Technology Fund VI Co., Ltd	361,530	11,426	399,071	12,344
Vista Technology Venture Capital Corp.	62,222	1,967	55,943	1,730
Omnitek Venture Capital Corp.	161,420	5,102	343,716	10,631
Wa Tech Venture Capital Co., Ltd.	148,434	4,691	164,617	5,092
Taiwan Real-estate Management Corp.	20,612	652	17,341	536
Taiwan Finance Corp.	1,354,722	42,817	1,331,698	41,191
IBT Venture Capital Corp.	508,247	16,063	597,809	18,491
Cathay Securities Investment Trust Co., Ltd.	219,630	6,942	240,964	7,453
Subtotal	3,085,721	97,526	3,472,401	107,405
Less: Unrealized gain from intercompany transactions	(31,846)	(1,007)	-	-
Total	<u>\$3,053,875</u>	<u>\$96,519</u>	<u>\$3,472,401</u>	<u>\$107,405</u>

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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 six months ended June 30, 2005 and 2006 were recognized based on the investees' unaudited financial statements or audited by other auditors financial statements. No material adjustments are expected if those financial statements have been reviewed.

10. Other financial assets-net

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial assets for hedging	\$-	\$-	\$326,925	\$10,112
Financial assets carried at cost	27,796,497	878,524	26,634,866	823,844
Separate account products assets	54,680,713	1,728,215	120,707,974	3,733,621
Structured time deposits	3,000,000	94,817	15,350,000	474,791
Customer's margin accounts	1,053,741	33,304	1,193,986	36,931
Bills purchased	5,826	184	8,361	259
Other miscellaneous financial assets	716,179	22,635	920,611	28,476
Accumulated impairment	-	-	(779,561)	(24,113)
Total	<u>\$87,252,956</u>	<u>\$2,757,679</u>	<u>\$164,363,162</u>	<u>\$5,083,921</u>

11. Investments in real estate

Item	June 30, 2005									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$113,453,569	\$3,585,764	\$4,563	\$144	\$(14,088,344)	\$(445,270)	\$(199,599)	\$(6,308)	\$99,170,189	\$3,134,330
Construction	2,271,545	71,793	-	-	-	-	-	-	2,271,545	71,793
Leased assets	714,640	22,587	-	-	(22,193)	(702)	-	-	692,447	21,885
Total	<u>\$116,439,754</u>	<u>\$3,680,144</u>	<u>\$4,563</u>	<u>\$144</u>	<u>\$(14,110,537)</u>	<u>\$(445,972)</u>	<u>\$(199,599)</u>	<u>\$(6,308)</u>	<u>\$102,134,181</u>	<u>\$3,228,008</u>

Item	June 30, 2006									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$118,227,310	\$3,656,892	\$4,215	\$130	\$(13,806,156)	\$(427,039)	\$(196,952)	\$(6,092)	\$104,228,417	\$3,223,891
Construction	708,633	21,919	-	-	-	-	-	-	708,633	21,919
Leased assets	218,700	6,764	-	-	(14,609)	(451)	-	-	204,091	6,313
Total	<u>\$119,154,643</u>	<u>\$3,685,575</u>	<u>\$4,215</u>	<u>\$130</u>	<u>\$(13,820,765)</u>	<u>\$(427,490)</u>	<u>\$(196,952)</u>	<u>\$(6,092)</u>	<u>\$105,141,141</u>	<u>\$3,252,123</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, 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 as following:

Cathay Life transferred the risk and returns of ownership of the real estate property to the assignee and recognized the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$266,865).

After the REIT was issued, the sponsor and related parties of Cathay life did not participate in the original offering. Instead, Cathay life bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding should be treated as a part of unsold real estate. Cathay life had deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of June 30, 2006, Cathay life ownership was under the 20% of REIT fund’s outstanding securities. Thus, the amount of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,869) has been recognized in current.

12. Commercial paper payable

Item	June 30, 2005			
	Rate	Amount(NT\$)	Amount(US\$)	Collaterals
E. Sun Bills financial Corp.	1.24%	\$150,000	\$4,741	None
Taching Bills finance Ltd.	1.21%	60,000	1,897	None
Hua Nan Bills finance Corp.	0.87%	80,000	2,528	None
Taishin Bills finance Corp.	1.00%	150,000	4,741	None
Grand Bills financial Corp.	1.05%-1.10%	180,000	5,689	Real estate
Union Bills financial Corp.	0.81%	120,000	3,793	Real estate
Great Chinese Bills finance Corp.	1.20%	120,000	3,793	Real estate
Chinatrust Bills financial Corp.	1.05%	80,000	2,528	Real estate
China Bills finance Corp.	1.20%	250,000	7,901	Real estate
Mega Bills finance Crop.	1.20%-1.21%	250,000	7,901	Real estate
Total		1,440,000	45,512	
Less: unamortized discount		(1,489)	(47)	
Net		<u>\$1,438,511</u>	<u>\$45,465</u>	

As of June 30, 2006, all commercial paper payable had been repaid.

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13. Financial liabilities at fair value through profit and loss

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial instruments	\$1,807,823	\$57,137	\$4,697,664	\$145,303
Securities purchased under agreements to resell-securities financing	-	-	685,817	21,213
Financial debentures	39,700,000	1,254,741	38,665,358	1,195,959
Subordinated financial debentures	10,000,000	316,056	10,044,123	310,675
Adjustment of valuation	-	-	17,500,087	541,296
Total	<u>\$51,507,823</u>	<u>\$1,627,934</u>	<u>\$71,593,049</u>	<u>\$2,214,446</u>

On May 23, 2002, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$5,000,000 (US\$154,655) with a stated interest rate of 4.15%, and the interest is payable annually. Subsequently on September 10, 2002, Cathay United Bank issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$154,655) with a floating interest rate or inverse floating interest rate and the interest is paid semi-annually. 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.

On June 20, 2003, Cathay United Bank issued five-year and six-month financial debentures totaling NT\$5,000,000 (US\$154,655) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued five-year financial debentures totaling NT\$3,200,000 (US\$98,979), NT\$2,700,000 (US\$83,514) and NT\$1,800,000 (US\$55,676), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank issued six-year financial debentures totaling NT\$2,000,000 (US\$61,862) with a floating interest rate. These financial debentures are repayable at maturity and the interest is payable quarterly or semi-annually.

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On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year financial debentures totaling NT\$1,000,000 (US\$30,931), NT\$3,500,000 (US\$108,259), NT\$2,000,000 (US\$61,862), and NT\$1,000,000 (US\$30,931), 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 semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year financial debentures totaling NT\$2,500,000 (US\$77,328), NT\$1,500,000 (US\$46,397), NT\$1,500,000 (US\$46,397), NT\$2,500,000 (US\$77,328), NT\$1,500,000 (US\$46,397), NT\$2,500,000 (US\$77,328), NT\$1,000,000 (US\$30,931) and NT\$1,000,000 (US\$30,931), NT\$2,000,000 (US\$61,862), NT\$1,500,000 (US\$46,397), 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.

14. Deposits

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Check deposits	\$10,121,900	\$319,908	\$12,120,704	\$374,906
Demand deposits	126,162,162	3,987,426	138,051,102	4,270,062
Savings deposits	473,788,976	14,974,367	569,552,184	17,616,832
Time deposits	133,831,567	4,229,822	176,508,903	5,459,601
Remittances payable	287,909	9,100	379,894	11,750
Total	\$744,192,514	\$23,520,623	\$896,612,787	\$27,733,151

15. Bonds payable

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Subordinated financial debentures	\$2,350,000	\$74,273	\$18,582,500	\$574,776
Discount in financial debentures	-	-	(110,141)	(3,407)
Bonds payable	15,238,962	481,636	11,172,574	345,579
Adjustment of valuation	-	-	(1,189,661)	(36,797)
Total	\$17,588,962	\$555,909	\$28,455,272	\$880,151

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On April 28, 2003, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$72,688) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

Cathay United Bank 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 semi-annually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank 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.

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).

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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.

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.

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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.

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 June 30, 2006, the Company has converted US\$397,022 convertible notes at conversion price of NT\$54.15 (US\$1.67) or NT\$51.94 (US\$1.61) per share, into 257,159 thousand common stocks. The redemption premiums payable and additional paid-in capital of this conversion amounted to NT\$11,351,523 (US\$351,114), which are recognized as capital surplus. As of June 30, 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.

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16. Reserve for operations and liabilities

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Reserve for insurance business	\$1,564,979,183	\$49,462,048	\$1,731,980,612	\$53,571,933
Reserves for losses on guarantees	28,554	902	28,647	886
Reserves for losses on stock brokerage transactions	6,587	208	13,383	414
Reserves for losses on trading securities	146,941	4,644	146,806	4,541
Total	<u>\$1,565,161,265</u>	<u>\$49,467,802</u>	<u>\$1,732,169,448</u>	<u>\$53,577,774</u>

17. Other financial liabilities

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial liabilities for hedging	\$-	\$-	\$1,300,695	\$40,232
Borrowed funds	311,510	9,845	313,585	9,700
Separate account products liabilities	54,680,714	1,728,215	120,707,975	3,733,621
Short-term debts	1,080,000	34,134	-	-
Total	<u>\$56,072,224</u>	<u>\$1,772,194</u>	<u>\$122,322,255</u>	<u>\$3,783,553</u>

Short-term debts are credit loans. The interest rates were 1.43%-1.48% for the six months ended June 30, 2005.

18. Common stock

As of June 30, 2005 and 2006, the numbers of common stock with a par value of NT\$10 (US\$0.3) shares issued, were 8,475,891 thousand shares and 8,564,648 thousand shares, respectively.

The undistributed earnings recapitalization of NT\$4,263,443 (US\$131,873) thousand by issuing 423,344 thousand shares with par value of NT\$10 (US\$0.3) was resolved by the Company's stockholders' meeting on June 9, 2006 and approved by the 79 Securities and Futures Bureau on June 30, 2006. The recapitalization record date was August 14, 2006.

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\$65,908,422 (US\$2,083,073) and NT\$69,953,056 (US\$2,163,720) as of June 30, 2005 and 2006. Before conversion into a financial holding company, NT\$267,215 (US\$8,265) 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 earnings is allowed to be distributed as cash dividends.
- (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.

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- B. On June 9, 2006, the stockholders' meeting resolved the distribution of earnings of NT\$2.0 (US\$0.06) per share for the year ended December 31, 2005. The cash and stock dividends with cut-off dates are NT\$1.5 (US\$0.05) and NT\$0.5 (US\$0.02) on July 17 and August 14, 2006, respectively.
- C. 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 NT\$2.5 (US\$0.08) per common share and such dividends were paid on July 11, 2005.
- D. The Company is required to pay an extra 10% in the forthcoming tax year for undistributed earnings.
- E. 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 stockholders' equity from current year's earnings after tax or prior years' undistributed earnings. However, contra accounts in prior years' accumulated stockholders' equity should only be provided from prior years' undistributed earnings. If a reversal of stockholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.
- F. 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.
- G. 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 special reserve since 2007.

21. Treasury stock

- (1) The Company has no treasury stock for the six months ended June 30, 2006.
- (2) The following is a summary of the movement of treasury stock for the six months ended June 30, 2005.

Reason for acquisition	In thousands of shares				Book value		Book value Per share		Market value Per share	
	January 1, 2005	Increase	Decrease	June 30, 2005	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares held by subsidiaries	6,897	-	3,397	3,500	\$146,221	\$4,621	\$41.77	\$1.32	\$61.18	\$1.93

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(3) As of June 30, 2005, the Companies' stocks held by subsidiaries are illustrated as follows:

Name	Holding share (in thousands of shares)	Amount (NT\$)	Amount (US\$)	Cause	Limitation on retained earnings	Time limit prescribed by law	proposal determined by the board of directors
Cathay United Bank	3,500	\$210,810	\$6,663	Holding other subsidiaries stock by conversion	None	Within three years	None

22. Estimated income taxes

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Expected income tax payable	\$1,252,968	\$39,601	\$1,909,365	\$59,059
Plus: Interest income of tax on a separate basis	237,557	7,508	646,294	19,991
Extra 10% income tax on undistributed retained earnings	372,302	11,767	259,353	8,022
Income basic tax payable	-	-	13,656	422
Allocation of the cumulative effect of changes in accounting principles	-	-	763,130	23,604
Less: Income tax credit	(4,255)	(134)	(8,780)	(272)
Deferred income tax benefits	(168,640)	(5,330)	(4,387,888)	(135,722)
Tax effects under consolidated income tax return	(308,716)	(9,757)	(1,441)	(44)
Dissimilitude on estimate tax from prior years	14,081	445	(546,274)	(16,897)
Operating loss carryforwards	(904)	(29)	(592,744)	(18,334)
Total income tax expenses (benefits)	<u>\$1,394,393</u>	<u>\$44,071</u>	<u>\$(1,945,329)</u>	<u>\$(60,171)</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.

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(2) Income tax returns:

		June 30, 2006	
	Income tax returns assessed		Notes
The Company	through 2001		-
Cathay Life	through 2001		-
Cathay United Bank	through 2001	Cathay United Bank 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 for the years 1999 and 2001 in 2005.	
Former Cathay United Bank	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 2004		-
Lucky Bank	through 2003		-
Cathay venture	through 2003		-

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(3) Information related tax imputation:

A. Balance of imputation credit account

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
The Company	\$1,097,249	\$34,679	\$2,012,764	\$62,257
Cathay Life	63,265	2,000	88,763	2,746
Cathay United Bank	106,426	3,364	145,506	4,501
Cathay Century	61	2	68	2
Cathay Securities	3,106	98	6,524	202
Cathay Pacific Venture	345	11	407	13
Cathay Venture	13,575	429	18,124	561
Cathay II Venture	1,256	40	4,595	142
Lin Yuan Property Management	14,381	455	-	-
Cathay Futures	9,462	299	12,282	380
Seaward Leasing	68,585	2,168	-	-
Lucky Bank	-	-	4,373	135

B. Imputation credit account ratio

	For the six months ended June 30,	
	2005 (Actual)	2006 (Actual)
The Company		
-cash dividends	7.58%	11.97%
-stock dividends	-	11.96%
Cathay Life	9.52%	7.33%
Cathay United Bank		
-cash dividends	1.04%	13.98%
-stock dividends	3.28%	-
Cathay Century	1.83%	1.73%
Cathay Securities	-	14.45%
Cathay II Venture	-	33.33%
Seaward Leasing	31.58%	-
Cathay Futures	33.33%	-
Lin Yuan Property Management Co., Ltd.	33.33%	-

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(4) Information relating of undistributed earnings:

Year	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Prior to 1997	\$267,215	\$8,446	\$267,215	\$8,265
After 1998	6,359,202	200,986	9,132,949	282,492
Total	<u>\$6,626,417</u>	<u>\$209,432</u>	<u>\$9,400,164</u>	<u>\$290,757</u>

- A. Undistributed earnings after 1998 did not include the net income from January 1 to June 30, 2005 and 2006.
- B. The undistributed earnings prior to 1997 which derived from the undistributed 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 six months ended June 30, 2005								
	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Primary earnings per share:									
Consolidated income	\$12,065,995	\$381,353	\$10,671,602	\$337,282	8,410,401	<u>\$1.43</u>	<u>\$0.05</u>	<u>\$1.27</u>	<u>\$0.04</u>
Effect of potentially dilutive common stock:									
Convertible notes payable	<u>287,187</u>	<u>9,077</u>	<u>215,390</u>	<u>6,807</u>	<u>337,839</u>				
Fully-diluted earnings per share:									
Consolidated income	<u>\$12,353,182</u>	<u>\$390,430</u>	<u>\$10,886,992</u>	<u>\$344,089</u>	<u>8,748,240</u>	<u>\$1.41</u>	<u>\$0.04</u>	<u>\$1.24</u>	<u>\$0.04</u>

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For the six months ended June 30, 2006

	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Primary earnings per share:									
Income from continuing operations before									
income taxes	\$3,901,644	\$120,682	\$5,846,973	\$180,853	8,528,104	\$0.46	\$0.01	\$0.69	\$0.02
Cumulative effect of changes in accounting									
principles	4,332,431	134,006	3,249,323	100,505	8,528,104	0.51	0.02	0.38	0.01
Consolidated income	8,234,075	254,688	9,096,296	281,358	8,528,104	<u>\$0.97</u>	<u>\$0.03</u>	<u>\$1.07</u>	<u>\$0.03</u>
Effect of potentially dilutive common stock:									
Convertible notes payable	195,469	6,046	146,602	4,534	236,593				
Fully-diluted earnings per share:									
Consolidated income	<u>\$8,429,544</u>	<u>\$260,734</u>	<u>\$9,242,898</u>	<u>\$285,892</u>	<u>8,764,697</u>	<u>\$0.96</u>	<u>\$0.03</u>	<u>\$1.05</u>	<u>\$0.03</u>

The stock dividend distribution cut-off date for the first half year of 2006 is after the financial statements reporting date and therefore the retroactively adjusted EPS is as follows:

For the six months ended June 30, 2005

	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Primary earnings per share:									
Consolidated income	\$12,065,995	\$381,353	\$10,671,602	\$337,282	8,836,745	<u>\$1.37</u>	<u>\$0.04</u>	<u>\$1.21</u>	<u>\$0.04</u>
Effect of potentially dilutive common stock:									
Convertible notes payable	287,187	9,077	215,390	6,807	354,731				
Fully-diluted earning per share:									
Consolidated income	<u>\$12,353,182</u>	<u>\$390,430</u>	<u>\$10,886,992</u>	<u>\$344,089</u>	<u>9,191,476</u>	<u>\$1.34</u>	<u>\$0.04</u>	<u>\$1.18</u>	<u>\$0.04</u>

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For the six months ended June 30, 2006

	Amount (Numerator)				Shares (in thousands of shares) (denominator)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
Primary earnings per share:									
Income from continuing operations before									
income taxes	\$3,901,644	\$120,682	\$5,846,973	\$180,853	8,954,448	\$0.44	\$0.01	\$0.66	\$0.02
Cumulative effect of changes in accounting									
principles	4,332,431	134,006	3,249,323	100,505	8,954,448	0.48	0.02	0.36	0.01
Consolidated income	8,234,075	254,688	9,096,296	281,358	8,954,448	<u>\$0.92</u>	<u>\$0.03</u>	<u>\$1.02</u>	<u>\$0.03</u>
Effect of potentially dilutive common stock:									
Convertible notes payable	195,469	6,046	146,602	4,534	248,423				
Fully-diluted earnings per share:									
Consolidated income	<u>\$8,429,544</u>	<u>\$260,734</u>	<u>\$9,242,898</u>	<u>\$285,892</u>	<u>9,202,871</u>	<u>\$0.92</u>	<u>\$0.03</u>	<u>\$1.00</u>	<u>\$0.03</u>

24. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	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
Lucky Bank	Subsidiary of the Company
Cathay Capital Management	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company
Cathay Life (Shanghai)	Subsidiary of the Company
Symphox Information	Subsidiary of the Company
Pao Shin Securities	Subsidiary of the Company (Sold to a non-related party on April 10, 2006)
Cathay Futures	Subsidiary of the Company
Seaward Leasing	Subsidiary of the Company (Became affiliated after June 30, 2006)
Indovina Bank	Subsidiary of the Company

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Name	Relationship
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
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
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 Company's chairman
Taipei Smart Card Corp.	Investee company of Cathay United Bank
Culture and Charity Foundation of the CUB	Cathay United Bank is the major sponsor of the foundation
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
China England Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Real Estate Management Corp.	Affiliate
Cathay Charity Foundation	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Industrial and Commercial Bank of Vietnam	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Co., Ltd.	Affiliate
Other related parties	Includes chairmans, managers, their spouses and linear relatives

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(2) Significant transactions with related parties:

A. Cash in banks

For the six months ended June 30, 2005						
Relationship	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$12,283	\$380	0.72%-1.44%	\$226	\$7

For the six months ended June 30, 2006						
Relationship	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$1,666	\$53	0.72%-1.44%	\$77	\$2

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

Name	For the six months ended June 30,								
	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	\$377	\$12	\$-	\$-	\$5,442	\$168	\$-	\$-	

C. Financial assets at fair value through profit or loss

Name	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$5,133,751	\$162,255	\$6,219,878	\$192,387

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D. Receivables

	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$13,290	\$420	\$2,958	\$91
Cathay Securities Investments	46	1	53	2
Cathay Capital Management	4,985	158	6,714	208
Cathay General Hospital	15,196	480	604	19
Cathay Real Estate Development Co., Ltd.	555	18	4,770,327	147,551
Cathay Securities Investment Trust Co., Ltd.	503	16	428	13
Lin Yuan Property Management Co., Ltd.	-	-	740	23
San Ching Engineering Co., Ltd.	-	-	356	11
China England Co., Ltd.	-	-	54,560	1,687
Total	\$34,575	\$1,093	\$4,836,740	\$149,605

E. Loans

Name	For the six months ended June 30, 2005			
	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,321,146	\$2,321,013	2.60%-2.84%	\$30,809
Other related parties	1,651	1,593	2.66%	21
Total		\$2,322,606		\$30,830

Name	For the six months ended June 30, 2005			
	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$73,361	\$73,357	2.60%-2.84%	\$974
Other related parties	52	50	2.66%	1
Total		\$73,407		\$975

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For the six months ended June 30, 2006				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General				
Hospital	\$3,950,612	\$3,950,205	3.03%-3.23%	\$57,340
Other related parties	88,882	84,210	2.095%-3.14%	1,138
Total		\$4,034,415		\$58,478

For the six months ended June 30, 2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$122,196	\$122,184	3.03%-3.23%	\$1,774
Other related parties	2,749	2,605	2.095%-3.14%	35
Total		\$124,789		\$1,809

F. Loans and deposits

June 30,												
2005						2006						
Account	(NT\$)		% of account	Interest revenue (expense)		(NT\$)		(US\$)		% of account	Interest revenue (expense)	
	(NT\$)	(US\$)		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)			
Bills and loans	\$628,963	\$19,879	0.06%	\$10,374	\$328	\$2,886,107	\$89,270	0.25%	\$28,406	\$879		
Deposits	\$3,862,538	\$122,078	0.52%	\$(14,555)	\$(460)	\$5,370,398	\$166,112	0.60%	\$(26,092)	\$(807)		

G. 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 six months ended June 30, 2005			
Name	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$181,599	\$5,739
	Tianmu Base-A	2,659	84
	Cathay Golden & Sliver Bldg	3,791	120
	Sheraton Taipei Hotel	32,576	1,030
	Siangyang Building	4,222	133
	Cathay Land Mark	1,500	47
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	1,474	47
	Total	\$228,102	\$7,209

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Name	Item	For the six months ended June 30, 2006	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital	\$5,838	\$181
	Other	66	2
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building	4,398	136
	Li-Yuan Building	10,077	312
	Jhong Jheng Building	7,198	223
	International Building	1,279	40
	World commercial Building	1,393	43
	Financial Center Hsing-E	2,555	79
	Yuanlin Building	2,902	90
	Changhua 2nd Building	1,431	44
	Central industrial & Commercial Building	1,406	43
	Taipei Royalty Building	12,607	390
	Jhong Gang Building	9,124	282
	Cathay Building	8,919	276
	Tun Nan Commercial Building	2,618	81
	Min Sheng Chien Kuo Building	1,088	33
	Feng Chia Building	2,326	72
	Other	7,638	236
	Total	\$84,363	\$2,609

The total amount of the contracted projects for real estate as of June 30, 2005 and 2006 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$7,412,460 (US\$234,275) and NT\$1,233,866 (US\$38,165), respectively.

b. Cathay Life acquire of real estate information:

Cathay Life did not acquire any real estate from its related parties for the six months ended June 30, 2005.

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Name	Item	For the six months ended June 30, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	\$5,290,000	\$163,625
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	\$2,470,000	\$76,400

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

Name	Rental income			
	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$1,813	\$57	\$1,687	\$52
Cathay Capital Management	962	30	991	31
Cathay Real Estate Development Co., Ltd.	8,028	254	9,119	282
Cathay General Hospital	65,240	2,062	73,785	2,282
San Ching Engineering Co., Ltd.	3,784	120	3,728	115
Cathay Securities Investment Trust Co., Ltd.	5,928	187	6,426	199
Taiwan Asset Management Corporation	7,171	227	6,653	206
Taipei Smart Card Corp.	2,854	90	3,208	99
Culture and Charity Foundation of CUB	500	16	500	16
Total	\$96,280	\$3,043	\$106,097	\$3,282

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			
	June 30,			
	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	135	3,645	113
Cathay General Hospital	4,509	143	6,840	211
San Ching Engineering Co., Ltd.	2,009	63	1,709	53
Cathay Securities Investment Trust Co., Ltd.	2,738	87	2,738	85
Taiwan Asset Management Corporation	3,477	110	3,477	107
Total	\$18,375	\$581	\$19,765	\$611

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d. Real estate rental expense from Cathay Life, Cathay United Bank and Lin Yuan Property Management Co., Ltd.

Name	Rental expense			
	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	\$21,796	\$689	\$22,293	\$689
Lin Yuan Investment Co., Ltd.	2,275	72	1,053	33
Yi Ru Corporation	2,041	64	1,684	52
Total	\$26,112	\$825	\$25,030	\$774

Name	Guarantee deposits paid			
	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,439	\$393	\$12,318	\$381
Yi Ru Corporation	1,190	38	1,190	37
Lin Yuan Investment Co., Ltd.	628	20	628	19
Total	\$14,257	\$451	\$14,136	\$437

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

H. Other assets

Prepayment

Name	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$-	\$-	\$1,562	\$49
Yi Ru Corporation	-	-	462	14
Total	\$-	\$-	\$2,024	\$63

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

Name	For the six months ended June 30, 2005			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$2,643	\$6,152	\$84	\$194

Name	For the six months ended June 30, 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	\$249	\$91	\$8

J. Bankers acceptances and funds borrowed

Name	For the six months ended June 30, 2005			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Bank overdraft				
Industrial and Commercial				
Bank of Vietnam	\$300,266	\$- (Note)	\$9,490	\$- (Note)

Industrial and Commercial Bank of Vietnam did not bank overdraft from its related parties for the six month ended June 30, 2006.

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

K. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$130,436	\$4,122	\$-	\$-
Cathay Real Estate Development Co., Ltd.	-	-	19,976	618
Lin Yuan Investment Co., Ltd.	-	-	12,983	401
Other related parties	80,067	2,531	546,570	16,906
Total	\$210,503	\$6,653	\$579,529	\$17,925

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Name	For the six months ended June 30,			
	Interest expenses			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$1,348	\$42	\$200	\$6
Cathay Real Estate Development Co., Ltd.	2,330	74	497	15
Lin Yuan Investment Co., Ltd.	351	11	115	4
San Ching Engineering Co., Ltd.	-	-	8	-
Other related parties	561	18	2,910	90
Total	\$4,590	\$145	\$3,730	\$115

L. Payables

Name	June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Seaward Card	\$90,697	\$2,866	\$32,782	\$1,014
Lin Yuan Property Management Co., Ltd.	-	-	26,169	809
Industrial and Commercial Bank of Vietnam	47,490	1,501	60,060	1,858
Total	\$138,187	\$4,367	\$119,011	\$3,681

M. Net commission and handling fee

a. Handling fee Income

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$-	\$-	\$1,874	\$58
Cathay securities investment Trust Co., Ltd.	-	-	433	13
Total	\$-	\$-	\$2,307	\$71

b. Commissions expense

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$101,839	\$3,219	\$66,988	\$2,072
Cathay Property Insurance Agent	15,951	504	16,345	506
Total	\$117,790	\$3,723	\$83,333	\$2,578

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c. Reinsurance commissions expense

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$5,977	\$189	\$7,842	\$243

N. Net premiums from insurance business

a. Insurance income

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay General Hospital	\$14,745	\$466	\$15,084	\$467
Shanghai China Eastern Media Co., Ltd.	-	-	56	2
CEA Futures Brokerage Co., Ltd.	816	26	-	-
CEA Finance Holding Co., Ltd.	793	25	304	9
CEA Finance Co., Ltd.	1,355	43	-	-
Cathay Real Estate Development Co., Ltd.	1,322	42	1,392	43
San Ching Engineering Co., Ltd.	2,102	66	596	18
China Eastern Airlines Co., Ltd.	-	-	163,725	5,064
Cathay Securities Investment Trust Co., Ltd.	393	12	447	14
Other related parties	-	-	14,260	441
Total	\$21,526	\$680	\$195,864	\$6,058

b. Reinsurance income

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$47,482	\$1,501	\$71,063	\$2,198

c. Reinsurance claims payment

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$33,268	\$1,051	\$67,259	\$2,080

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O. Net other non-interest income

a. Sales

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay General Hospital	\$462	\$15	\$8,608	\$266
Cathay Securities Investment Trust Co., Ltd.	1,595	50	2,198	68
Lin Yuan Property Management Co., Ltd.	-	-	574	18
San Ching Engineering Co., Ltd.	243	8	348	11
Total	<u>\$2,300</u>	<u>\$73</u>	<u>\$11,728</u>	<u>\$363</u>

b. Service Income

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$-	\$-	\$7	\$-
Cathay General Hospital	51,350	1,623	3,612	112
Cathay Securities Investment Trust Co., Ltd.	1,422	45	649	20
Cathay Real Estate Development Co., Ltd.	18,760	593	395	12
Cathay Real Estate Management Corp.	-	-	4	-
Lin Yuan Investment Co., Ltd.	6,201	196	-	-
San Ching Engineering Co., Ltd.	557	17	217	7
Lin Yuan Property Management Co., Ltd.	-	-	459	14
Total	<u>\$78,290</u>	<u>\$2,474</u>	<u>\$5,343</u>	<u>\$165</u>

c. Miscellaneous income

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$3,368</u>	<u>\$106</u>	<u>\$6,146</u>	<u>\$190</u>

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P. Sale of securities

For the six months ended June 30, 2006						
Name	Securities	Shares (in thousand)	Amount		Gain on disposal	
			(NT\$)	(US\$)	(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,400	\$47,554	\$1,471	\$3,707	\$115
Cathay Real Estate Development Co., Ltd.	Seaward Leasing	200,000	3,180,000	98,361	1,323,466	40,936
Total			<u>\$3,227,554</u>	<u>\$99,832</u>	<u>\$1,327,173</u>	<u>\$41,051</u>

There were no related party transactions of securities for the six months ended June 30, 2005.

Q. Operating expense

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$26,250	\$830	\$26,250	\$812
Seaward Card	518,265	16,380	236,925	7,328
Cathay Pacific Management	20,000	632	34,354	1,063
Lin Yuan Property Management Co., Ltd.	-	-	352,214	10,894
Cathay Real Estate Development Co., Ltd.	6,627	209	6,723	208
San Ching Engineering Co., Ltd.	3,594	114	2,024	63
Cathay Charity Foundation	-	-	850	26
Cathay General Hospital	-	-	1,724	53
Total	<u>\$574,736</u>	<u>\$18,165</u>	<u>\$661,064</u>	<u>\$20,447</u>

R. Others

- a. 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\$1,170 (US\$37) and NT\$8,962(US\$277) during the six months ended June 30, 2005 and 2006, respectively.

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b. Cathay United Bank 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 six months ended June 30, 2005 and 2006, respectively.

c. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$6,865 (US\$217) and NT\$9,777 (US\$302) during the six months ended June 30, 2005 and 2006, respectively.

(3) The Company significant transactions with related parties

A. Cash in bank

		For the six months ended June 30, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$8,504,640	1.15%-3.02%	\$57,333
	Cash in bank	9,958	0.10%	27
	Total	<u>\$8,514,598</u>		<u>\$57,360</u>

		For the six months ended June 30, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$268,794	1.15%-3.02%	\$1,812
	Cash in bank	315	0.10%	1
	Total	<u>\$269,109</u>		<u>\$1,813</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,284,871	4.375%- 5.264%	\$78,653
	Cash in bank	1,266	0.10%-2.25%	41
	Total	<u>\$3,286,137</u>		<u>\$78,694</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$101,605	4.375%- 5.264%	\$2,433
	Cash in bank	39	0.10%-2.25%	1
	Total	<u>\$101,644</u>		<u>\$2,434</u>

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B. Receivable

Name	Item	June 30,			
		2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay United Bank	Consolidated income tax return, interest	\$1,533,741	\$48,474	\$5,764	\$178
Cathay Life	Consolidated income tax return	-	-	1,530,763	47,348
Cathay Century	Consolidated income tax return	79,416	2,510	122,498	3,789
Cathay Capital Management	Consolidated income tax return	4,985	158	6,714	208
Cathay Securities	Consolidated income tax return	-	-	4,385	136
Cathay II Venture	Consolidated income tax return	-	-	483	15
Total		<u>\$1,618,142</u>	<u>\$51,142</u>	<u>\$1,670,607</u>	<u>\$51,674</u>

C. Payable

Name	Item	June 30,			
		2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life	Consolidated income tax return	\$1,077,234	\$34,047	\$17,721	\$548
Cathay United Bank	Consolidated income tax return	571,606	18,066	1,387,683	42,922
Cathay Pacific Venture	Consolidated income tax return	7,041	223	3,054	95
Cathay II Venture	Consolidated income tax return	1,529	48	1,329	41
Cathay Securities	Consolidated income tax return	4,191	132	-	-
Total		<u>\$1,661,601</u>	<u>\$52,516</u>	<u>\$1,409,787</u>	<u>\$43,606</u>

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D. Operating expenses

Name	For the six months ended June 30,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life	\$5,026	\$159	\$5,048	\$156
Lin Yuan Property Management Co., Ltd.	-	-	609	19
Seaward Leasing	451	14	451	14
Total	<u>\$5,477</u>	<u>\$173</u>	<u>\$6,108</u>	<u>\$189</u>

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

A. Cathay Life

a. Cash in banks

		For the six months ended June 30,2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$17,166,250	0.00%-1.69%	\$130,225
Bank	Cash in bank	3,310,954	0.00%-1.05%	2,047
Total		<u>\$20,477,204</u>		<u>\$132,272</u>

		For the six months ended June 30,2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$542,549	0.00%-1.69%	\$4,116
Bank	Cash in bank	104,645	0.00%-1.05%	65
Total		<u>\$647,194</u>		<u>\$4,181</u>

		For the six months ended June 30,2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$1,459,750	1.05%-2.02%	\$81,710
Bank	Cash in bank	2,787,186	0.10%-2.25%	923
Total		<u>\$4,246,936</u>		<u>\$82,633</u>

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		For the six months ended June 30,2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposit	\$45,152	1.05%-2.02%	\$2,527
	Cash in bank	86,210	0.10%-2.25%	29
	Total	<u>\$131,362</u>		<u>\$2,556</u>

b. Accounts receivable

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding	<u>\$1,077,234</u>	<u>\$34,047</u>	<u>\$18,302</u>	<u>\$566</u>

c. Other financial assets – current

		For the six months ended June 30,2005		
Name	Ending balance (NT\$)	Rate	Interest income (NT\$)	
Cathay United Bank	<u>\$2,000,000</u>	0.12%-3.03%	<u>\$14,703</u>	

		For the six months ended June 30,2005		
Name	Ending balance (US\$)	Rate	Interest income (US\$)	
Cathay United Bank	<u>\$63,211</u>	0.12%-3.03%	<u>\$465</u>	

		For the six months ended June 30,2006		
Name	Ending balance (NT\$)	Rate	Interest income (NT\$)	
Cathay United Bank	<u>\$1,000,000</u>	1.80%	<u>\$4,438</u>	

		For the six months ended June 30,2006		
Name	Ending balance (US\$)	Rate	Interest income (US\$)	
Cathay United Bank	<u>\$30,931</u>	1.80%	<u>\$137</u>	

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d. Secured loans

For the six months ended June 30,2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,321,146	\$2,321,013	2.60%-2.84%	\$30,809

For the six months ended June 30,2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$73,361	\$73,357	2.60%-2.84%	\$974

For the six months ended June 30,2006				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$3,950,612	\$3,950,205	3.03%-3.23%	\$57,340

For the six months ended June 30,2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$122,196	\$122,184	3.03%-3.23%	\$1,774

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

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$4,818,376	\$152,287	\$5,850,365	\$180,958

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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 six months ended June 30, 2005 and 2006 are listed below:

Name	Item	For the six months ended June 30, 2005	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$181,599	\$5,740
	Tianmu Base-A	2,659	84
	Cathay Golden & Sliver Bldg	3,791	120
	Sheraton Taipei Hotel	32,576	1,030
	Siangyang Building	4,222	133
	Cathay Land Mark	1,500	47
	Other	281	9
	Total	\$226,628	\$7,163

Cathay Life did not undertaking contracted projects over 100 million from its related parties for the six months ended June 30, 2006.

The total amount of contracted projects for real estate as of June 30, 2005 and 2006 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$7,412,460 (US\$234,275) and NT\$1,233,866 (US\$38,165), respectively.

(b) Real estates acquired from related parties for the six months ended June 30, 2005 and 2006 are as follows:

Cathay Life did not acquire any real estates from its related parties for the six months ended June 30, 2005.

Name	Item	For the six months ended June 30, 2006	
		Contract price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	\$5,290,000	\$163,625
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	\$2,470,000	\$76,400

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g. Real estate rental from related parties for the six months ended June 30, 2005 and 2006 are as follows:

Name	Rental income			
	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	\$134,250	\$4,243	\$124,531	\$3,852

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

h. Guarantee deposits paid

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Futures	\$784,167	\$24,784	\$668,050	\$20,663

i. Other accounts payable

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$-	\$-	\$1,530,763	\$47,348

j. Insurance income

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	\$153,999	\$4,867	\$206,174	\$6,377

k. Miscellaneous income

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Century	\$251,300	\$7,942	\$184,391	\$5,703

The miscellaneous income was cross-selling income received of Cathay Life.

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l. Insurance expense

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Century	\$116,580	\$3,685	\$108,721	\$3,363

The insurance expense were insurance expense of fix assets cash, public accident and etc. The amount NT\$4,741 (US\$150) and NT\$4,794 (US\$148) were insurance expense paid by Cathay Life offered Fidelity insurance for employee for the six months ended June 30, 2005 and 2006.

m. Commission expense

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life Insurance Agent	\$101,839	\$3,219	\$66,988	\$2,072

n. Operating expense

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Lin Yuan Property Management Co., Ltd.	\$382,919	\$12,102	\$351,605	\$10,876
Symphox Information	121,500	3,840	117,551	3,636
Total	\$504,419	\$15,942	\$469,156	\$14,512

o. Other

As of June 30, 2005 and 2006, the notional amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	June 30,	
	2005	2006
Forward foreign exchange contracts	USD106,570	USD284,789
CCS contracts	USD765,000	USD793,168
IRS agreements	TWD500,000 (USD15,803)	- (-)

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B. Cathay United Bank

a. Loans and deposits

June 30,								
2005				2006				
Account	Interest revenue (expense)		Interest revenue (expense)				Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans	\$1,988,963	\$62,862	\$20,192	\$638	\$2,751,000	\$85,091	\$26,497	\$820
Deposits	\$39,316,355	\$1,242,616	\$(237,819)	\$(7,516)	\$21,944,299	\$678,760	\$(196,788)	\$(6,087)

For the six months ended June 30, 2005							
Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$680,690	\$21,514	\$569,880	\$18,011	2.48%-3.84%	\$7,437	\$235

For the six months ended June 30, 2006							
Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$768,544	\$23,772	\$617,567	\$19,102	4.38%-7.80%	\$13,842	\$428
Lucky Bank	1,500,000	46,396	1,500,000	46,397	1.54%-1.60%	629	20
Total	\$2,268,544	\$70,168	\$2,117,567	\$65,499		\$14,471	\$448

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

b. Securities sold under agreements to repurchase

June 30,				
Name	Ending balance			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Other related parties	\$80,067	\$2,530	\$546,570	\$16,906

June 30,				
Name	Interest expense			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Other related parties	\$561	\$18	\$2,910	\$90

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c. Notes Receivable

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Real Estate Development Co., Ltd.	\$-	\$-	\$3,180,000	\$98,361

d. Receivable

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$571,606	\$18,066	\$1,387,683	\$42,922
Indovina Bank	-	-	108,758	3,364
Total	\$571,606	\$18,066	\$1,496,441	\$46,286

e. Payable

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$1,524,385	\$48,179	\$-	\$-

f. Rent expense

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$133,475	\$4,219	\$123,672	\$3,825

g. General expense

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Seaward Card	\$517,495	\$16,356	\$236,262	\$7,308
Cathay Life	167,910	5,307	190,700	5,898
Total	\$685,405	\$21,663	\$426,962	\$13,206

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h. Other

- (a) As of June 30, 2005 and 2006, the notional amount of the forward and cross-currency swaps Cathay United Bank entered into transactions with Cathay Life were US\$980,000 and US\$1,078,000, respectively.
- (b) For organization restructuring, Cathay United Bank's board of directors resolved 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\$22,779) and net selling price was NT\$708,275 (US\$21,908) (the security transaction cost NT\$2,132 (US\$66) was deducted). The loss from the transaction was NT\$28,179 (US\$872) classified as the loss from disposal of the investment recognized by equity method.
- (c) To fulfill the future operation need and to concentrate on developing core business, the board of directors of Cathay United Bank resolved to sell all shares of Seaward Leasing (200,000 thousand shares in total) to Cathay Real Estate Development Co., Ltd. at NT\$15.9 (US\$0.49) per share on June 30, 2006. The total proceeds included notes of NT\$3,180,000 thousand (US\$98,361 thousand) matured before July 6, 2006 and cash of NT\$3,170,460 thousand (US\$98,066 thousand) (securities transaction costs NT\$9,540 thousand (US\$295 thousand) were deducted). With the book value of NT\$1,846,994 thousand (US\$57,129) the disposal gain was NT\$1,323,466 thousand (US\$40,946 thousand) and recorded in disposal gains and losses under equity method.

C. Cathay Century

a. Cash in banks

Name	Item	For the six months ended June 30, 2005		
		Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$260,700	0.10%	\$77
	Time deposits	320,250	1.67%	2,277
Total		<u>\$580,950</u>		<u>\$2,354</u>

Name	Item	For the six months ended June 30, 2005		
		Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$8,239	0.10%	\$2
	Time deposits	10,122	1.67%	72
Total		<u>\$18,361</u>		<u>\$74</u>

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		For the six months ended June 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		(NT\$)		(NT\$)
Cathay United Bank	Cash in banks	\$287,670	0.10%	\$96
	Time deposits	290,155	1.72%-2.02%	3,271
Total		<u>\$577,825</u>		<u>\$3,367</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance	Interest rate	Interest income
		(US\$)		(US\$)
Cathay United Bank	Cash in banks	\$8,898	0.10%	\$3
	Time deposits	8,975	1.72%-2.02%	101
Total		<u>\$17,873</u>		<u>\$104</u>

b. Accrued Marketing expense

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	<u>\$71,031</u>	<u>\$2,245</u>	<u>\$157,972</u>	<u>\$4,886</u>

c. Other payables

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	<u>\$80,196</u>	<u>\$2,535</u>	<u>\$122,498</u>	<u>\$3,789</u>

d. Premiums income

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	<u>\$116,580</u>	<u>\$3,685</u>	<u>\$108,721</u>	<u>\$3,363</u>

e. Insurance claims payment

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	<u>\$162,208</u>	<u>\$5,127</u>	<u>\$23,547</u>	<u>\$728</u>

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f. Operating expense

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$269,482	\$8,517	\$293,075	\$9,065

D. Cathay Securities

a. Cash in bank

Name	Item	For the six months ended June 30, 2005		
		Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$44,006	0.10%	\$58
	Time deposit	19,000	0.95%-1.285%	165
	Negotiable certificates of deposit	2,779,000	0.85%-1.20%	11,193
		<u>\$2,842,006</u>		<u>\$11,416</u>

Name	Item	For the six months ended June 30, 2005		
		Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$1,391	0.10%	\$2
	Time deposit	600	0.95%-1.285%	5
	Negotiable certificates of deposit	87,832	0.85%-1.20%	354
		<u>\$89,823</u>		<u>\$361</u>

Name	Item	For the six months ended June 30, 2006		
		Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$19,964	0.10%	\$63
	Negotiable certificates of deposit	1,220,000	1.43%-1.57%	10,010
		<u>\$1,239,964</u>		<u>\$10,073</u>

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Name	Item	For the six months ended June 30, 2006		
		Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$617	0.10%	\$2
	Negotiable certificates of deposit	37,736	1.43%-1.57%	310
		<u>\$38,353</u>		<u>\$312</u>

As of June 30, 2005 and 2006, except for NT\$1,300,000 (US\$41,087) and NT\$900,000 (US\$27,838) 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	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	<u>\$250,000</u>	<u>\$7,901</u>	<u>\$287,243</u>	<u>\$8,885</u>

c. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	<u>\$127,436</u>	<u>\$4,028</u>	<u>\$-</u>	<u>\$-</u>

Name	For the six months ended June 30,			
	Interest expense			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd. – Cathay Bond Fund	<u>\$1,263</u>	<u>\$40</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

For the six months ended June 30, 2005								
Name	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	\$24	\$1	\$26	\$1	\$22	\$1	\$2,127	\$67

For the six months ended June 30, 2006								
Name	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	\$251	\$8	\$270	\$8	\$63	\$2	\$303,830	\$9,398

E. Cathay Pacific Venture

Cash in bank

For the six months ended June 30, 2005				
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$4,207	0.10%	\$3

For the six months ended June 30, 2005				
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$133	0.10%	\$-

For the six months ended June 30, 2006				
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$383,084	1.09%-1.57%	\$1,914
	Cash in bank	4,573	0.10%	2
	Total	\$387,657		\$1,916

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		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$11,849	1.09%-1.57%	\$59
	Cash in bank	142	0.10%	-
	Total	\$11,991		\$59

F. Lin Yuan Property Management Co., Ltd.

Service Income

Name	For the six months ended June 30, 2005	
	NT\$	US\$
Cathay Life	\$382,919	\$12,102

G. Seaward Leasing

a. Cash in bank

		For the six months ended June 31, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$73,614	0.10%	\$17,887

		For the six months ended June 31, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$2,327	0.10%	\$565

		For the six months ended June 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$109,080	0.10%	\$15

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		For the six months ended June 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$3,374	0.10%	\$-

b. Short-term debts

For the six months ended June 30, 2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest expense
Cathay United Bank	\$1,360,000	\$1,360,000	1.45%-1.55%	\$9,818

For the six months ended June 30, 2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest expense
Cathay United Bank	\$42,984	\$42,984	1.45%-1.55%	\$310

For the six months ended June 30, 2006				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest expense
Cathay United Bank	\$1,950,000	\$1,950,000	1.48%	\$14,042

For the six months ended June 30, 2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest expense
Cathay United Bank	\$60,315	\$60,315	1.48%	\$434

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H. Indovina Bank

a. Call Loans to Banks

For the six months ended June 30, 2005				
Name	Ending balance (NT\$)	Interest expense (NT\$)	Ending balance (US\$)	Interest expense (US\$)
Cathay United Bank	\$569,880	\$7,439	\$18,011	\$235
Industrial and Commercial Bank of Vietnam	300,266	6,152	9,490	195
Total	\$870,146	\$13,591	\$27,501	\$430

For the six months ended June 30, 2006				
Name	Ending balance (NT\$)	Interest expense (NT\$)	Ending balance (US\$)	Interest expense (US\$)
Cathay United Bank	\$617,567	\$15,498	\$19,102	\$479

b. Dividends payable

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	\$47,490	\$1,501	\$108,758	\$3,364

I. Cathay Futures

a. Cash in bank

For the six months ended June 30, 2005				
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$220,000	0.75%-1.40%	\$691
	Cash in bank	14,336	0.01%-1.20%	15
	Total	\$234,336		\$706

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		For the six months ended June 30, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$6,953	0.75%-1.40%	\$22
	Cash in bank	453	0.01%-1.20%	-
	Total	<u>\$7,406</u>		<u>\$22</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$260,000	1.09%-2.10%	\$1,340
	Cash in bank	19,684	0.01%-1.20%	69
	Total	<u>\$279,684</u>		<u>\$1,409</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$8,042	1.09%-2.10%	\$42
	Cash in bank	609	0.01%-1.20%	2
	Total	<u>\$8,651</u>		<u>\$44</u>

b. Customer's margin accounts

Name	June 30,					
	2005			2006		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	<u>\$586,215</u>	<u>\$18,528</u>	0.01%-2.10%	<u>\$748,936</u>	<u>\$23,165</u>	0.01%-2.10%

c. Futures customer's equity

Name	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$758,622	\$23,977	\$668,050	\$20,663
Cathay Securities	2,127	67	303,830	9,398
Total	<u>\$760,749</u>	<u>\$24,044</u>	<u>\$971,880</u>	<u>\$30,061</u>

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J. Lucky Bank

a. Loans and deposits

	June 30, 2006			
	Ending balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans	\$135,107	\$4,179	\$1,909	\$59
Deposits	\$1,510,509	\$46,722	\$(12,575)	\$(389)

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

b. Call loans to banks

Name	June 30, 2006			
	Ending balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay United Bank	\$1,500,000	\$46,397	\$153	\$5

K. Cathay Life (Shanghai)

Premiums income

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
	China Eastern Airlines Co., Ltd.	\$-	\$-	\$163,726

L. Symphox Information

Sales income

Name	For the six months ended June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
	Cathay United Bank	\$11,495	\$363	\$127,633

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25. Pledged assets

As of June 30, 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, Loan, others financial or leasing	\$2,163,782	\$68,388	\$1,817,364	\$56,213
Inventory-Land for sale (Kaohsiung Zhong Shan Case)	Collaterals for loans, other credits or leasing	231,583	7,319	-	-
Inventory-Building for sale (Kaohsiung Zhong Shan Case)	Collaterals for loans, other credits or leasing	474,858	15,008	-	-
Property and equipment—Buildings and construction	Loan, others financial or leasing	1,094,624	34,596	-	-
Property and equipment-Land	Loan, others financial or leasing	643,928	20,352	-	-
Government bonds	Guarantee deposits paid	8,435,194	266,599	8,479,286	262,273
Financial assets at fair value through profit or loss	Business reserves and guarantees	1,682,732	53,184	185,740	5,745
Available-for-sale financial assets	Business reserves and guarantees	559,359	17,679	266,738	8,250
Held-to-maturity financial assets	Business reserves and guarantees	87,009	2,750	2,294,365	70,967
Investments in debt securities with no active market	Business reserves and guarantees	19,000,000	600,506	14,830,000	458,707

26. Commitment and contingent liabilities

(1) Cathay United Bank

- A. In 1996, several clients of Cathay United Bank filed a lawsuit (the lawsuit) against Cathay United Bank, claiming restitution in the amount of NT\$24,000 (US\$742) for theft of their properties stored in a safe at Chung-Li Branch. The High Court had held Cathay United Bank responsible for making restitution. Cathay United Bank subsequently appealed and the appeal is being reviewed by the High Court. Cathay United Bank 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, 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\$18,559) 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 filed a lawsuit against Chung Shing Bank for the return of unjustified benefits. Cathay United Bank obtained a judgment rendered by the Taiwan High Court in favor of Chung Shing Bank. Cathay United Bank 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 subsequently filed an appeal to the Taiwan High Court.
- C. In 2001, embezzlement and illegal acts involving the amount of NT\$60,204 (US\$1,862) was committed by one of Cathay United Bank's employees. Cathay United Bank 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\$1,234). The District Prosecutors Office has taken a public prosecution. Cathay United Bank also filed an incidental civil procedure.
- D. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. The Taipei District Court adjudged that Cathay United Bank won the lawsuit on June 30, 2006. However, Pacific SOGO has file the appealed to the High Court. In addition, Cathay United Bank also filed a civil to Taipei District Court against SOGO to claim for the loss suffered due to Pacific SOGO breached the contract.

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- E. On December 25, 2004, a charge of embezzlement in the amount of NT\$24,971 (US\$772) by one of Cathay United Bank's employees was brought to the Taipei District Prosecutors Office. Although the sentence was two years and ten months in prison, Cathay United Bank demanded the prosecutor to file an appeal.
- F. As of June 30, 2006, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$1,790,383 (US\$55,378) with prepayments of NT\$509,456 (US\$15,758).

(2) Cathay Century

Cathay Century and Itanara Import Export Company(Itanara) debated on allocation of cargo insurance benefits and Itanara filed a lawsuit against Cathay Century to claim US\$773 thousand and notary expenses. Itanara won the lawsuit and was entitled to claim the US\$773 thousand from Cathay Century. Cathay Century has filed an appeal to the high court.

(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\$680) 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 thousand (US\$339 thousand) plus interest. The Court has ruled in favor of the ex-employee. However, Lucky Bank has filed for an appeal to Taiwan Highest Court. Conservatively, Lucky Bank has estimated a loss of NT\$8,500 thousand (US\$263 thousand) which is recorded as the other non-interest loss.

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C. In 2006, an act of embezzlement involving Lucky Bank's client deposits amounting of NT\$11,654 (US\$360) was committed by one of Lucky Bank's ex-employees. Lucky Bank has returned the amount to its client and claims from the ex-employee by filing a lawsuit to Taichung District Court. Conservatively, Lucky Bank has estimated a loss of NT\$11,165 thousand (US\$345 thousand) which is recorded as the other non-interest loss.

(4) As of June 30, 2005 and 2006, the bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	June 30,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Trust and security held for safekeeping	\$605,597,329	\$19,140,244	\$269,948,119	\$8,349,772
Travelers checks for sale	675,707	21,356	831,163	25,709
Bills for collection	51,742,544	1,635,352	58,180,410	1,799,580
Guarantees on duties and contracts	15,800,838	499,394	14,981,939	463,407
Unused commercial letters of credit	3,809,051	120,387	3,952,747	122,263
Irrevocable loan commitments	25,203,457	796,569	38,865,888	1,202,162
Credit card lines	285,121,188	9,011,416	281,650,598	8,711,741
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\$
July 1, 2006~June 30, 2007	\$149,529	\$4,625
July 1, 2007~June 30, 2010	231,275	7,153
July 1, 2010~June 30, 2011	61,709	1,909
Total	\$442,513	\$13,687

27. Significant disaster losses: None.

28. Subsequent events:

On June 9, 2006, the Company's shareholders' meeting resolved to acquire all shares of Lucky Bank by shares exchange. The transaction was approval by the Financial Supervisory Commission on July 14, 2006. The exchange date is on August 25, 2006, by the resolution of the board of the Company. The exchange ratio of the share exchange is 3.8392 to 1 (Lucky Bank to the Company).

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29. Other significant matters

(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	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$35,098,096	\$35,098,096	\$1,109,295	\$1,109,295
Receivables	2,246,348	2,246,348	70,997	70,997
Investments under equity method	172,393,704	172,393,704	5,448,600	5,448,600
Other financial assets	100,000	100,000	3,161	3,161
<u>Liabilities</u>				
Payables	23,647,306	23,647,306	747,386	747,386
Bonds payable	15,238,962	15,238,962	481,636	481,636
Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$26,220,431	\$26,220,431	\$811,025	\$811,025
Receivables	2,300,554	2,300,554	71,158	71,158
Investments under equity method	188,754,101	188,754,101	5,838,358	5,838,358
Other financial assets	31,720	31,720	981	981
<u>Liabilities</u>				
Payables	15,391,209	15,391,209	476,066	476,066
Bonds payable	11,172,574	11,172,574	345,579	345,579
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Forward, option	1,495,446	1,495,446	46,256	46,256

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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:

Financial instruments	June 30, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$26,220,431	\$811,025
Receivables	-	-	2,300,554	71,158
Investments under equity method	-	-	188,754,101	5,838,358
Other financial assets	-	-	31,720	981
<u>Liabilities</u>				
Payables	-	-	15,391,209	476,066
Bonds payable	-	-	11,172,574	345,579
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Forward, option	-	-	1,495,446	46,256

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 June 30, 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 or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256
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								
or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256

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 or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256
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								
or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256

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	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$252,407,249	\$252,407,249	\$7,977,473	\$7,977,473
Receivables	10,278,092	10,278,092	324,845	324,845
Financial assets at fair value through profit or loss - current	100,199,143	100,199,143	3,166,850	3,166,850
Available-for-sale financial assets - current	106,795,415	117,777,305	3,375,329	3,722,418
Held-to-maturity financial assets - current	98,702	98,702	3,120	3,120
Investments in debt securities with no active market-current	210,538	210,538	6,654	6,654
Available-for-sale financial assets - noncurrent	125,917,050	125,480,966	3,979,679	3,965,897
Held-to-maturity financial assets - noncurrent	372,872,790	373,284,199	11,784,854	11,797,857

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Item	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets carried at cost - noncurrent	\$21,333,510	\$21,333,510	\$674,258	\$674,258
Investments in debt securities with no active market - noncurrent	41,777,254	41,787,693	1,320,394	1,320,724
Investments under equity method	3,699,081	3,699,081	116,911	116,911
Guarantee deposits paid	8,336,424	8,336,424	263,478	263,478
 <u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	3,686,238	3,705,714	116,506	117,121
Option	96,521	101,691	3,050	3,214
Forward	2,849,394	2,849,394	90,057	90,057
IRS	(35,881)	(35,742)	(1,134)	(1,130)
 <u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	95,903	95,903	3,031	3,031
Forward	1,604,816	1,604,816	50,721	50,721
IRS	67,778	67,778	2,142	2,142
Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$274,073,943	\$274,073,943	\$8,477,388	\$8,477,388
Receivables	9,380,157	9,380,157	290,138	290,138
Financial assets at fair value through profit or loss - current	113,655,799	113,655,799	3,515,490	3,515,490
Available-for-sale financial assets - current	82,499,190	82,499,190	2,551,784	2,551,784
Held-to-maturity financial assets - current	4,494,949	4,494,949	139,033	139,033

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Item	June 30,2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Investments in debt securities with no active market-current	\$2,669,773	\$2,669,773	\$82,579	\$82,579
Available-for-sale financial assets - noncurrent	138,531,073	138,531,073	4,284,908	4,284,908
Held-to-maturity financial assets - noncurrent	524,773,006	503,393,112	16,231,767	15,570,464
Financial assets carried at cost - noncurrent	20,159,255	20,159,255	623,546	623,546
Investments in debt securities with no active market - noncurrent	43,008,176	41,648,990	1,330,287	1,288,246
Long-term investments in stocks	4,181,686	4,181,686	129,344	129,344
Guarantee deposits paid	8,298,933	8,298,933	256,694	256,694
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	3,689,208	3,689,208	114,111	114,111
Option	875	875	27	27
Forward	4,672,455	4,672,455	144,524	144,524
IRS	158,565	158,565	4,905	4,905
Derivative financial assets for hedging - current				
IRS	326,925	326,925	10,112	10,112
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	381	381	12	12
Forward	16,324,495	16,324,495	504,933	504,933
IRS	880,621	880,621	27,238	27,238
Derivative financial liabilities for hedging - current				
IRS	22,695	22,695	702	702

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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 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.

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

(c) Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. 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 liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

c. The following table summarizes the fair value information of Cathay Life's financial assets and liabilities at June 30, 2006:

Financial Instruments	June 30, 2006			
	(NT\$)			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$107,374,944	\$107,374,944	\$6,280,855	\$6,280,855
Available-for-sale financial assets-current	82,499,190	82,499,190	-	-
Held-to-maturity financial assets-current	4,494,949	4,494,949	-	-
Investment in debt securities with no active market-current	-	-	2,669,773	2,669,773

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Financial Instruments	June 30,2006			
	(NT\$)			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-noncurrent	\$112,573,718	\$112,573,718	\$25,957,355	\$25,957,355
Held-to-maturity financial assets-noncurrent	80,835,997	81,883,944	443,937,009	421,509,168
Financial assets carried at cost-noncurrent	20,159,255	20,159,255	-	-
Investment in debt securities with no active market-noncurrent	14,617,354	14,617,354	28,390,822	27,031,636
Long-term investments in stocks under the equity method	-	-	4,181,686	4,181,686
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	3,689,208	3,689,208	-	-
Option	875	875	-	-
Forward	-	-	4,672,455	4,672,455
IRS	-	-	158,565	158,565
Derivative financial assets for hedging -current				
IRS	-	-	326,925	326,925
<u>Liability</u>				
Financial liability at fair value through profit or loss-current				
Option	381	381	-	-
Forward	-	-	16,324,495	16,324,495
IRS	-	-	880,621	880,621
Derivative financial assets for hedging -current				
IRS	-	-	22,695	22,695
June 30,2006				
(US\$)				
Based on the quoted market price		Based on pricing models		
Carrying amount	Fair value	Carrying amount	Fair value	
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
	\$3,321,217	\$3,321,217	\$194,273	\$194,273
Available-for-sale financial assets-current	2,551,784	2,551,784	-	-
Held-to-maturity financial assets-current	139,033	139,033	-	-
Investment in debt securities with no active market-current	-	-	82,579	82,579

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Financial Instruments	June 30,2006			
	(US\$)			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-noncurrent	\$3,482,020	\$3,482,020	\$802,888	\$802,888
Held-to-maturity financial assets-noncurrent	2,500,340	2,532,754	13,731,427	13,037,710
Financial assets carried at cost-noncurrent	623,546	623,546	-	-
Investment in debt securities with no active market-noncurrent	452,130	452,130	878,157	836,116
Long term investments in stocks under the equity method	-	-	129,344	129,344
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	114,111	114,111	-	-
Option	27	27	-	-
Forward contracts	-	-	144,524	144,524
IRS	-	-	4,905	4,905
Derivative financial assets for hedging-current				
IRS	-	-	10,112	10,112
<u>Liability</u>				
Financial liability at fair value through profit and loss-current				
Option	12	12	-	-
Forward contracts	-	-	504,933	504,933
IRS	-	-	27,238	27,238
Derivative financial assets for hedging-current				
IRS	-	-	702	702

d. Information on financial risk

(a) Risk of interest rate

The following table summarizes the maturities of Cathay Life's financial instruments at June 30, 2006:

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Non-derivative financial instruments of fixed 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 or loss	\$-	\$-	\$622,883	\$19,266	\$284,270	\$8,793	\$-	\$-
Available-for-sale financial								
assets	2,821,039	87,258	1,666,574	51,549	1,080,059	33,407	911,221	28,185
Held-to-maturity financial assets	11,855,458	366,702	7,874,716	243,573	817,629	25,290	14,488,857	448,155
Investments in debt securities								
with no active market	502,274	15,536	-	-	1,258,431	38,924	447,447	13,840
Item	Due in 4~5 years		Over 5 years		Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Financial assets at fair value								
through profit or loss	\$1,068,887	\$33,062	\$28,983,407	\$896,486	\$30,959,447	\$957,607		
Available-for-sale financial								
assets	4,839,715	149,697	84,204,684	2,604,537	95,523,292	2,954,633		
Held-to-maturity financial assets	14,773,046	456,945	253,782,734	7,849,760	303,592,440	9,390,425		
Investments in debt securities								
with no active market	615,071	19,025	29,199,429	903,168	32,022,652	990,493		

Non-derivative financial instruments of 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 or loss	\$6,818,078	\$210,890	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial								
assets	43,007,781	1,330,275	-	-	-	-	-	-
Held-to-maturity financial assets	229,307,212	7,092,707	-	-	-	-	-	-
Investments in debt securities								
with no active market	13,655,296	422,372	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)		
Financial assets at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$6,818,078	\$210,890		
Available-for-sale financial								
assets	-	-	-	-	43,007,781	1,330,275		
Held-to-maturity financial assets	-	-	-	-	229,307,212	7,092,707		
Investments in debt securities								
with no active market	-	-	-	-	13,655,296	422,372		

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Derivative financial instruments

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 or loss	\$260,750	\$8,066	\$24,868	\$769	\$3,847	\$119	\$7,541	\$233
Derivative financial assets for								
hedging	-	-	34,790	1,076	48,952	1,514	133,728	4,136
Financial liabilities at fair value								
through profit or loss	(117,317)	(3,629)	(15,369)	(475)	(2,085)	(65)	(38,863)	(1,202)
Derivative financial liabilities								
for hedging	-	-	(6,355)	(197)	(6,608)	(204)	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$9,368	\$290	\$100,490	\$3,108	\$406,864	\$12,585
Derivative financial assets for						
hedging	32,839	1,016	76,616	2,370	326,925	10,112
Financial liabilities at fair value						
through profit or loss	(60,073)	(1,858)	(477,749)	(14,777)	(711,456)	(22,006)
Derivative financial liabilities						
for hedging	(9,732)	(301)	-	-	(22,695)	(702)

(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\$)			
\$372,500	\$11,522	ARMS	Each quarter	98/3/24
500,000	15,466	4.0005%-6ML	Yearly	97/9/26
500,000	15,466	7.6%-90DCP	Half year	96/10/10
500,000	15,466	7.05%-90DCP	Half year	96/10/10
300,000	9,279	5.5%-6ML	Half year	96/12/26
500,000	15,466	6.9%-90DCP	Each quarter	96/7/9
200,000	6,186	4.003%-6ML	Half year	97/6/13
500,000	15,466	4%-12ML	Yearly	97/6/5

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Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$300,000	\$9,279	4.3%-12ML	Yearly	99/6/20
900,000	27,838	90DCP	Each quarter	104/2/4
400,000	12,372	90DCP	Each quarter	104/3/17
50,000	1,547	90DCP	Each quarter	98/3/15
500,000	15,466	If 6ML<1.1%,6ML If1.1%<6ML<2.0%,3.8% If6ML>2.0%,Max(5.50%-6ML,0)	Half year	100/6/30
200,000	6,186	7.603%-6ML	Half year	96/7/31
300,000	9,279	7.5%-6ML	Half year	96/7/31
300,000	9,279	If 6ML<6.9%,3.8% If 6ML>6.9%,0%	Half year	96/7/31
200,000	6,186	0~0.5Y:3.8%,0.5Y+6ML :3.0% 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1%-2.5%, 2.5-3.5Y:1%-3.0%, 3.5-4.5Y:1%-3.5%, 4.5-5.5Y;1%-4.0%, 5.5-6.5Y:1%-4.5%, 6.5-7.0Y:1%-5.0%	Half year	100/3/19
300,000	9,279	5.1%-6ML	Half year	96/12/19
200,000	6,186	If6ML<0.95%,6ML If0.95%<6ML<2.0%,3.5% If2.0%<6ML;4.8%-6ML	Half year	98/1/9
300,000	9,279	If6ML<0.95%,6ML If0.95%<6ML<2.0%,3.5% If2.0%<6ML;4.8%-6ML	Half year	98/1/7
200,000	6,186	4.000%-6ML	Half year	99/4/7
300,000	9,279	4.0002%-6ML	Half year	99/4/7
500,000	15,466	4.0006%-6ML	Half year	99/4/7
500,000	15,466	4.0007%-6ML	Half year	99/4/7
250,000	7,733	90DCP	Each quarter	97/8/10
900,000	27,838	90DCP	Each quarter	99/8/18
600,000	18,559	90DCP	Each quarter	99/8/19
450,000	13,919	90DCP	Each quarter	97/8/22
330,000	10,207	90DCP	Each quarter	97/8/24
300,000	9,279	5.35%-6ML	Each quarter	97/1/8
200,000	6,186	4.0003%-6ML	Half year	99/4/7
300,000	9,279	5.37%-6ML	Yearly	100/3/15
200,000	6,186	5.85%-6ML	Half year	98/1/13
50,000	1,547	4.15%-6ML	Half year	98/1/16
200,000	6,186	6.3%-6ML	Yearly	99/11/27

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 price 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 testing methods, back testing, 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 counterparty or a debtor defaulting on their contractual obligations. Cathay Life minimizes the credit risk exposure by performing the following evaluations and controls:

Cathay Life has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by Cathay Life before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees. No defaults have occurred during the current financial year.

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Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are limited to 80% of the carrying value of the secured buildings which varies in different regions.

The credit risk level of policy loans is assessed at low, as the policy loan amounts are limited to the net realizable value of the insurance policy and hence are deemed as fully secured investments.

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

a. Information of fair value

		June 30,							
		2005				2006			
		Carrying amount		Fair value		Carrying amount		Fair value	
		(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>									
Assets									
Financial assets at fair value									
through profit or loss		\$48,951,484	\$1,547,139	\$49,633,557	\$1,568,696	\$48,849,647	\$1,510,970	\$48,849,647	\$1,510,970

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	June 30,							
	2005				2006			
	Carrying amount		Fair value		Carrying amount		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
Available-for-sale financial assets	\$39,740,134	\$1,256,009	\$40,161,194	\$1,269,317	\$52,421,577	\$1,621,453	\$52,421,577	\$1,621,453
Held-to-maturity financial assets and debt securities without active market	153,885,430	4,863,636	150,149,669	4,745,565	215,801,216	6,674,953	215,784,315	6,674,430
Investment accounted for using equity method	4,987,834	157,643	4,987,834	157,643	2,022,405	62,555	2,022,405	62,555
Others	756,133,094	23,898,012	756,133,094	23,898,012	780,525,493	24,142,453	780,525,493	24,142,453
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	49,700,000	1,570,796	48,709,481	1,539,491	49,395,298	1,527,847	49,395,298	1,527,847
Financial debentures payable	2,350,000	74,273	2,350,000	74,273	17,282,698	534,572	17,282,698	534,572
Others	898,739,236	28,405,159	898,739,236	28,405,159	984,338,435	30,446,596	984,338,435	30,446,596

	June 30,							
	2005				2006			
	Book value		Fair value		Book value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss	\$21,401	\$676	\$21,401	\$676	\$5,224,183	\$161,589	\$5,224,183	\$161,589
<u>Liabilities</u>								
Financial liabilities at fair value through profit or loss	28,811	911	28,811	911	3,389,312	104,835	3,389,312	104,835
Others	-	-	-	-	1,278,000	39,530	1,278,000	39,530

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

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- (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, refundable deposits, guarantee deposits, borrowed funds, 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 or loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of Cathay United 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 uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
- (c) Advances, loans and deposits are interest-bearing financial assets and therefore the carrying values approximate to the fair values. The carrying values of delinquent accounts are the expected recoverable amounts less allowance for doubtful accounts. Thus, the carrying values deemed to be fair values.
- (d) 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.
- (e) 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.
- (f) 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 assesses fair value by using pricing models.

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- c. The fair values of Cathay United Bank's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	June 30,			
	2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$48,849,647	\$1,510,970	\$-	\$-
Available-for-sale financial Assets	52,421,577	1,621,453	-	-
Held-to-maturity financial assets and debt securities without active market	163,037,693	5,042,923	52,746,622	1,631,507
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	685,817	21,213	48,709,481	1,506,634
Financial debentures payable	-	-	17,282,698	534,572
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	1,359,264	42,043	3,864,919	119,546
Liabilities				
Financial liabilities at fair value through profit or loss	13,488	417	3,375,824	104,418
Others	-	-	1,278,000	39,530

Note: These are primarily equity investments measured by cost or equity method and therefore the fair values are determined using carrying values instead of using market quotes or pricing models.

- d. Gains recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT\$42,622(US\$1,318) for the six months ended June 30, 2006.

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- e. Cathay United Bank recognized NT\$19,545,206 (US\$604,553) and NT\$7,252,862 (US\$224,338) as interest income and expense from financial assets or liabilities not at fair value through profit and loss, respectively, for the six months ended June 30, 2006.
- f. Cathay United Bank recognized an unrealized gains or losses of NT\$189,972 (US\$5,876) in shareholders' equity for the changes in fair value of available-for-sale financial assets and an realized gains of NT\$225,087 (US\$6,962) in income statement for the six months ended June 30, 2006.
- g. The impairment of interest income from financial assets was NT\$18 (US\$0.56), 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 fixed-rate bond investments such as government bonds and corporate bonds may decline.

- Ⓑ Foreign exchange risk

Cathay United Bank manages foreign exchange risk by matching foreign currency assets and liabilities. Cathay United Bank 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 commercial positions. As most of foreign currency assets and liabilities are matched, the foreign exchange risk is insignificant.

- Ⓒ Equity securities price risk

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

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Cathay United Bank 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	\$92,170	\$2,851	\$138,367	\$4,280	\$55,596	\$1,720
Foreign exchange	43,812	1,355	117,919	3,647	164	5
Equity Securities price	44,607	1,380	66,969	2,071	17,301	535

(b) Credit risk

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

To centralize risk management functions currently handled by different departments, Cathay United Bank's 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 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 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 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 retains the legal right to foreclose on or liquidate the collateral.

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① Information on concentrations of credit risk

Financial assets	June 30							
	2005				2006			
	Book value		Maximum risk exposed amount		Book value		Maximum risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value through profit or loss	\$48,972,886	\$1,547,816	\$48,972,886	\$1,547,816	\$54,073,830	\$1,672,559	\$54,073,830	\$1,672,559
Available-for-sale financial assets	39,740,134	1,256,009	39,740,134	1,256,009	52,421,577	1,621,453	52,421,577	1,621,453
Held-to-maturity financial assets	8,237,758	260,359	8,237,758	260,359	6,383,600	197,451	6,383,600	197,451
Loans and advances to customers	612,533,921	19,359,479	612,533,921	19,359,479	635,855,822	19,667,672	635,855,822	19,667,672
Debt securities without active market and others	150,749,635	4,764,527	150,749,635	4,764,527	213,971,577	6,618,360	213,971,577	6,618,360
Off-balance sheet commitments and guarantees	-	-	329,934,534	10,427,767	-	-	324,014,757	10,022,108

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

Loans, customers' liabilities under acceptances and guarantees account	June 30,			
	2005		2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Industry type				
Manufacturing	\$71,364,279	\$2,255,508	\$87,336,543	\$2,701,409
Financial institutions and insurance	42,595,519	1,346,256	39,617,949	1,225,424
Leasing and real estate	66,698,111	2,108,031	66,943,252	2,070,623
Individuals	343,680,676	10,862,221	365,886,931	11,317,257
Others	110,458,759	3,491,111	101,846,132	3,150,205
Total	634,797,344	20,063,127	661,630,807	20,464,918
Valuation allowance	(5,988,272)	(189,263)	(10,240,723)	(316,756)
Maximum risk exposed	<u>\$628,809,072</u>	<u>\$19,873,864</u>	<u>\$651,390,084</u>	<u>\$20,148,162</u>

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	June 30,			
	2005		2006	
Loans, customers' liabilities under acceptances and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
Geographic Region				
Domestic	\$599,310,111	\$18,941,533	\$622,946,898	\$19,268,385
South East Asia	9,770,154	308,791	10,315,341	319,064
North East Asia	21,839	690	-	-
North America	9,719,797	307,200	8,935,666	276,389
Others	15,975,443	504,913	19,432,902	601,080
Total	634,797,344	20,063,127	661,630,807	20,464,918
Valuation allowance	(5,988,272)	(189,263)	(10,240,723)	(316,756)
Maximum risk exposed	<u>\$628,809,072</u>	<u>\$19,873,864</u>	<u>\$651,390,084</u>	<u>\$20,148,162</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 believe Cathay United Bank can generate within that period. As part of our liquidity risk management, Cathay United Bank 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 asset and liability management committee is responsible for overall liquidity risk management. Cathay United Bank's 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 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 financial debentures payable was matched with an interest rate swap contract and was transferred from fixed rate to floating rate.

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2006, there is no significant change in these dates.

As of June 30, 2006, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%)
Available-for-sale financial assets	
Bonds	1.3653-6.83732
Overseas financial instruments	3.65-4.6
Held-to-maturity financial assets	
Bonds	1.64-6.95
Overseas financial instruments	0.61-7.625
Investments in debt securities with no active market	
Preferred stocks	5
Certificate of deposit	1.52-1.9
Overseas financial instruments	0-8.32
Financial debentures payable	4.15-5.59

i. Fair value hedge

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

Hedged item	Hedging instruments	
	Derivative designated as hedging instruments	Fair value June 30, 2006
Financial debentures payable	Interest rate swap	NT\$1,278,000 (US\$39,530)

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The hedge is regarded as highly effective, at inception and throughout the life of the hedge, Cathay United Bank 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.

D. Cathay Century

a. Information of fair value

Assets	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,482,081	\$2,482,081	\$78,448	\$78,448
Financial assets at fair value through profit and loss - current	385,908	388,037	12,197	12,264
Available-for-sale financial assets - current	1,251,482	1,252,050	39,554	39,572
Receivables	1,250,013	1,250,013	39,507	39,507
Claims recoverable from reinsurers	207,902	207,902	6,571	6,571
Due from reinsurers and ceding companies	58,898	58,898	1,862	1,862
Secured loans	1,306,392	1,306,392	41,289	41,289
Held-to-maturity financial assets - noncurrent	2,904,883	2,904,883	91,810	91,810
Financial assets carried at cost - noncurrent	75,000	-	2,370	-
Investments in debt securities with no active market – noncurrent	864,997	864,997	27,339	27,339
Long-term investments under equity method	386,086	386,086	12,203	12,203
Guarantee deposits paid	376,720	376,720	11,906	11,906
Derivative financial instruments:				
Financial assets at fair value through profit and loss - current				
Futures	4,342	4,342	137	137
Swap	14,111	14,111	446	446

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Liabilities	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instrument :				
Claims outstanding	\$795	\$795	\$25	\$25
Due to reinsurers and ceding companies	254,524	254,524	8,044	8,044
Operating and debt reserve	7,775,703	7,775,703	245,755	245,755
Assets	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$1,958,541	\$1,958,541	\$60,580	\$60,580
Financial assets at fair value through profit and loss - current	363,386	363,386	11,240	11,240
Available-for-sale financial assets - current	2,224,091	2,224,091	68,793	68,793
Investments in debt securities with no active market-current	251,373	251,373	7,775	7,775
Receivables	1,651,871	1,651,871	51,094	51,094
Claims recoverable from reinsurers	183,111	183,111	5,664	5,664
Due from reinsurers sand ceding companies	80,463	80,463	2,489	2,489
Secured loans	1,747,000	1,747,000	54,036	54,036
Held-to-maturity financial assets – noncurrent	3,544,387	3,544,387	109,632	109,632
Financial assets carried at cost – noncurrent	36,000	-	1,113	-
Investments in debt securities with no active market – noncurrent	307,523	307,523	9,512	9,512
Long-term investments under equity method	448,748	448,748	13,880	13,880
Guarantee deposits paid	406,457	406,457	12,572	12,572
Derivative financial instruments:				
Financial assets at fair value through profit and loss - current				
Futures	7,655	7,655	237	237
Options	515	515	16	16

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Liabilities	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instrument:				
Claims outstanding	\$770	\$770	\$24	\$24
Due to reinsurers and ceding companies	174,785	174,785	5,406	5,406
Operating and debt reserve	8,817,012	8,817,012	272,719	272,719
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Swap	32,213	32,213	996	996

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 and payables, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.
- (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- (c) Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century'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 Century 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 Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

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c. The following table summarizes the fair value information of Cathay Century's financial assets and liabilities at June 30, 2006:

Financial Instruments	June 30, 2006			
	(NT\$)			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$363,386	\$363,386	\$-	\$-
Available-for-sale financial assets-current	2,224,091	2,224,091	-	-
Investment in debt securities with no active market-current	-	-	251,373	-
Held-to-maturity financial assets-noncurrent	-	-	3,544,387	-
Financial assets carried at cost-noncurrent	-	-	36,000	-
Investment in debt securities with no active market-noncurrent	-	-	307,523	-
Long-term investments in stocks under the equity method	-	-	448,748	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	7,655	7,655	-	-
Option	515	515	-	-
<u>Liability-derivative</u>				
Financial liability at fair value through profit and loss-current				
Forward	32,213	32,213	-	-

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Financial Instruments	June 30, 2006			
	(US\$)			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$11,240	\$11,240	\$-	\$-
Available-for-sale financial assets-current	68,793	68,793	-	-
Investment in debt securities with no active market-current	-	-	7,775	-
Held-to-maturity financial assets-noncurrent	-	-	109,632	-
Financial assets carried at cost-noncurrent	-	-	1,113	-
Investment in debt securities with no active market-noncurrent	-	-	9,512	-
Long-term investments in stocks under the equity method	-	-	13,880	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	237	237	-	-
Option	16	16	-	-
Forward	-	-	-	-
<u>Liability</u>				
Financial liability at fair value through profit and loss-current				
Forward	996	996	-	-

d. Information on financial risk

(a) Risk of interest rate

The following table summarizes the maturities of Cathay Century's financial instruments at June 30, 2006:

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Fixed 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\$)
Held-to-maturity financial assets	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Investments in debt securities								
with no active market	251,373	7,775	76,270	2,359	231,253	7,153	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$908,608	\$28,104	\$2,635,779	\$81,528	\$3,544,387	\$109,632
Investments in debt securities						
with no active market	-	-	-	-	558,896	17,287

(b) Credit risk

Cathay Century's exposure to credit risk in minimal.

e. Cash flow risk and fair value risk of interest rate fluctuation

Fair value hedges

Hedged item	Designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		June 30, 2005		June 30, 2006	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas investments in bonds	Foreign exchange SWAP	\$14,111	\$446	\$(32,213)	\$(996)

f. 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.

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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.

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 Century 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 Century'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 Century 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 Century's financial assets.

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.

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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 Century has adopted and implemented the internal control regulations and sheets. Cathay Century is also commenced to develop the information systems to accommodate the aforementioned policies.

Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

E. Cathay Securities

a. Information of fair Value

Item	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$1,693,843	\$1,693,843	\$53,535	\$53,535
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	600,000	600,000	18,963	18,963
Operating securities – net	29,578	29,949	935	947
Securities purchased under agreements to resell	540,465	540,465	17,082	17,082
Receivable amount for margin loans	5,759	5,759	182	182
Receivables – net	10,644	10,644	336	336
Restricted assets – current	1,300,000	1,300,000	41,087	41,087
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	150,098	150,098	4,744	4,744
Settlement and clearance funds	37,435	37,435	1,183	1,183
Guarantee deposits paid	21,127	21,127	668	668

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Item	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Liabilities				
Securities sold under agreements to repurchase	\$541,181	\$541,181	\$17,104	\$17,104
Payables	12,326	12,326	390	390
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	2,127	2,127	67	67
Derivative financial instrument assets – GreTai (over-the-counter)	820	820	26	26
Liabilities				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	14	14	1	1
Other financial liabilities – current	10,515	10,515	332	332
Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$493,652	\$493,652	\$15,269	\$15,269
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	609,763	609,763	18,861	18,861
Operating securities – net	129,905	129,905	4,018	4,018
Receivable amount for margin loans	543,597	543,597	16,814	16,814
Securities refinancing margin deposits	499	499	15	15

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Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Receivables – net	\$6,578	\$6,578	\$204	\$204
Restricted assets – current	900,000	900,000	27,838	27,838
Long-term investments under equity method	721,851	721,851	22,327	22,327
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,653	6,653
Settlement and clearance funds	56,335	56,335	1,742	1,742
Guarantee deposits paid	19,238	19,238	595	595
Liabilities				
Securities sold under agreements to repurchase	10,040	10,040	311	311
Securities financing guarantee deposits-in	3,665	3,665	113	113
Deposit payable for securities financing	4,050	4,050	125	125
Payables	23,506	23,506	727	727
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss – current				
Call options – futures	11	11	-	-
Margin for futures trading – own funds	303,830	303,830	9,398	9,398
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	10,842	335	335
Liabilities				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	4	4	-	-
Other financial liabilities – current	75,282	75,282	2,329	2,329

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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, securities refinancing margin deposits, 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) Long-term investments under equity method and available-for-sale financial assets – noncurrent are estimated based on market prices, if available. If long-term investments under equity method and available-for-sale financial assets – noncurrent of the Company are not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.
- (c) If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, Cathay Securities assesses the fair value by using pricing model. A pricing model incorporates all factors that market participants would consider in setting a price.

As of June 30, 2006, the following table summarizes the fair value information of financial assets and liabilities:

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Based on quoted market price	Based on pricing models	Based on quoted market price	Based on pricing models
Assets				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$609,763	\$-	\$18,861	\$-
Operating securities – net	129,905	-	4,018	-
Call options – futures	11	-	-	-

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Item	June 30, 2006			
	(NT\$)		(US\$)	
	Based on quoted market price	Based on pricing models	Based on quoted market price	Based on pricing models
Margin for futures trading – own funds	\$303,830	\$-	\$9,398	\$-
Derivative financial instrument assets – GreTai (over-the-counter)	-	10,842	-	335
Liabilities				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	4	-	-	-
Other financial liabilities – current	-	75,282	-	2,329

The above derivative financial instrument assets – GreTai (over-the-counter) and other financial liabilities – current are valued using “Monte Carlo Simulations” and “Interest Method”, respectively.

c. Financial derivatives

(a) Structured notes transactions

① Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2005		June 30, 2006	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Equity-linked notes	NT\$10,000 (US\$316)	\$-	NT\$73,200 (US\$2,264)	\$-

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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⑥ 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 hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

⑦ Risk from liquidity, cash flow, and other uncertainties

In structured notes transactions, Cathay Securities receives the contract amount from investors on the contract date and makes its investments pursuant to the contract. In order to provide investors with the ability for early redemption, Cathay Securities considers liquidity risk when investing in fixed income securities. As a result, Cathay Securities does not expect any significant cash requirements at expiration of the contract.

⑧ 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 June 30, 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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<u>Balance sheet</u>	June 30, 2005			
			Financial liabilities at fair value through profit or loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	Financial assets at fair value through profit or loss – current (derivative financial instrument assets – GreTai (over-the-counter))			
	(NT\$)	(US\$)	(NT\$)	(US\$)
Equity – linked notes	\$820	\$26	\$10,515	\$332

<u>Statement of income</u>	For the six months ended June 30, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	(NT\$)	(US\$)	
Principal guaranteed notes	\$3,911	\$124	Fair value method
Equity – linked notes	204	6	Fair value method
	\$4,115	\$130	

<u>Balance sheet</u>	June 30, 2006			
			Financial liabilities at fair value through profit or loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	Financial assets at fair value through profit or loss – current (derivative financial instrument assets – GreTai (over-the-counter))			
	(NT\$)	(US\$)	(NT\$)	(US\$)
Equity-linked notes	\$10,842	\$335	\$75,282	\$2,329

<u>Statement of income</u>	For the six months ended June 30, 2006		
	Loss from derivative financial instruments – GreTai (over-the-counter)		Comments
	(NT\$)	(US\$)	
Equity-linked notes	\$6,480	\$200	Fair value method

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d. Futures and options transactions

As of June 30, 2005 and 2006, Cathay Securities' unexercised options were as follows:

June 30, 2005

Item	Nature of transaction	Unexercised options		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Options	TXO-Call	Sell	30	\$(10)	\$-	\$4	\$-
Options	TXO-Put	Sell	70	\$(24)	\$(1)	\$10	\$1

June 30, 2006

Item	Nature of transaction	Unexercised options		Contract amount/ payment (receipt) of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Options	TXO-Put	Sell	1	\$(9)	\$-	\$4	\$-
Options	TXO-Put	Buy	30	\$54	\$2	\$11	\$-

(a) Nominal principal or contract amount and credit risk

	June 30, 2005	
Financial instruments	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$34 (US\$1)	\$-
	June 30, 2006	
Financial instruments	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$63 (US\$2)	\$-

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.

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(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 and that, as a result, there is no significant market risk.

(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.

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 Cathay Securities' believes 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 the Cathay Securities believes 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 improve 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 or loss – current" and "margin for futures trading – own funds" on the balance sheet. For the six months ended June 30, 2005 and 2006, the related gain (loss) of futures and options on the statement of income were as follows:

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	For the six months ended June 30, 2005	
	(NT\$)	(US\$)
Gain from derivative financial instruments – futures		
Gain on futures contracts	\$122	\$4
Loss from options transactions	\$8	\$-
(Includes unrealized gain from options transactions of NT\$20 (US\$1))		

	For the six months ended June 30, 2006	
	(NT\$)	(US\$)
Gain from derivative financial instruments – futures		
Gain on futures contracts		
(Includes unrealized gain on futures contracts of NT\$255 (US\$8))	\$515	\$16
Gain from options transactions		
(Includes unrealized loss from options transactions of NT\$128 (US\$4))	\$1,643	\$51

F. Cathay Pacific Venture

a. Information of fair value

Non-derivative financial instruments

	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$4,207	\$4,207	\$133	\$133
Available-for-sale financial assets-current	407,087	409,701	12,866	12,949
Other receivables (contain transactions with related parties)	7,041	7,041	223	223
Available-for-sale financial assets-noncurrent	35,990	70,112	1,137	2,216
<u>Liabilities</u>				
Accrued expenses	110	110	3	3

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	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$387,657	\$387,657	\$11,991	\$11,991
Other receivable (contain transactions with related parties)	3,307	3,307	102	102
Other current assets	5,234	5,234	162	162
Available-for-sale financial assets-noncurrent	100,912	100,912	3,121	3,121
<u>Liabilities</u>				
Accrued expenses	196	196	6	6
Other current liabilities	4	4	-	-

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

(a) The fair value of Cathay Pacific Venture 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, other receivables (contain transactions with related parties), other current assets, accrued expenses and other current liabilities.

(b) Quoted market price, if available, are utilized as estimates of the fair value of available-for-sale financial assets-noncurrent.

(c) Financial assets carried at cost are unlisted stock. Since these stocks have no quoted market prices in an active market and their fair value cannot be reliably measured, their fair values are based on their carrying values.

G. Cathay Futures

a. Information of fair value

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	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Other receivable (contain transactions with related parties)	\$4,827	\$4,827	\$149	\$149
Available-for-sale financial assets-noncurrent	30,500	30,500	943	943
Operating deposits	80,000	80,000	2,474	2,474
Settlement and clearance funds	57,000	57,000	1,763	1,763
Guarantee deposits paid	1,247	1,247	39	39
<u>Liabilities</u>				
Futures customers' equity	1,193,694	1,193,694	36,922	36,922
Payables (contain transactions with related parties)	1,932	1,932	60	60
Receipts under custody	259	259	8	8
Other payable (contain transactions with related parties)	3,538	3,538	109	109
Guarantee deposits in	146	146	5	5

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.

(b) The fair value of financial assets at fair value through profit or 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.

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

	June 30,							
	2005				2006			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents								
	\$-	\$-	\$154,392	\$4,880	\$-	\$-	\$199,735	\$6,178
Financial assets at fair value through profit or loss-current								
	2,672	84	57,856	1,829	-	-	-	-
Customer's margin accounts								
	-	-	1,053,741	33,304	-	-	1,193,986	36,931
Futures trading deposits receivable								
	-	-	2,075	66	-	-	717	22
<u>Accounts</u>								
receivable-related parties								
	-	-	22	1	-	-	62	2
Other receivable (contain transactions with related parties)								
	-	-	984	31	-	-	4,827	149
<u>Available-for-sale financial assets-non current</u>								
	-	-	30,500	964	-	-	30,500	943
Operating deposits								
	-	-	80,000	2,528	-	-	80,000	2,474
<u>Settlement and clearance funds</u>								
	-	-	56,000	1,770	-	-	57,000	1,763
Guarantee deposits paid								
	-	-	1,767	56	-	-	1,247	39
<u>Liabilities</u>								
Futures customer's equity								
	-	-	1,054,112	33,316	-	-	1,193,694	36,922
Payable (contain transactions with related parties)								
	-	-	2,415	76	-	-	1,932	60
Receipts under custody								
	-	-	242	8	-	-	259	8
Other payable (contain transactions with related parties)								
	-	-	4,127	130	-	-	3,538	109
Guarantee deposits in								
	-	-	292	9	-	-	146	5

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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. Cathay Futures uses of financial derivatives including Taiwan Stock Index Futures, TAIEX (Taiwan Futures Exchange), government futures and options for trading purposes. As of June 30, 2005 and 2006, Cathay Futures expects insignificant exposure to credit risks.

f. For the six months ended June 30, 2005 and 2006, the balance of excess deposit with NT\$57,856 (US\$1,829) and NT\$0 (US\$0) which is recognized “deposit of futures transaction-Operation Assets” in the Cathay Futures. For the six months ended June 30, 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:

	June 30,			
	<u>2005(NT\$)</u>	<u>2005(US\$)</u>	<u>2006(NT\$)</u>	<u>2006(US\$)</u>
Gain from derivative				
financial instruments	\$38,857	\$1,228	\$6,783	\$210
Loss from derivative				
financial instruments	<u>(34,881)</u>	<u>(1,102)</u>	<u>(3,764)</u>	<u>(117)</u>
Net income	<u>\$3,976</u>	<u>\$126</u>	<u>\$3,019</u>	<u>\$93</u>

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H. Symphox Information

a. Information of fair value

Item	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$81,620	\$81,620	\$2,580	\$2,580
Financial assets at fair value				
through profit or loss-current	217,523	217,523	6,875	6,875
Receivables	83,475	83,475	2,638	2,638
Guarantee deposits paid	3,723	3,723	118	118
<u>Liabilities</u>				
Payables	55,735	55,735	1,762	1,762
Guarantee deposits in	87	87	3	3
Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$83,592	\$83,592	\$2,586	\$2,586
Financial assets at fair value				
through profit or loss-current	131,116	131,116	4,056	4,056
Receivables	199,284	199,284	6,164	6,164
Guarantee deposits paid	10,970	10,970	339	339
<u>Liabilities</u>				
Payables	125,767	125,767	3,890	3,890
Guarantee deposits in	87	87	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 or loss-current, receivables.

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

I. Cathay Life (Shanghai)

a. Information of fair value

Item	June 30, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,076,291	\$1,076,291	\$34,017	\$34,017
Financial assets at fair value through profit or loss-current	574,957	577,511	18,172	18,253
Available-for-sale financial assets-noncurrent	19,101	19,101	604	604
Held-to-maturity financial assets-noncurrent	434,974	434,974	13,748	13,748
Guarantee deposits paid	623,324	623,324	19,701	19,701
<u>Liabilities</u>				
Guarantee deposits in	247	247	8	8

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Item	June 30,2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,008,005	\$1,008,005	\$31,179	\$31,179
Financial assets at fair value through profit or loss-current	542,101	542,101	16,768	16,768
Available-for-sale financial assets-noncurrent	224,050	224,050	6,930	6,930
Held-to-maturity financial assets-noncurrent	955,947	955,947	29,568	29,568
Guarantee deposits paid	662,663	662,663	20,497	20,497
<u>Liabilities</u>				
Guarantee deposits in	574	574	18	18

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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J. Lucky Bank

a. Information of fair value

	June 30,							
	2005				2006			
	Carrying amount		Fair value		Carrying amount		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents	\$2,969,079	\$93,840	\$2,969,079	\$93,840	\$2,748,977	\$85,029	\$2,748,977	\$85,029
Due from Central Bank and call loans to banks	2,419,943	76,484	2,419,943	76,484	2,455,377	75,947	2,455,377	75,947
Financial assets at fair value through profit or loss								
Stocks	79,617	2,516	79,617	2,516	-	-	-	-
Mutual funds	91,094	2,879	91,094	2,879	46,011	1,423	46,011	1,423
Receivables	223,197	7,054	223,197	7,054	278,662	8,619	278,662	8,619
Bills and loans Available-for-sale financial assets	60,286,695	1,905,395	60,286,695	1,905,395	55,814,691	1,726,406	55,814,691	1,726,406
Investment accounted for using equity method	107,091	3,385	107,091	3,385	-	-	-	-
Other financial assets	19,360,265	611,892	19,360,265	611,892	27,875,235	862,210	27,875,235	862,210
<u>Liabilities</u>								
Due to commercial banks	175,546	5,548	175,546	5,548	2,765,794	85,549	2,765,794	85,549
Payables	607,508	19,201	607,508	19,201	682,892	21,122	682,892	21,122
Deposits and remittances	84,055,676	2,656,627	84,055,676	2,656,627	84,559,847	2,615,523	84,559,847	2,615,523

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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 assets at fair value through profit or loss and available-for-sale financial assets.
 - (c) Bills and loans, deposits are interest bearing 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, so 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) According to the “Regulations Governing the Preparation of Financial Reports by Public Banks”, financial assets carried at cost, such as unlisted stock, shall be measured at cost when Lucky Bank is unable to exercise significant influence at these assets.
 - (f) The value of debt securities with no active market, the carrying value is equal to fair value.
- c. The fair values of Lucky Bank’s financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

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	June 30,							
	2005				2006			
	Based on the quoted				Based on the quoted market			
	market price		Based on pricing models		price		Based on pricing models	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
<u>Financial instruments</u>								
<u>Assets</u>								
Cash and cash equivalents	\$-	\$-	\$2,969,079	\$93,840	\$-	\$-	\$2,748,977	\$85,029
Due from Central Bank and call loans to banks	-	-	2,419,943	76,484	-	-	2,455,377	75,947
Financial assets at fair value through profit or loss	170,711	5,395	-	-	46,011	1,423	-	-
Receivables	-	-	223,197	7,054	-	-	278,662	8,619
Bills and loans	-	-	60,286,695	1,905,395	-	-	55,814,691	1,726,406
Available-for-sale financial assets	721,024	22,788	-	-	495,112	15,314	-	-
Investment accounted for using equity method	-	-	107,091	3,385	-	-	-	-
Other financial assets	-	-	19,360,265	611,892	-	-	27,875,235	862,210
<u>Liabilities</u>								
Due to commercial banks	-	-	175,546	5,548	-	-	2,765,794	85,549
Payables	-	-	607,508	19,201	-	-	682,892	21,122
Deposits and remittances	-	-	84,055,676	2,656,627	-	-	84,559,847	2,615,523

d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models both were NT\$0 (US\$0) for the six months ended June 30, 2005 and 2006.

e. Lucky Bank recognized NT\$1,020,756 (US\$32,262) and NT\$1,032,879 (US\$31,948) as interest income, NT\$417,546 (US\$13,197) and NT\$507,513 (US\$15,698) as interest expense from the financial assets or liabilities that were not valued at fair value through profit or loss, respectively, for the six months ended June 30, 2005 and 2006. The adjustment in shareholders' equity arising from available-for-sale financial assets for the six months ended June 30, 2005 and 2006 were NT\$31,789 (US\$1,005) and NT\$29,106 (US\$900), respectively, and realizing gains or losses in income statements are both NT\$0 (US\$0) for the six months ended June 30, 2005 and 2006. The impairment loss of financial assets had not take place for the six months ended June 30, 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 adjusts the demand of operating fund by the above mentioned financial instruments. Lucky Bank also holds other financial assets and liabilities, such as receivables and payables caused by operating activities, financial assets carried at cost, debt securities with no active market and investment accounted for using equity method.

The main risks arising from Lucky Bank's financial instruments are as follows:

(a) Market risk

Lucky Bank holds financial assets at fair value through profit or loss and available-for-sale financial assets, its fair value will fluctuate on the stock market and interest rate tendency, and make the market price or the net assets value of the fund fluctuation.

(b) Credit risk

Lucky Bank holds or issue financial instruments may result in loss when certain customers fail to fulfill the obligation of contracts. Lucky Bank maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. The collateral loans is about 78% of total loans. Certain customers are required to provide appropriate collateral, such as cash, currency securities and other properties, for the related loans, and Lucky Bank retains the legal right to foreclose on or liquidate the collateral.

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The credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted any collateral or security proved to be of no value.

(c) Liquidity risk

Lucky Bank's operation fund is enough to cope with, it is able to raise the fund to fulfill the contract obligation.

The stocks with active market do not have liquidity risk except for financial assets carried at cost, investment accounted for using equity method and preferred stocks. Lucky Bank expects to sell these kinds of financial assets easily at the price approximate to fair value.

(d) Cash flow risk of interest rate fluctuation

Lucky Bank holds assets and obligations with a floating interest rate will make cash flow of interest rate risk from market interest rate change.

(3) Discretionary account management

Item	June 30, 2005			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$2,367,426	\$74,824	\$2,379,369	\$75,201
Repurchase bonds	6,858,783	216,776	6,587,219	208,193
Convertible bonds	33,867	1,070	34,119	1,078
Short-term notes	15,028	475	15,028	475
Bonds	3,653,657	115,476	3,665,091	115,837
Cash in banks	96,578	3,052	96,578	3,053
Net other assets less liabilities	(87,173)	(2,755)	(87,173)	(2,755)
Total	<u>\$12,938,166</u>	<u>\$408,918</u>	<u>\$12,690,231</u>	<u>\$401,082</u>

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Item	June 30, 2006			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$6,244,734	\$193,156	\$6,101,128	\$188,714
Repurchase bonds	4,866,991	150,541	4,868,233	150,579
Convertible bonds	23,498	727	27,184	841
Short-term notes	37,012	1,145	37,012	1,145
Bonds	2,957,884	91,490	2,896,000	89,576
Cash in banks	338,855	10,481	338,863	10,481
Net other assets less liabilities	3,090	96	3,090	96
Total	<u>\$14,472,064</u>	<u>\$447,636</u>	<u>\$14,271,510</u>	<u>\$441,432</u>

As of June 30, 2005 and 2006, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$11,650,000 (US\$368,205), and NT\$12,900,000 (US\$399,010), respectively.

(4) Capital adequacy ration on a consolidated basis :

As of June 30, 2005

Item	Eligible capital		Legal capital	
	(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	173,474,036	5,482,745	177,274,751	5,602,868
Cathay United Bank	76,310,054	2,411,822	54,957,391	1,736,959
Cathay Securities	3,624,647	114,559	130,149	4,113
Cathay Life	95,335,235	3,013,124	66,528,384	2,102,667
Cathay Century	4,042,909	127,778	1,207,438	38,162
Cathay Pacific Venture	559,411	17,680	279,761	8,842
Cathay Venture	226,282	7,152	113,402	3,584
Cathay II Venture	587,875	18,580	293,993	9,292
Cathay Capital Management	30,851	975	18,061	571
Less: Item	(177,672,562)	(5,615,441)	(172,393,704)	(5,448,600)
Subtotal	(A) 176,518,738	5,578,974	(B) 128,409,626	4,058,458
Consolidated capital adequacy ratios		(C)=(A)/(B)		137.47%

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As of June 30, 2006

Item	Eligible capital		Legal capital	
	(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	191,827,458	5,933,420	191,427,301	5,921,042
Cathay United Bank	92,834,641	2,871,471	56,864,344	1,758,872
Lucky Bank	3,202,841	99,067	2,439,516	75,457
Cathay Securities	2,895,215	89,552	239,612	7,412
Cathay Life	101,215,771	3,130,707	53,927,318	1,668,027
Cathay Century	4,380,697	135,499	1,040,304	32,178
Cathay Pacific Venture	600,792	18,583	298,861	9,244
Cathay Venture	264,508	8,182	132,845	4,109
Cathay II Venture	828,620	25,630	411,953	12,742
Cathay Capital Management	40,610	1,256	24,114	746
Less: Item	(208,069,448)	(6,435,801)	(188,754,101)	(5,838,358)
Subtotal	(A) 190,021,705	5,877,566	(B) 118,052,067	3,651,471
Consolidated capital adequacy ratios		(C)=(A)/(B)		160.96%

(5) 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.

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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.

(6) Material contract: None.

(7) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the six months ended June 30, 2005 have been reclassified in order to be comparable with those in the consolidated financial statements for the six months ended June 30, 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 June 30, 2006, Cathay Life's remittances to this company totaled approximately US\$48,330.

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31. Segment information

For the six months ended June 30, 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	13,380,579	26,032,700	123,756	(7,778)	(226,976)	39,302,281
Non-interest income	3,364,514	65,888,400	1,366,706	54,198	170,299	70,844,117
Provision for premiums reserve	-	(73,936,783)	(443,952)	-	-	(74,380,735)
Total income	16,745,093	17,984,317	1,046,510	46,420	(56,677)	35,765,663
Provision for loan losses	(855,007)	-	-	-	-	(855,007)
Operating expenses	(6,528,836)	(14,901,434)	(565,595)	(111,880)	(736,916)	(22,844,661)
Income from continuing operations before income taxes	9,361,250	3,082,883	480,915	(65,460)	(793,593)	12,065,995
Income taxes (expense) benefit	(2,054,000)	885,663	(87,120)	2,400	(141,336)	(1,394,393)
Consolidated income	7,307,250	3,968,546	393,795	(63,060)	(934,929)	10,671,602

For the six months ended June 30, 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	422,901	822,778	3,911	(246)	(7,173)	1,242,171
Non-interest income	106,337	2,082,440	43,196	1,713	5,382	2,239,068
Provision for premiums reserve	-	(2,336,814)	(14,031)	-	-	(2,350,845)
Total income	529,238	568,404	33,076	1,467	(1,791)	1,130,394
Provision for loan losses	(27,023)	-	-	-	-	(27,023)
Operating expenses	(206,348)	(470,968)	(17,876)	(3,536)	(23,291)	(722,019)
Income from continuing operations before income taxes	295,868	97,436	15,200	(2,069)	(25,082)	381,353
Income taxes (expense) benefit	(64,916)	27,992	(2,754)	76	(4,467)	(44,071)
Consolidated income	230,950	125,428	12,446	(1,993)	(29,549)	337,282

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For the six months ended June 30, 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	13,469,255	30,262,479	149,100	(550)	(374,194)	43,506,090
Non-interest income	3,788,934	60,617,661	1,695,415	147,689	(148,527)	66,101,172
Provision for premiums reserve	-	(72,298,578)	(554,077)	-	-	(72,852,655)
Total income	17,258,189	18,581,562	1,290,438	147,139	(522,721)	36,754,607
Provision for loan losses	(8,927,651)	-	-	-	-	(8,927,651)
Operating expenses	(5,495,725)	(17,093,602)	(706,607)	(149,130)	(480,248)	(23,925,312)
Income from continuing operations before income taxes	2,834,813	1,487,960	583,831	(1,991)	(1,002,969)	3,901,644
Income taxes (expense) benefit	276,821	1,935,851	(114,828)	(5,273)	(147,242)	1,945,329
Cumulative effect of changes in accounting principles	726,679	3,319,319	60,141	29	(856,845)	3,249,323
Consolidated income	3,838,313	6,743,130	529,144	(7,235)	(2,007,056)	9,096,296

For the six months ended June 30, 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	416,618	936,049	4,612	(17)	(11,574)	1,345,688
Non-interest income	117,195	1,874,966	52,441	4,568	(4,594)	2,044,576
Provision for premiums reserve	-	(2,236,269)	(17,138)	-	-	(2,253,407)
Total income	533,813	574,747	39,915	4,551	(16,168)	1,136,858
Provision for loan losses	(276,141)	-	-	-	-	(276,141)
Operating expenses	(169,988)	(528,723)	(21,856)	(4,613)	(14,855)	(740,035)
Income from continuing operations before income taxes	87,684	46,024	18,059	(62)	(31,023)	120,682
Income taxes (expense) benefit	8,562	59,878	(3,552)	(163)	(4,554)	60,171
Cumulative effect of changes in accounting principles	22,477	102,670	1,860	1	(26,503)	100,505
Consolidated income	118,723	208,572	16,367	(224)	(62,080)	281,358

32. Parent company financial statements

Cathay Financial Holding Co., Ltd.
Balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)

	June 30, 2005		June 30, 2006	
	NT \$	US \$	NT \$	US \$
Assets				
Cash and cash equivalents	\$35,098,096	\$1,109,295	\$26,220,431	\$811,025
Receivables -net	2,246,348	70,997	2,300,554	71,158
Investments under equity method	172,393,704	5,448,600	188,754,101	5,838,358
Other financial assets -net	100,000	3,161	31,720	981
Property and equipment -net	5,042	159	4,629	143
Other assets -net	2,708,742	85,611	3,178,699	98,321
Total assets	\$212,551,932	\$6,717,823	\$220,490,134	\$6,819,986
Liabilities & stockholders' equity				
Liabilities				
Financial liabilities at fair value through profit or loss	\$-	\$-	\$1,495,446	\$46,256
Payables	23,647,306	747,386	15,391,209	476,066
Bonds payable	15,238,962	481,636	11,172,574	345,579
Other liabilities	12,543	397	15,214	471
Total liabilities	38,898,811	1,229,419	28,074,443	868,372
Stockholders' equity				
Capital stock				
Common stock	84,758,914	2,678,853	85,646,481	2,649,133
Stock dividend to be distributed	-	-	4,263,443	131,873
Capital surplus	65,908,422	2,083,073	69,953,056	2,163,720
Retained earnings				
Legal reserve	6,009,431	189,931	8,188,136	253,267
Special reserve	226,579	7,161	-	-
undistributed earnings	16,998,517	537,248	18,113,107	560,257
Others stockholder's equity item				
Land revaluation increment	3,048	96	2,106	65
Cumulative conversion adjustments	(95,048)	(3,004)	43,856	1,357
Unrealized gains or losses on financial instruments	(4,961)	(157)	6,207,343	191,999
Treasury stock	(146,221)	(4,621)	-	-
Net loss not yet recognized as net pension cost	(5,560)	(176)	(1,837)	(57)
Total stockholders' equity	173,653,121	5,488,404	192,415,691	5,951,614
Total liabilities and stockholders' equity	\$212,551,932	\$6,717,823	\$220,490,134	\$6,819,986

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of income

For the six months ended June 30, 2005 and 2006

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

	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT \$	US \$	NT \$	US \$
Income				
Income from long-term equity investments	\$11,008,847	\$347,941	\$10,727,773	\$331,821
Gain on foreign exchange	110,132	3,481	-	-
Other operating income	8,670	274	16,667	516
Total income	11,127,649	351,696	10,744,440	332,337
Expenses and loss				
Interest income	383,807	12,130	504,102	15,592
Less: interest expenses	(536,819)	(16,966)	(797,231)	(24,659)
Net interest expenses	(153,012)	(4,836)	(293,129)	(9,067)
Loss on financial assets and liabilities at fair value through profit	-	-	(350,361)	(10,837)
Loss on foreign exchange	-	-	(11,884)	(367)
Operating expenses	(202,641)	(6,405)	(113,669)	(3,516)
Income from continuing operations before income taxes	10,771,996	340,455	9,975,397	308,550
Income taxes expense	(132,681)	(4,193)	(136,425)	(4,220)
Cumulative effect of changes in accounting principles	-	-	(858,814)	(26,564)
Net income	\$10,639,315	\$336,262	\$8,980,158	\$277,766

Earnings per share(expressed in dollars)

	Before		After		Before		After	
	income taxes	income taxes	income taxes	income taxes	income taxes	income taxes	income taxes	income taxes
Primary earnings per share:								
Net income from continuing operations	\$1.28	\$1.27	\$0.04	\$0.04	\$1.17	\$1.15	\$0.03	\$0.03
Cumulative effect of changes in accounting principles	-	-	-	-	(0.13)	(0.10)	-	-
Net income	<u>\$1.28</u>	<u>\$1.27</u>	<u>\$0.04</u>	<u>\$0.04</u>	<u>\$1.04</u>	<u>\$1.05</u>	<u>\$0.03</u>	<u>\$0.03</u>
Fully-diluted earnings per share:								
Net income from continuing operations	\$1.26	\$1.24	\$0.04	\$0.04	\$1.16	\$1.14	\$0.03	\$0.03
Cumulative effect of changes in accounting principles	-	-	-	-	(0.13)	(0.10)	-	-
Net income	<u>\$1.26</u>	<u>\$1.24</u>	<u>\$0.04</u>	<u>\$0.04</u>	<u>\$1.03</u>	<u>\$1.04</u>	<u>\$0.03</u>	<u>\$0.03</u>

Pro-forma information as if subsidiaries' investment in the Company

were not treated as treasury stock:

Income from continuing operations before income taxes	\$10,750,123	\$339,764
Net income	<u>\$10,617,442</u>	<u>\$335,570</u>

Earnings per share(expressed in dollars)

Primary earnings per share:				
Net income from continuing operations	\$1.28	\$1.26	\$0.04	\$0.04
Net income	<u>\$1.28</u>	<u>\$1.26</u>	<u>\$0.04</u>	<u>\$0.04</u>
Fully-diluted earnings per share:				
Net income from continuing operations	\$1.26	\$1.24	\$0.04	\$0.04
Net income	<u>\$1.26</u>	<u>\$1.24</u>	<u>\$0.04</u>	<u>\$0.04</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.
Statements of changes in stockholders' equity
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings								Other stockholders' equity item								Total			
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Land revaluation increment		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 \$		NT \$	US \$	NT \$
Balance on January 1, 2005	\$83,167,130	\$2,628,544	\$-	\$-	\$58,955,649	\$1,863,326	\$3,026,715	\$95,661	\$122,653	\$3,877	\$30,640,997	\$968,426	\$3,048	\$96	\$(96,005)	\$(3,034)	\$(110,435)	\$(3,490)	\$(354,955)	\$(11,219)	\$(5,560)	\$(176)	\$175,349,237	\$5,542,011
Appropriations and distribution for 2004																								
Legal reserve							2,982,716	94,270			(2,982,716)	(94,270)											-	-
Special reserve									103,926	3,284	(103,926)	(3,284)											-	-
Cash dividends											(21,187,333)	(669,638)											(21,187,333)	(669,638)
Remuneration paid to directors and supervisors											(5,700)	(181)											(5,700)	(181)
Bonus paid to employees											(2,120)	(67)											(2,120)	(67)
Convertible notes converted into common stock	1,591,784	50,309			6,968,363	220,239																	8,560,147	270,548
Capital surplus					1,009	32																	1,009	32
Cumulative conversion adjustments														957	30								957	30
Unrealized gains or losses of financial instruments																	105,474	3,333					105,474	3,333
Treasury stock					(16,599)	(524)													208,734	6,598			192,135	6,074
Net income for the six months ended June 30, 2005											10,639,315	336,262											10,639,315	336,262
Balance on June 30, 2005	\$84,758,914	\$2,678,853	\$-	\$-	\$65,908,422	\$2,083,073	\$6,009,431	\$189,931	\$226,579	\$7,161	\$16,998,517	\$537,248	\$3,048	\$96	\$(95,048)	\$(3,004)	\$(4,961)	\$(157)	\$(146,221)	\$(4,621)	\$(5,560)	\$(176)	\$173,653,121	\$5,488,404
Balance on January 1, 2006	\$85,242,234	\$2,636,629	\$-	\$-	\$68,092,037	\$2,106,157	\$6,009,431	\$185,878	\$226,579	\$7,008	\$28,146,255	\$870,593	\$3,048	\$94	\$81,154	\$2,510	\$(68,263)	\$(2,112)	\$-	\$-	\$(1,837)	\$(57)	\$187,730,638	\$5,806,700
Appropriations and distribution for 2005																								
Legal reserve							2,178,705	67,389			(2,178,705)	(67,389)											-	-
Special reserve									(226,579)	(7,008)	226,579	7,008											-	-
Cash dividends											(12,790,330)	(395,618)											(12,790,330)	(395,618)
Stock dividend to be distributed			4,263,443	131,873							(4,263,443)	(131,873)											-	-
Remuneration paid to directors and supervisors											(5,700)	(176)											(5,700)	(176)
Bonus paid to employees											(1,707)	(53)											(1,707)	(53)
Convertible notes converted into common stock	404,247	12,504			1,861,019	57,563																	2,265,266	70,067
Land revaluation increment													(942)	(29)									(942)	(29)
Cumulative conversion adjustments															(37,298)	(1,153)							(37,298)	(1,153)
Unrealized gains or losses of financial instruments																	6,275,606	194,111					6,275,606	194,111
Net income for the six months ended June 30, 2006											8,980,158	277,765											8,980,158	277,765
Balance on June 30, 2006	\$85,646,481	\$2,649,133	\$4,263,443	\$131,873	\$69,953,056	\$2,163,720	\$8,188,136	\$253,267	\$-	\$-	\$18,113,107	\$560,257	\$2,106	\$65	\$43,856	\$1,357	\$6,207,343	\$191,999	\$-	\$-	\$(1,837)	\$(57)	\$192,415,691	\$5,951,614

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd.
Statements of cash flows
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars)**

	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Net income	\$10,639,315	\$336,262	\$8,980,158	\$277,766
Adjustments:				
Amortizations	59,249	1,872	-	-
Depreciation	629	20	616	19
Investment income recognized by equity method excess of cash dividends received	6,960,602	219,994	5,583,647	172,708
Increase in bonds payable redemption premium	280,511	8,865	195,469	6,046
Effects of exchange rate changes	(825,631)	(26,095)	(12,833)	(397)
Cumulative effect of changes in accounting principles	-	-	858,814	26,564
Decrease (increase) on operating assets and liabilities				
(Increase) decrease in accounts receivable	(1,072,134)	(33,885)	703,448	21,758
Increase in deferred income tax assets	-	-	(100,827)	(3,119)
Decrease in other financial assets	-	-	68,280	2,112
Increase in other assets	(56)	(2)	(844)	(26)
Increase (decrease) in accounts payable	670,414	21,189	(1,354,900)	(41,909)
Increase in financial liabilities at fair value through profit and loss	-	-	350,361	10,837
Increase in income tax payable	591,502	18,695	608,180	18,812
Decrease in deferred income tax liabilities	(79,037)	(2,498)	-	-
Increase in other liabilities	3,797	120	4,234	131
Net cash provided by operating activities	<u>17,229,161</u>	<u>544,537</u>	<u>15,883,803</u>	<u>491,302</u>
Cash flows from investing activities				
Acquisition of long-term investments in stocks	(650,000)	(20,543)	-	-
Acquisition of property and equipment	(850)	(27)	(269)	(8)
(Increase) decrease in other assets	(2,522,367)	(79,721)	38,426	1,188
Net cash (used in) provided by investing activities	<u>(3,173,217)</u>	<u>(100,291)</u>	<u>38,157</u>	<u>1,180</u>
Cash flows from financing activities				
Decrease in bonds payable	(255,962)	(8,090)	(162,801)	(5,035)
Net cash used in financing activities	<u>(255,962)</u>	<u>(8,090)</u>	<u>(162,801)</u>	<u>(5,035)</u>
Effects of exchange rate changes	<u>825,631</u>	<u>26,095</u>	<u>12,833</u>	<u>397</u>
Increase in cash and cash equivalents	<u>14,625,613</u>	<u>462,251</u>	<u>15,771,992</u>	<u>487,844</u>
Cash and cash equivalents at the beginning of period	<u>20,472,483</u>	<u>647,044</u>	<u>10,448,439</u>	<u>323,181</u>
Cash and cash equivalents at the end of period	<u>\$35,098,096</u>	<u>\$1,109,295</u>	<u>\$26,220,431</u>	<u>\$811,025</u>
Supplemental disclosure of cash flows information				
Interest paid	<u>\$230,180</u>	<u>\$7,275</u>	<u>\$592,618</u>	<u>\$18,330</u>
Income tax paid	<u>\$80,006</u>	<u>\$2,529</u>	<u>\$470,515</u>	<u>\$14,554</u>
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	<u>\$8,560,147</u>	<u>\$270,548</u>	<u>\$2,265,266</u>	<u>\$70,067</u>

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
June 30, 2005 and 2006
(Expressed in thousands of dollars)**

Item	June 30,2005		June 30,2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$514,600,423	#####	\$546,193,273	#####
Loans	445,220,365	14,071,440	454,521,365	14,058,811
Funds and investments	667,041,419	21,082,219	835,590,246	25,845,662
Property and equipment	14,554,331	459,998	13,271,228	410,493
Intangible assets	148,929	4,707	309,512	9,574
Other assets	65,284,158	2,063,343	131,629,863	4,071,446
Total assets	<u>#####</u>	<u>#####</u>	<u>#####</u>	<u>#####</u>
Liabilities				
Current liabilities	\$6,440,372	\$203,552	\$31,782,431	\$983,063
Long-term liabilities	1,568,186	49,563	1,660,742	51,369
Other liabilities	1,615,127,695	51,047,019	1,850,351,884	57,233,278
Total liabilities	<u>1,623,136,253</u>	<u>51,300,134</u>	<u>1,883,795,057</u>	<u>58,267,710</u>
Stockholders' equity				
Capital stock	50,686,158	1,601,965	50,686,158	1,567,775
Capital surplus	10,105	320	10,105	312
Retained earnings	33,124,326	1,046,913	40,997,145	1,268,084
Others	(107,217)	(3,389)	6,027,022	186,422
Total stockholders' equity	<u>83,713,372</u>	<u>2,645,809</u>	<u>97,720,430</u>	<u>3,022,593</u>
Total liabilities and stockholders' equity	<u>#####</u>	<u>#####</u>	<u>#####</u>	<u>#####</u>

**Cathay Life Insurance Co., Ltd.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except earnings per share)**

Item	January 1 ~ June 30,2005		January 1 ~ June 30,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$235,097,847	\$7,430,400	\$276,514,717	\$8,552,883
Operating costs	(227,146,305)	(7,179,087)	(269,705,671)	(8,342,272)
Operating gross profit	7,951,542	251,313	6,809,046	210,611
Operating expenses	(5,167,560)	(163,324)	(5,498,574)	(170,077)
Non-operating revenues & gains	770,749	24,360	630,645	19,506
Non-operating expenses & losses	(290,285)	(9,174)	(13,544)	(419)
Income from continuing operations before income taxes	<u>\$3,264,446</u>	<u>\$103,175</u>	<u>\$1,927,573</u>	<u>\$59,621</u>
Cumulative effect of changes in accounting principles	<u>\$-</u>	<u>\$-</u>	<u>\$3,315,855</u>	<u>\$102,563</u>
Net income	<u>\$4,150,109</u>	<u>\$131,167</u>	<u>\$7,179,279</u>	<u>\$222,062</u>
Earnings per share (In dollars)				
Income from continuing operations before income taxes	<u>\$0.64</u>	<u>\$0.02</u>	<u>\$0.38</u>	<u>\$0.01</u>
Cumulative effect of changes in accounting principles	<u>\$-</u>	<u>\$-</u>	<u>\$0.66</u>	<u>\$0.02</u>
Net income	<u>\$0.82</u>	<u>\$0.03</u>	<u>\$1.42</u>	<u>\$0.04</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Concise balance sheets

June 30, 2005 and 2006

(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$5,738,558	\$181,370	\$6,788,711	\$209,982
Loans	1,306,392	41,289	1,747,000	54,036
Funds and investments	4,230,966	133,722	4,336,658	134,137
Fixed assets	57,692	1,824	49,010	1,516
Intangible assets	19,174	606	13,363	413
Other assets	551,017	17,415	539,963	16,702
Total assets	\$11,903,799	\$376,226	\$13,474,705	\$416,786
Liabilities				
Current liabilities	\$1,146,736	\$36,243	\$1,387,797	\$42,926
Long-term liabilities	9,450	299	8,855	274
Other liabilities	7,850,778	248,128	8,860,090	274,051
Total liabilities	9,006,964	284,670	10,256,742	317,251
Stockholders' equity				
Capital stock	2,317,006	73,230	2,317,006	71,667
Capital surplus	2,021	64	2,021	63
Retained earnings	578,273	18,277	837,870	25,916
Others	(465)	(15)	61,066	1,889
Total stockholders' equity	2,896,835	91,556	3,217,963	99,535
Total liabilities and stockholders' equity	\$11,903,799	\$376,226	\$13,474,705	\$416,786

Cathay Century Insurance Co., Ltd.

Concise statements of income

For the six months ended June 30, 2005 and 2006

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

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$10,920,341	\$345,144	\$10,383,664	\$321,177
Operating costs	(9,696,686)	(306,470)	(8,915,854)	(275,776)
Operating gross profit	1,223,655	38,674	1,467,810	45,401
Operating expenses	(846,689)	(26,760)	(919,995)	(28,456)
Non-operating revenues	3,640	115	940	29
Non-operating expenses	(16)	-	(55)	(2)
Income from continuing operations before income taxes	\$380,590	\$12,029	\$548,700	\$16,972
Cumulative effect of changes in accounting principles	\$-	\$-	\$60,141	\$1,860
Net income	\$293,470	\$9,275	\$494,013	\$15,280
Earning per share (In dollars)				
Income from continuing operations before income taxes	\$1.64	\$0.05	\$2.37	\$0.07
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.26	\$0.01
Net income	\$1.27	\$0.04	\$2.13	\$0.07

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Ltd.(Shanghai)

Concise balance sheets

June 30, 2005 and 2006

(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$1,979,658	\$62,568	\$2,095,063	\$64,802
Loans	600	19	1,682	52
Funds and investments	454,075	14,351	1,179,997	36,498
Fixed assets	21,403	676	27,474	850
Intangible assets	2,498	79	2,556	79
Other assets	626,077	19,788	1,051,680	32,530
Total assets	\$3,084,311	\$97,481	\$4,358,452	\$134,811
Liabilities				
Current liabilities	\$12,587	\$398	\$11,162	\$345
Other liabilities	106,872	3,377	1,256,505	38,865
Total liabilities	119,459	3,775	1,267,667	39,210
Stockholders' equity				
Capital stock	3,257,376	102,951	3,257,376	100,754
Retained earnings	(91,472)	(2,891)	(220,411)	(6,818)
Others	(201,052)	(6,354)	53,820	1,665
Total stockholders' equity	2,964,852	93,706	3,090,785	95,601
Total liabilities and stockholders' equity	\$3,084,311	\$97,481	\$4,358,452	\$134,811

Cathay Life Insurance Ltd.(Shanghai)

Concise statements of income

For the six months ended June 30, 2005 and 2006

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

Items	January 1 ~ June 30,2005		January 1 ~ June 30,2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$141,670	\$4,478	\$684,059	\$21,159
Operating costs	(117,790)	(3,723)	(591,005)	(18,281)
Operating gross profit	23,880	755	93,054	2,878
Operating expenses	(76,419)	(2,415)	(116,505)	(3,603)
Non-operating expenses	(41)	(2)	(10,184)	(315)
Loss from continuing operations before income taxes	\$(52,580)	\$(1,662)	\$(33,635)	\$(1,040)
Cumulative effect of changes in accounting principles	\$-	\$-	\$3,464	\$107
Net loss	\$(52,580)	\$(1,662)	\$(30,171)	\$(933)
Earnings per share (In dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

Note : Cathay Life Insurance (Shanghai) is a limited company, there is non information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank Co., Ltd.
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NTS	US\$	NTS	US\$
Assets				
Cash and cash equivalents	\$19,052,385	\$602,161	\$30,090,611	\$930,733
Due from the Central Bank and call loans to banks	58,115,449	1,836,771	37,849,221	1,170,715
Financial assets at fair value through profit and loss	48,972,886	1,547,816	54,073,830	1,672,559
Securities purchased under agreements to resell	2,360,774	74,614	811,465	25,099
Available-for-sale financial assets, net	39,740,134	1,256,009	52,421,577	1,621,453
Receivables, net	57,942,159	1,831,295	69,990,848	2,164,889
Loans and advances to customers, net	612,533,921	19,359,479	635,855,822	19,667,672
Held-to-maturity financial assets, net	8,237,758	260,359	6,383,600	197,451
Investments accounted for using equity method, net	4,987,834	157,643	2,022,405	62,555
Premises and equipment, net	25,048,759	791,680	24,479,815	757,186
Other financial assets, net	150,749,635	4,764,527	213,971,577	6,618,360
Other assets, net	5,044,740	159,442	6,805,634	210,505
Total assets	\$1,032,786,434	\$32,641,796	\$1,134,756,405	\$35,099,177
Liabilities				
Due to the Central Bank and call loans from banks	\$75,554,475	\$2,387,942	\$105,483,306	\$3,262,707
Payables	15,639,948	494,309	25,280,714	781,958
Deposits and remittances	775,019,105	24,494,915	822,914,285	25,453,581
Financial liabilities at fair value through profit or loss	49,728,811	1,571,707	52,784,610	1,632,682
Securities sold under agreements to repurchase	30,742,828	971,644	28,836,207	891,934
Banker's acceptances and funds borrowed	791,500	25,016	811,625	25,104
Financial debentures payable	2,350,000	74,273	17,282,698	534,572
Other financial liabilities	311,510	9,846	1,591,585	49,229
Other liabilities	1,989,278	62,872	1,777,643	54,984
Total liabilities	952,127,455	30,092,524	1,056,762,673	32,686,751
Shareholders' equity				
Capital stock	46,420,518	1,467,146	46,420,518	1,435,834
Capital reserves	13,463,714	425,528	13,464,276	416,464
Retained earnings	20,761,111	656,167	18,099,621	559,840
Others	13,636	431	9,317	288
Total shareholders' equity	80,658,979	2,549,272	77,993,732	2,412,426
Total liabilities and shareholders' equity	\$1,032,786,434	\$32,641,796	\$1,134,756,405	\$35,099,177

Cathay United Bank Co., Ltd.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except per share information)

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NTS	US\$	NTS	US\$
Net interest income	\$13,051,276	\$412,493	\$12,801,760	\$395,971
Non-interest income	3,327,040	105,153	3,662,664	113,290
Net operating income	16,378,316	517,646	16,464,424	509,261
Provision for loan losses	(855,007)	(27,023)	(8,927,651)	(276,141)
Operating expenses	(6,823,611)	(215,664)	(5,810,067)	(179,711)
Income from continuing operations before income taxes	\$8,699,698	\$274,959	\$1,726,706	\$53,409
Cumulative effect of changes in accounting principles	\$-	\$-	\$726,679	\$22,477
Net income	\$6,645,698	\$210,041	\$2,828,385	\$87,485
Earnings per share (In dollars)				
Income from continuing operations before income taxes	\$1.87	\$0.06	\$0.37	\$0.01
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.15	\$-
Net income	\$1.43	\$0.05	\$0.61	\$0.02

English Translation of Financial Statements Originally Issued in Chinese

Lucky Bank, Inc.
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$2,969,079	\$93,840	\$2,748,977	\$85,029
Due from the Central Bank and call loans to banks	2,419,943	76,484	2,455,377	75,947
Financial assets at fair value through profit or loss	170,711	5,395	46,011	1,423
Available-for-sale financial assets, net	721,024	22,788	495,112	15,314
Receivables, net	223,197	7,054	278,662	8,619
Loans and advances to customers, net	60,286,695	1,905,395	55,814,691	1,726,406
Investments accounted for using equity method, net	107,091	3,385	-	-
Premises and equipment, net	1,704,051	53,858	1,681,328	52,005
Other financial assets, net	19,360,265	611,892	27,875,235	862,210
Other assets, net	852,772	26,952	689,423	21,325
Total assets	\$88,814,828	\$2,807,043	\$92,084,816	\$2,848,278
Liabilities				
Due to the Central Bank and call loans from banks	\$175,546	\$5,548	\$2,765,794	\$85,549
Payables	607,508	19,201	682,892	21,122
Deposits and remittances	84,055,676	2,656,627	84,559,847	2,615,523
Other liabilities	308,234	9,742	263,871	8,162
Total liabilities	85,146,964	2,691,118	88,272,404	2,730,356
Shareholders' equity				
Capital stock	3,146,000	99,431	3,146,000	97,309
Capital reserves	463,482	14,649	463,482	14,336
Retained earnings	107,278	3,390	245,068	7,580
Others	(48,896)	(1,545)	(42,138)	(1,303)
Total shareholders' equity	3,667,864	115,925	3,812,412	117,922
Total liabilities and shareholders' equity	\$88,814,828	\$2,807,043	\$92,084,816	\$2,848,278

Lucky Bank, Inc.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except per share information)

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$603,210	\$19,065	\$525,366	\$16,250
Non-interest income	(325,130)	(10,276)	56,973	1,762
Net operating revenue	278,080	8,789	582,339	18,012
Operating expenses	(444,093)	(14,036)	(379,312)	(11,732)
(Loss) income from continuing operations before income taxes	\$(166,013)	\$(5,247)	\$203,027	\$6,280
Net (loss) income	\$(166,376)	\$(5,258)	\$138,202	\$4,275
Earnings per share (In dollars)				
(Loss) income from continuing operations before income taxes	\$(0.53)	\$(0.02)	\$0.65	\$0.02
Net (loss) income	\$(0.53)	\$(0.02)	\$0.44	\$0.01

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$613,643	\$19,395	\$652,013	\$20,168
Due from the Central Bank and call loans to banks	524,223	16,568	538,848	16,667
Financial assets at fair value through profit and loss	17,415	551	62,374	1,929
Available-for-sale financial assets, net	468,010	14,792	319,255	9,875
Receivables, net	71,148	2,249	76,374	2,362
Loans and advances to customers, net	5,929,536	187,406	7,052,149	218,130
Premises and equipment, net	35,980	1,137	115,868	3,584
Other assets, net	232	7	352	11
Total assets	\$7,660,187	\$242,105	\$8,817,233	\$272,726
Liabilities				
Due to the Central Bank and call loans from banks	\$1,658,817	\$52,428	\$1,664,363	\$51,480
Payables	400,571	12,661	860,300	26,610
Deposits and remittances	4,647,226	146,878	5,218,989	161,429
Total liabilities	6,706,614	211,967	7,743,652	239,519
Shareholders' equity				
Capital stock	791,658	25,021	791,657	24,487
Retained earnings	161,389	5,101	260,753	8,065
Others	526	16	21,171	655
Total shareholders' equity	953,573	30,138	1,073,581	33,207
Total liabilities and shareholders' equity	\$7,660,187	\$242,105	\$8,817,233	\$272,726

Indovina Bank Limited
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except per share information)

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$113,476	\$3,586	\$156,407	\$4,838
Non-interest income	9,964	315	73,759	2,281
Net operating revenue	123,440	3,901	230,166	7,119
Operating expenses	(48,325)	(1,527)	(66,080)	(2,044)
Income from continuing operations before income taxes	\$75,115	\$2,374	\$164,086	\$5,075
Net income	\$59,770	\$1,889	\$130,732	\$4,044
Earnings per share (In dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

Note : Indovina Bank is a subsidiary of foreign bank. Thus, there is non information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)**

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$4,193,469	\$132,537	\$3,002,305	\$92,864
Funds and investments	18	1	721,869	22,328
Property and equipment	92,432	2,921	99,076	3,065
Intangible assets	1,552	49	1,928	60
Other assets	226,327	7,153	329,928	10,205
Total assets	\$4,513,798	\$142,661	\$4,155,106	\$128,522
Liabilities				
Current liabilities	\$566,135	\$17,893	\$120,331	\$3,722
Long-term liabilities	-	-	211	6
Other liabilities	9,004	285	14,673	454
Total liabilities	575,139	18,178	135,215	4,182
Stockholders' equity				
Capital stock	3,700,000	116,940	3,700,000	114,445
Capital surplus	300,000	9,482	258,434	7,994
Retained earnings	(61,341)	(1,939)	61,457	1,901
Total stockholders' equity	3,938,659	124,483	4,019,891	124,340
Total liabilities and stockholders' equity	\$4,513,798	\$142,661	\$4,155,106	\$128,522

**Cathay Securities Corporation
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Revenue	\$110,157	\$3,481	\$182,885	\$5,657
Expenses	(132,332)	(4,182)	(173,227)	(5,358)
Income (loss) from continuing operations before income taxes	\$(22,175)	\$(701)	\$9,658	\$299
Cumulative effect of changes in accounting principles	\$-	\$-	\$173	\$5
Net income (loss)	\$(19,775)	\$(625)	\$4,558	\$141
Earnings per share (In dollars)				
Income (loss) from continuing operations before income taxes	\$(0.06)	\$-	\$0.03	\$-
Cumulative effect of changes in accounting principles	\$-	\$-	\$-	\$-
Net income (loss)	\$(0.06)	\$-	\$0.01	\$-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Pacific Venture Capital Co., Ltd.

Concise balance sheets

June 30, 2005 and 2006

(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$418,335	\$13,222	\$396,198	\$12,255
Funds and investments	141,186	4,462	204,831	6,335
Total assets	<u>\$559,521</u>	<u>\$17,684</u>	<u>\$601,029</u>	<u>\$18,590</u>
Liabilities				
Current liabilities	\$110	\$3	\$237	\$7
Total liabilities	<u>110</u>	<u>3</u>	<u>237</u>	<u>7</u>
Stockholders' equity				
Capital stock	600,000	18,964	600,000	18,559
Retained earnings	(39,739)	(1,256)	(40,587)	(1,256)
Equity adjustment	(850)	(27)	41,379	1,280
Total stockholders' equity	<u>559,411</u>	<u>17,681</u>	<u>600,792</u>	<u>18,583</u>
Total liabilities and stockholders' equity	<u>\$559,521</u>	<u>\$17,684</u>	<u>\$601,029</u>	<u>\$18,590</u>

Cathay Pacific Venture Capital Co., Ltd.

Concise statements of income

For the six months ended June 30, 2005 and 2006

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

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$41	\$1	\$5,608	\$174
Operating costs	(23,533)	(744)	(9,142)	(283)
Operating gross profit	(23,492)	(743)	(3,534)	(109)
Operating expenses	(7,795)	(246)	(7,831)	(242)
Non-operating expenses	-	-	366	11
Income from continuing operations before income taxes	<u>\$(31,287)</u>	<u>\$(989)</u>	<u>\$(10,999)</u>	<u>\$(340)</u>
Net income	<u>\$(24,246)</u>	<u>\$(766)</u>	<u>\$(9,548)</u>	<u>\$(295)</u>
Earning per share (In dollars)				
Income from continuing operations before income taxes	<u>\$(0.52)</u>	<u>\$(0.02)</u>	<u>\$(0.18)</u>	<u>\$(0.01)</u>
Net income	<u>\$(0.40)</u>	<u>\$(0.01)</u>	<u>\$(0.16)</u>	<u>\$-</u>

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Capital Co., Ltd.
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)**

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$646,321	\$20,427	\$727,932	\$22,516
Funds and investments	865,699	27,361	1,049,201	32,453
Total assets	\$1,512,020	\$47,788	\$1,777,133	\$54,969
Liabilities				
Current liabilities	\$3,474	\$110	\$13,745	\$425
Total liabilities	3,474	110	13,745	425
Stockholders' equity				
Capital stock	1,500,000	47,408	1,500,000	46,397
Retained earnings	10,408	329	120,546	3,729
Equity adjustment	(1,862)	(59)	142,842	4,418
Total stockholders' equity	1,508,546	47,678	1,763,388	54,544
Total liabilities and stockholders' equity	\$1,512,020	\$47,788	\$1,777,133	\$54,969

**Cathay Venture Capital Co., Ltd.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$89,675	\$2,834	\$155,731	\$4,817
Operating costs	(1,817)	(57)	(8,848)	(274)
Operating gross profit	87,858	2,777	146,883	4,543
Operating expenses	(9,234)	(292)	(15,001)	(464)
Non-operating revenues	27	1	-	-
Non-operating expenses	-	-	(3)	-
Income from continuing operations before income taxes	\$78,651	\$2,486	\$131,879	\$4,079
Net income	\$75,185	\$2,376	\$121,636	\$3,762
Earning per share (In dollars)				
Income from continuing operations before income taxes	\$0.77	\$0.02	\$0.88	\$0.03
Net income	\$0.74	\$0.02	\$0.81	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

**Cathay II Venture Capital Co., Ltd.
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)**

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$93,827	\$2,966	\$105,586	\$3,266
Funds and investments	494,158	15,618	723,717	22,385
Total assets	<u>\$587,985</u>	<u>\$18,584</u>	<u>\$829,303</u>	<u>\$25,651</u>
Liabilities				
Current liabilities	\$110	\$4	\$683	\$21
Total liabilities	<u>110</u>	<u>4</u>	<u>683</u>	<u>21</u>
Stockholders' equity				
Capital stock	600,000	18,963	600,000	18,558
Retained earnings	(10,339)	(327)	101,507	3,140
Equity adjustment	(1,786)	(56)	127,113	3,932
Total stockholders' equity	<u>587,875</u>	<u>18,580</u>	<u>828,620</u>	<u>25,630</u>
Total liabilities and stockholders' equity	<u>\$587,985</u>	<u>\$18,584</u>	<u>\$829,303</u>	<u>\$25,651</u>

**Cathay II Venture Capital Co., Ltd.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$3,683	\$116	\$97,527	\$3,016
Operating gross profit	3,683	116	97,527	3,016
Operating expenses	(6,118)	(193)	(5,308)	(164)
Income from continuing operations before income taxes	<u>\$(2,435)</u>	<u>\$(77)</u>	<u>\$92,219</u>	<u>\$2,852</u>
Net income	<u>\$(2,435)</u>	<u>\$(77)</u>	<u>\$96,137</u>	<u>\$2,974</u>
Earning per share (In dollars)				
Income from continuing operations before income taxes	<u>\$(0.04)</u>	<u>\$-</u>	<u>\$1.54</u>	<u>\$0.05</u>
Net income	<u>\$(0.04)</u>	<u>\$-</u>	<u>\$1.60</u>	<u>\$0.05</u>

English Translation of Financial Statements Originally Issued in Chinese

Symphox Information Co., Ltd.
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$404,821	\$12,795	\$479,259	\$14,824
Fixed assets	136,964	4,329	163,477	5,057
Intangible assets	2,515	79	6,545	202
Other assets	6,659	210	21,683	671
Total assets	\$550,959	\$17,413	\$670,964	\$20,754
Liabilities				
Current liabilities	\$106,274	\$3,359	\$237,937	\$7,360
Other liabilities	87	2	87	3
Total liabilities	106,361	3,361	238,024	7,363
Stockholders' equity				
Capital stock	499,000	15,771	499,000	15,434
Retained earnings	(54,402)	(1,719)	(66,060)	(2,043)
Total stockholders' equity	444,598	14,052	432,940	13,391
Total liabilities and stockholders' equity	\$550,959	\$17,413	\$670,964	\$20,754

Symphox Information Co., Ltd.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$279,165	\$8,823	\$445,183	\$13,770
Operating costs	(254,583)	(8,046)	(423,464)	(13,098)
Operating gross profit	24,582	777	21,719	672
Operating expenses	(27,301)	(863)	(38,252)	(1,183)
Non-operating revenues	1,793	57	1,899	59
Non-operating expenses	(52)	(2)	(20)	(1)
Income from continuing operations before income taxes	\$(978)	\$(31)	\$(14,654)	\$(453)
Cumulative effect of changes in accounting principles	\$-	\$-	\$1,809	\$56
Net income	\$(978)	\$(31)	\$(12,845)	\$(397)
Earning per share (In dollars)				
Income from continuing operations before income taxes	\$(0.02)	\$-	\$(0.30)	\$(0.01)
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.04	\$-
Net income	\$(0.02)	\$-	\$(0.26)	\$(0.01)

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Corp.
Concise balance sheets
June 30, 2005 and 2006
(Expressed in thousands of dollars)**

Items	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$1,279,372	\$40,435	\$1,406,435	\$43,502
Funds and investments	30,500	964	30,500	943
Fixed assets	341,552	10,795	333,149	10,305
Other assets	143,514	4,536	157,921	4,885
Total assets	\$1,794,938	\$56,730	\$1,928,005	\$59,635
Liabilities				
Current liabilities	\$1,060,896	\$33,530	\$1,199,423	\$37,099
Other liabilities	13,641	431	6,664	206
Total liabilities	1,074,537	33,961	1,206,087	37,305
Stockholders' equity				
Capital stock	650,000	20,544	650,000	20,105
Retained earnings	70,401	2,225	71,918	2,225
Total stockholders' equity	720,401	22,769	721,918	22,330
Total liabilities and stockholders' equity	\$1,794,938	\$56,730	\$1,928,005	\$59,635

**Cathay Futures Corp.
Concise statements of income
For the six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2005		January 1 ~ June 30, 2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$92,891	\$2,936	\$46,704	\$1,445
Operating costs	(54,557)	(1,725)	(16,056)	(497)
Operating gross profit	38,334	1,211	30,648	948
Operating expenses	(42,877)	(1,355)	(33,116)	(1,024)
Non-operating revenues	10,745	340	23,044	713
Non-operating expenses	(644)	(20)	(9,273)	(287)
Income from continuing operations before income taxes	\$5,558	\$176	\$11,303	\$350
Cumulative effect of changes in accounting principles	\$-	\$-	\$159	\$5
Net income	\$2,351	\$74	\$11,445	\$354
Earning per share (In dollars)				
Income from continuing operations before income taxes	\$0.04	\$-	\$0.17	\$0.01
Cumulative effect of changes in accounting principles	\$-	\$-	\$-	\$-
Net income	\$0.04	\$-	\$0.17	\$0.01