

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
As of December 31, 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.

Index

	<u>Page</u>
Independent Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Stockholders' Equity	6
Consolidated Statements of Cash Flows	7-8
Notes to Consolidated Financial Statements	9-173

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 December 31, 2005 and 2006 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years 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 and "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements". 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 statement. 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 December 31, 2005 and 2006 and the results of its operations and its cash flows for the years then ended in conformity with "Business Entity Accounting Act", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and generally accepted accounting principles in the Republic of China.

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
February 9, 2007

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

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

Assets	Notes	December 31, 2005		December 31, 2006	
		NT \$	US \$	NT \$	US \$
Cash and cash equivalents	2,4	\$482,558,562	\$14,712,151	\$519,248,057	\$15,932,742
Due from the Central Bank and call loans to banks		51,963,108	1,584,241	51,598,723	1,583,269
Financial assets at fair value through profit or loss	2,5	166,541,844	5,077,495	157,631,815	4,836,815
Securities purchased under agreements to resell		4,679,745	142,675	1,786,058	54,804
Receivables -net		96,492,382	2,941,841	91,567,899	2,809,693
Subsidiary assets held for sale		186,004	5,671	-	-
Loans -net	2,6	1,122,320,214	34,217,080	1,206,511,996	37,020,927
Available-for-sale financial assets -net	2,7	274,916,284	8,381,594	389,399,889	11,948,447
Held-to-maturity financial assets -net	2,8	471,444,183	14,373,298	544,803,815	16,716,901
Investments -equity method	2,9	3,346,377	102,024	3,700,103	113,535
Other financial assets -net	2,10	128,964,333	3,931,840	203,548,945	6,245,749
Investments in debt securities with no active market		71,499,968	2,179,877	85,404,204	2,620,565
Investments in real estate	2,11	101,783,914	3,103,168	102,545,157	3,146,522
Property and equipment -net		44,179,305	1,346,930	38,830,185	1,191,475
Goodwill and intangible assets -net		1,174,900	35,820	394,073	12,092
Other assets -net		42,872,530	1,307,089	50,542,769	1,550,867
Total assets		\$3,064,923,653	\$93,442,794	\$3,447,513,688	\$105,784,403
Liabilities & stockholders' equity					
Liabilities					
Due to the Central Bank and call loans from banks		\$72,006,109	\$2,195,308	\$100,472,725	\$3,082,931
Funds borrowed from the Central and other banks		820,500	25,015	816,250	25,046
Commercial paper payable	2,12	1,399,442	42,666	-	-
Financial liabilities at fair value through profit or loss	2,13	52,551,261	1,602,173	68,054,088	2,088,189
Securities sold under agreements to repurchase	5,7	33,864,935	1,032,468	23,661,740	726,043
Payables		33,843,806	1,031,823	42,873,136	1,315,530
Subsidiary liabilities held for sale		127,287	3,881	-	-
Deposits	14	874,847,607	26,672,183	962,572,893	29,535,836
Bonds payable	2,15	32,161,468	980,533	22,409,028	687,605
Reserve for operations and liabilities	2,16	1,659,217,789	50,585,908	1,826,647,352	56,049,320
Other financial liabilities	2,17	94,981,929	2,895,790	162,855,684	4,997,106
Other liabilities		17,940,513	546,967	18,125,055	556,154
Total liabilities		2,873,762,646	87,614,715	3,228,487,951	99,063,760
Stockholders' equity attributable to equity holders of the parent					
Capital stock					
Common stock	18	85,242,234	2,598,849	92,068,174	2,825,044
Capital surplus	19	68,092,037	2,075,977	78,867,213	2,419,982
Retained earnings					
Legal reserve		6,009,431	183,214	8,188,136	251,247
Special reserve		226,579	6,908	-	-
Undistributed earnings		28,146,255	858,117	19,710,210	604,793
Other stockholders' equity					
Unrealized revaluation increments		3,048	93	2,106	65
Cumulative translation adjustments		81,154	2,474	105,170	3,227
Unrealized gains or losses on financial instruments		(68,263)	(2,081)	21,345,473	654,970
Treasury stock	2,21	-	-	(4,140,047)	(127,034)
Net loss not recognized as pension cost		(1,837)	(56)	(573)	(18)
Total equity attributable to stockholders of the parent		187,730,638	5,723,495	216,145,862	6,632,276
Minority interest		3,430,369	104,584	2,879,875	88,367
Total stockholders' equity		191,161,007	5,828,079	219,025,737	6,720,643
Total liabilities and stockholders' equity		\$3,064,923,653	\$93,442,794	\$3,447,513,688	\$105,784,403

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT\$32.80 and NT\$32.59 to US\$1.00, respectively)

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 years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)

	Notes	2005		2006			
		NT \$	US \$	NT \$	US \$		
Interest income	2	\$96,661,277	\$2,946,990	\$107,166,401	\$3,288,322		
Less: Interest expenses	2	(14,635,667)	(446,209)	(20,153,789)	(618,404)		
Net interest income		82,025,610	2,500,781	87,012,612	2,669,918		
Net income other than interest							
Net commission and handling fee		7,408,430	225,867	4,225,968	129,671		
Net premiums from insurance business		141,564,035	4,315,977	133,531,630	4,097,319		
Losses on financial assets and liabilities at fair value through profit or loss		(3,471,311)	(105,833)	(5,903,958)	(181,159)		
Realized gains on available-for-sale financial assets		16,310,398	497,268	14,884,389	456,716		
Realized gains (losses) on held-to-maturity financial assets		334,239	10,190	(175,385)	(5,382)		
Investment income under equity method		324,003	9,878	1,785,654	54,792		
Gains on investments in real estate		12,463,673	379,990	12,198,216	374,293		
Gains (losses) on foreign exchange		409,199	12,476	(783,331)	(24,036)		
Impairment losses		(1,480,349)	(45,133)	(497,279)	(15,259)		
Provision for premiums reserve		(168,182,786)	(5,127,524)	(167,413,720)	(5,136,966)		
Other non-interest income-net		342,354	10,438	2,220,182	68,125		
Subtotal		88,047,495	2,684,375	81,084,978	2,488,032		
Provision for loan losses		(14,994,758)	(457,157)	(25,889,465)	(794,399)		
Operating expenses							
Personnel expenses		(36,576,710)	(1,115,144)	(36,684,211)	(1,125,628)		
Depreciation and amortizations expenses		(3,954,055)	(120,551)	(4,081,169)	(125,227)		
Other general and administration expenses		(10,291,889)	(313,777)	(10,315,200)	(316,514)		
Income from continuing operations before income taxes		22,230,083	677,746	4,114,933	126,264		
Income taxes (expenses) benefit	2,22	(470,858)	(14,355)	3,372,705	103,489		
Consolidated income before cumulative effect of changes in accounting principles		21,759,225	663,391	7,487,638	229,753		
Cumulative effect of changes in accounting principles		-	-	3,249,323	99,703		
Consolidated income		\$21,759,225	\$663,391	\$10,736,961	\$329,456		
Include:							
Parent company		\$21,787,053	\$664,239	\$10,577,260	\$324,556		
Minority interest		(27,828)	(848)	159,701	4,900		
Consolidated income		\$21,759,225	\$663,391	\$10,736,961	\$329,456		
Earnings per share (expressed in dollars) :	23						
Primary earnings per share:		Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Consolidated income before cumulative effect of changes in accounting principles		\$2.50	\$2.45	\$0.08	\$0.07	\$0.46	\$0.83
Cumulative effect of changes in accounting principles		-	-	-	-	0.27	0.36
Consolidated income		\$2.50	\$2.45	\$0.08	\$0.07	\$0.73	\$1.19
Fully-diluted earnings per share:							
Consolidated income before cumulative effect of changes in accounting principles		\$2.48	\$2.41	\$0.08	\$0.07		
Cumulative effect of changes in accounting principles		-	-	-	-		
Consolidated income		\$2.48	\$2.41	\$0.08	\$0.07		

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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 years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity										Total					
	Common stock		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Land revaluation adjustments		Cumulative translation adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as 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 \$		
Balance on January 1, 2005	\$83,167,130	\$2,535,583	\$58,955,649	\$1,797,428	\$3,026,715	\$92,278	\$122,653	\$3,739	\$30,640,997	\$934,177	\$3,048	\$93	\$96,005	\$2,927	\$(110,435)	\$(3,367)	\$(354,955)	\$(10,822)	\$(5,560)	\$(170)	\$-	\$-	\$175,349,237	\$5,346,012		
Minority interest-first time inclusion of subsidiaries																					3,458,197	105,432	3,458,197	105,432		
Appropriations and distribution for 2004																										
Legal reserve					2,982,716	90,936				(2,982,716)	(90,936)												-	-		
Special reserve							103,926	3,169		(103,926)	(3,169)												-	-		
Cash dividends										(21,187,334)	(645,955)												(21,187,334)	(645,955)		
Remuneration paid to directors and supervisors										(5,700)	(174)												(5,700)	(174)		
Bonus paid to employees										(2,119)	(65)												(2,119)	(65)		
Convertible notes converted into common stock	2,075,104	63,266	9,067,913	276,461																			11,143,017	339,727		
Cash dividends to subsidiaries										8,749	267												8,749	267		
Capital surplus										1,572	48												1,572	48		
Cumulative translation adjustments													177,159	5,401									177,159	5,401		
Unrealized gains or losses of financial instruments															42,172	1,286							42,172	1,286		
Treasury stock																	354,955	10,822					413,109	12,595		
Consolidated income for the year ended December 31, 2005										21,787,053	664,239												(27,828)	(848)	21,759,225	663,391
Net loss not recognized as pension cost																			3,723	114			3,723	114		
Balance on December 31, 2005	\$85,242,234	\$2,598,849	\$68,092,037	\$2,075,977	\$6,009,431	\$183,214	\$226,579	\$6,908	\$28,146,255	\$858,117	\$3,048	\$93	\$81,154	\$2,474	\$(68,263)	\$(2,081)	\$-	\$-	\$(1,837)	\$(56)	\$3,430,369	\$104,584	\$191,161,007	\$5,828,079		
Balance on January 1, 2006	\$85,242,234	\$2,615,595	\$68,092,037	\$2,089,354	\$6,009,431	\$184,395	\$226,579	\$6,952	\$28,146,255	\$863,647	\$3,048	\$94	\$81,154	\$2,490	\$(68,263)	\$(2,095)	\$-	\$-	\$(1,837)	\$(57)	\$3,430,369	\$105,259	\$191,161,007	\$5,865,634		
Minority interest																							(710,195)	(21,792)	(710,195)	(21,792)
Effect on first time adoption of unrealized gains on financial instruments															10,485,096	321,728							10,485,096	321,728		
Appropriations and distribution for 2005																										
Legal reserve					2,178,705	66,852				(2,178,705)	(66,852)												-	-		
Special reserve							(226,579)	(6,952)		226,579	6,952												-	-		
Cash dividends										(12,790,330)	(392,462)												(12,790,330)	(392,462)		
Stock dividend	4,263,443	130,821								(4,263,443)	(130,821)												-	-		
Remuneration paid to directors and supervisors										(5,700)	(175)												(5,700)	(175)		
Bonus paid to employees										(1,706)	(52)												(1,706)	(52)		
Convertible notes converted into common stock	1,743,056	53,484	7,693,643	236,074																			9,436,699	289,558		
Land revaluation adjustments											(942)	(29)											(942)	(29)		
Capital surplus							(549)	(17)															(549)	(17)		
Cumulative translation adjustments													24,016	737									24,016	737		
Unrealized gains or losses of financial instruments															10,928,640	335,337							10,928,640	335,337		
Shares exchanges	819,441	25,144	3,082,082	94,571																			3,901,523	119,715		
Treasury stock																	(4,140,047)	(127,034)					(4,140,047)	(127,034)		
Consolidated income for the year ended December 31, 2006										10,577,260	324,556												159,701	4,900	10,736,961	329,456
Net loss not recognized as pension cost																			1,264	39			1,264	39		
Balance on December 31, 2006	\$92,068,174	\$2,825,044	\$78,867,213	\$2,419,982	\$8,188,136	\$251,247	\$-	\$-	\$19,710,210	\$604,793	\$2,106	\$65	\$105,170	\$3,227	\$21,345,473	\$654,970	\$(4,140,047)	\$(127,034)	\$(573)	\$(18)	\$2,879,875	\$88,367	\$219,025,737	\$6,720,643		

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT\$32.80 and NT\$32.59 to US\$1.00, respectively)

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 years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

	2005		2006	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated income	\$21,759,225	\$663,391	\$10,736,961	\$329,456
Adjustments:				
Income and other adjustments with no cash flow effects				
Net loss before acquisitions of the subsidiaries	(124,217)	(3,787)	-	-
Depreciation and amortization expenses	3,954,146	120,553	4,068,138	124,828
Investment income from equity method investments in excess of cash dividends received	(6,732)	(205)	(171,491)	(5,262)
Provision for loan losses	15,087,830	459,995	25,666,274	787,551
Provision for premiums reserve	168,182,550	5,127,517	167,411,932	5,136,911
Gains on disposal of property and equipment	(7,974,155)	(243,115)	(6,978,447)	(214,129)
Impairment losses	1,480,349	45,133	497,279	15,259
Cumulative effect of changes in accounting principles	-	-	(3,249,323)	(99,703)
Other adjustments	(2,158,280)	(65,801)	(451,412)	(13,851)
Changes in operating assets and liabilities				
Increase in receivables	(14,266,046)	(434,940)	(6,698,889)	(205,550)
Decrease in financial assets at fair value through profit or loss	27,597,037	841,373	16,965,504	520,574
Increase in other financial assets	(59,555,453)	(1,815,715)	(4,589,151)	(140,815)
Decrease (increase) in other assets	205,176	6,255	(4,184,046)	(128,384)
Increase in payables	6,918,424	210,927	9,058,145	277,942
Increase in financial liabilities at fair value through profit or loss	6,106,676	186,179	12,807,300	392,982
(Decrease) increase in other financial liabilities	(152,683)	(4,655)	138,407	4,247
Increase in other liabilities	9,852,823	300,391	536,349	16,457
Net cash provided by operating activities	176,906,670	5,393,496	221,563,530	6,798,513
Cash flows from investing activities				
Increase in restricted assets	(800,000)	(24,390)	(1,450,000)	(44,492)
Increase in loans	(26,200,819)	(798,805)	(94,602,790)	(2,902,817)
Decrease in due from the Central Bank and call loans to banks	6,496,572	198,066	884,311	27,134
Decrease (increase) in available-for-sale financial assets	13,105,050	399,544	(93,222,870)	(2,860,475)
Increase in held-to-maturity financial assets	(127,465,325)	(3,886,138)	(75,716,245)	(2,323,297)
(Increase) decrease in investments -equity method	(4,145,815)	(126,397)	3,272,166	100,404
Decrease in investments in real estate	7,337,658	223,709	3,472,945	106,565
Acquisition of property and equipment	(1,395,824)	(42,555)	(105,005)	(3,222)
Increase in securities purchased under agreements to resell	-	-	(593,806)	(18,220)
Decrease (increase) in other financial assets	129,570,310	3,950,314	(18,043,110)	(553,639)
Increase in other assets	(2,613,858)	(79,691)	(245,228)	(7,525)
Net cash used in investing activities	(6,112,051)	(186,343)	(276,349,632)	(8,479,584)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

	2005		2006	
	NT \$	US \$	NT \$	US \$
Cash flows from financing activities				
(Decrease) increase in due to the Central Bank and call loans from banks	(9,884,079)	(301,344)	27,904,958	856,243
Increase in deposits	76,237,998	2,324,329	86,763,925	2,662,287
Decrease in securities sold under agreements to repurchase	-	-	(10,203,195)	(313,077)
Increase (decrease) in funds borrowed from the Central and other banks	348,376	10,621	(4,250)	(130)
Increase (decrease) in bonds payable	16,610,400	506,415	(692,186)	(21,239)
(Decrease) increase in other financial liabilities	(2,047,551)	(62,425)	578,941	17,764
Decrease in other liabilities	(1,560,170)	(47,566)	(191,943)	(5,890)
Cash dividends	(21,545,662)	(656,880)	(12,851,444)	(394,337)
Remuneration paid to directors and supervisors	(21,700)	(662)	(5,700)	(175)
Bonus paid to employees	(12,172)	(371)	(6,286)	(193)
Capital increase by cash	150,000	4,573	162,638	4,990
Net cash provided by financing activities	58,275,440	1,776,690	91,455,458	2,806,243
Effects of exchange rate changes	708,017	21,586	20,139	618
Effect of first time inclusion of subsidiaries	7,378,036	224,940	-	-
Cash on subsidiary held for sale	(83,960)	(2,560)	-	-
Increase in cash and cash equivalents	237,072,152	7,227,809	36,689,495	1,125,790
Cash and cash equivalents at the beginning of the year	245,486,410	7,484,342	482,558,562	14,806,952
Cash and cash equivalents at the end of the year	\$482,558,562	\$14,712,151	\$519,248,057	\$15,932,742
Supplemental disclosure of cash flows information				
Interest paid during the year (excluding capitalized interest)	\$13,394,364	\$408,365	\$18,916,435	\$580,437
Income tax paid	\$2,519,444	\$76,812	\$4,661,550	\$143,036
Investing and financing activities with no cash flow effects				
Conversion of convertible bonds into common stock	\$11,143,017	\$339,727	\$9,436,699	\$289,558
Acquisition of subsidiary by share exchange	\$-	\$-	\$3,901,523	\$119,715

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT\$32.80 and NT\$32.59 to US\$1.00, respectively)

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)
December 31, 2005 and 2006**

1. Organization and business scope

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) were merged into the Company through stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank merged on October 27, 2003. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. And Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. 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 December 31, 2005 and 2006, the total numbers of the employees of the Company and its subsidiaries were 33,526 and 34,782, respectively.

As of and for the years ended December 31, 2005 and 2006, the consolidated financial statements include the followings:

Investors	Investees	Business	2006.12.31 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 Act (the “Company Act”).

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	2006.12.31 Ownership interest	Notes
The Company	Cathay United Bank	Commercial banking operations	100%	Cathay United Bank, originally named UWCCB, was enfranchised by the ROC government in January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was 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 Act. 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 Act. 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 10, 2003, under the Company Act.
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 Act.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	2006.12.31 Ownership interest	Notes
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 Act.
The Company	Lucky Bank	Commercial banking operations	100%	Lucky Bank, the former Taichung Central District Credit Union, was incorporated in 1947, reorganized as Taichung Seventh Credit Union in 1971 and reincorporated a commercial bank in 1997. On August 25, 2006, the Company acquired 100% of Lucky Bank by share swap. On January 1, 2007, Cathay United Bank was merged with the former Lucky Bank which was dissolved after the merger.
Cathay Life	Lin Yuan Property Management Co., Ltd. (“Lin Yuan Property Management”)	Property management services	10%	Lin Yuan Property Management Co., Ltd. was incorporated on July 1, 1990, under the Company Act. On May 22, 2002, the company name was changed from “San Ching Property Management Co., Ltd.” to “Lin Yuan Property Management Co., Ltd.” 80% of the Company’s shares were disposed by Cathay Life on January 13, 2006, while 90% of them were held by Cathay Life before the disposal.
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 each owns 50% interest of Cathay Life (Shanghai).
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 Act. Cathay Life and Cathay Venture own 60.12% and 39.41% interest of Symphox Information, respectively.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	2006.12.31 Ownership interest	Notes
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50%	Indovina Bank was incorporated in Vietnam on November 21, 1,990.
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 Act 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	-	Seaward Leasing was incorporated on February, 1996, under the Company Act. 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	-	Pao Shin Securities was incorporated on September 9, 1988, under the Company Act. As of April 10, 2006, all Pao Shin Securities shares held by Lucky Bank were disposed.

As of and for the years ended December 31, 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.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	2006.12.31 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.
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.

English Translation of Financial Statements Originally Issued in Chinese

Investors	Investees	Business	2006.12.31 Ownership interest	Notes
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 “Business Entity Accounting Act”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies” and generally accepted accounting principles. 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, checks for clearance, due from commercial banks and all highly liquid investments with maturities of less than three months.

English Translation of Financial Statements Originally Issued in Chinese

(3) Financial assets and financial liabilities

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 and subsidiaries 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.

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.

English Translation of Financial Statements Originally Issued in Chinese

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.

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 and subsidiaries 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 investments is determined by reference to the close price at the balance sheet date for listed shares, the net asset value for open-ended funds, the quoted price at the balance sheet date for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

English Translation of Financial Statements Originally Issued in Chinese

(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.

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 and subsidiaries 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.

English Translation of Financial Statements Originally Issued in Chinese

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.

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 and subsidiaries 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.

English Translation of Financial Statements Originally Issued in Chinese

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 fluctuation in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction;
- 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.

At the inception of a hedge relationship, the Company and subsidiaries formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

A. Fair value hedges

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

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

English Translation of Financial Statements Originally Issued in Chinese

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

The Company and subsidiaries 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 ROC SFAS No.14 “Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements”.

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.

English Translation of Financial Statements Originally Issued in Chinese

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) 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.

(8) Investments-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 conformity 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 capital surplus and the accounts. If the adjustment stated above is to debit the capital surplus account and the book balance of capital surplus 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.

English Translation of Financial Statements Originally Issued in Chinese

(9) 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.

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.

(10) 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 “land revaluation adjustments” of stockholders’ equity.

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.

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.

English Translation of Financial Statements Originally Issued in Chinese

(11) Accounting for Assets Impairment

Pursuant to ROC SFAS No. 35, “Accounting for Asset Impairment” the Company and subsidiaries assesses indicators of impairment for all its assets within the scope of ROC SFAS No. 35 on each balance sheet date. If impairment indications exist, the Company and subsidiaries 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.

For previously recognized losses, the Company and subsidiaries 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 and subsidiaries 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 and subsidiaries 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;
- 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.

(12) Real Estate Investment Trust (REIT)

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

English Translation of Financial Statements Originally Issued in Chinese

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 originator 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 originator 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 originator related to the subsequently acquired portion shall be deferred.

(13) 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.

(14) Reserves for operations and liabilities

The subsidiaries in banking, insurance and securities industries are required by the government to record operating and loss reserves.

(15) 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.

English Translation of Financial Statements Originally Issued in Chinese

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

- A. 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 Exchange Act), 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.
- B. 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 Exchange Act.

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 Exchange Act), 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 "Accounting for Treasury Stocks" and treats shares held by its subsidiaries as treasury stock in its financial statements.

(16) 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.

English Translation of Financial Statements Originally Issued in Chinese

(17) Insurance premium income and expenses

Direct premiums are recorded 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.

(18) 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 Act. For employees, the Company shall make monthly contributions to individual pension accounts on a basis no less than 6% of the employees’ monthly wages.

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.

(19) Foreign currency transactions

A. Translation of foreign currency transactions

Foreign currency monetary assets or liabilities shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss in current income. Non-monetary assets or liabilities that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary is recognized, any exchange component of that gain or loss shall be recognized. Non-monetary assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

English Translation of Financial Statements Originally Issued in Chinese

B. Translation of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are translation into NT dollars based on follows: all assets and liabilities denominated in foreign currencies are translation into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are translation 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 translation by the weighted-average exchange rate of the fiscal year. Differences arising from above translation are reported as "cumulative translation adjustments" under stockholders' equity.

(20) 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 consolidated income tax return 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.

English Translation of Financial Statements Originally Issued in Chinese

(21) 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.

(22) Translation to U.S. dollars

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of December 31, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.80 and NT\$32.59 provided by Federal Reserve Bank of New York of December 31, 2005 and 2006 are used for the translation.

(23) 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.

English Translation of Financial Statements Originally Issued in Chinese

- 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.
- 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.

English Translation of Financial Statements Originally Issued in Chinese

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.

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.

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.

English Translation of Financial Statements Originally Issued in Chinese

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

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

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

3. Change in accounting and its effects

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

The above change in accounting principles increased consolidated assets, liabilities and stockholders’ equity by NT\$16,384,910 (US\$502,759), NT\$2,486,909 (US\$76,309) and NT\$10,648,678 (US\$326,747) as of January 1, 2006, respectively. Consolidated income and earnings per share for year 2006 increased by NT\$3,249,323 (US\$99,703) and NT\$0.36 (US\$0.01), respectively.

The Company and 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 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 decreased investment under equity method by NT\$138,458 (US\$4,248) as of December 31, 2006, and decreased consolidated income by NT\$138,458 (US\$4,248) for the year ended December 31, 2006.

The Company and Subsidiaries adopted the ROC SFAS No.5 revised on December 9, 2004, the Company and 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 investments-equity method by NT\$122,713 (US\$3,741), cumulative translation adjustments by NT\$3,970 (US\$121), unrealized valuation losses on investments-equity decrease by NT\$30,405 (US\$927) and an increase in consolidated income for the year ended December 31, 2005 by NT\$88,338 (US\$2,693).

The Company and Subsidiaries adopted the ROC SFAS No. 35 on January 1, 2005. No retroactive adjustment is required under ROC SFAS No. 35. The goodwill, investments in real estate, property and equipment and non-operating assets of the Company and Subsidiaries decreased NT\$311,442 (US\$9,495), NT\$196,952 (US\$6,005), NT\$195,789 (US\$5,969) and NT\$379,404 (US\$11,567) as of December 31, 2005, respectively, due to the change of accounting principles under ROC SFAS No. 35. Consolidated income of the Company decreased NT\$1,083,587 (US\$33,036) for the year ended December 31, 2005.

English Translation of Financial Statements Originally Issued in Chinese

4. Cash and cash equivalents

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Petty cash and cash on hand	\$10,967,816	\$334,385	\$11,731,714	\$359,979
Cash in banks	34,569,152	1,053,937	17,128,347	525,571
Time deposits	359,451,915	10,958,900	420,421,536	12,900,323
Cash equivalents	53,112,343	1,619,279	46,202,576	1,417,692
Checks for clearance	10,629,705	324,076	11,563,330	354,812
Due from commercial banks	13,827,631	421,574	12,200,554	374,365
Total	\$482,558,562	\$14,712,151	\$519,248,057	\$15,932,742

As of December 31, 2005 and 2006, the amounts of time deposits with maturities beyond one year were NT\$1,244,844 (US\$37,953) and NT\$1,524,927 (US\$46,791), respectively.

5. Financial assets at fair value through profit or loss

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Common stock	\$28,358,951	\$864,602	\$14,819,236	\$454,717
Beneficiary certificates	55,384,186	1,688,542	41,842,511	1,283,906
Exchange traded funds	1,751,636	53,404	2,414,255	74,080
Real estate investment trust beneficiary	-	-	258,397	7,929
Commercial papers	9,800,087	298,783	15,241,113	467,662
Corporate bonds	1,623,649	49,501	3,704,597	113,673
Government bonds	51,403,359	1,567,176	35,059,429	1,075,773
Financial debentures	518,779	15,816	1,516,180	46,523
Overseas financial instruments	13,702,500	417,759	21,354,151	655,236
Derivative financial instruments	4,002,845	122,038	2,336,975	71,708
Valuation adjustment	(4,148)	(126)	19,084,971	585,608
Total	\$166,541,844	\$5,077,495	\$157,631,815	\$4,836,815

As of December 31, 2005 and 2006, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$32,404,300 (US\$987,936) and NT\$9,765,400 (US\$299,644), respectively. Such repurchase agreements amounting of NT\$33,864,935 (US\$1,032,468) and NT\$9,746,341 (US\$299,059), respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to December 31, 2005 and 2006 are settled at NT\$33,930,203 (US\$1,034,457) and NT\$9,753,463 (US\$299,278) prior to June, 2006 and January, 2007, respectively.

English Translation of Financial Statements Originally Issued in Chinese

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

6. Loans-net

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Inward-outward documentary bills	\$691,478	\$21,082	\$837,160	\$25,688
Loans	1,129,721,887	34,442,740	1,214,012,213	37,251,065
Overdrafts	716,270	21,838	602,863	18,498
Delinquent accounts	9,012,417	274,769	9,014,050	276,590
Subtotal	1,140,142,052	34,760,429	1,224,466,286	37,571,841
Less: Allowance for bad debts	(17,821,838)	(543,349)	(17,954,290)	(550,914)
Total	<u>\$1,122,320,214</u>	<u>\$34,217,080</u>	<u>\$1,206,511,996</u>	<u>\$37,020,927</u>

7. Available-for-sale financial assets-net

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Common stock	\$85,944,816	\$2,620,269	\$116,044,616	\$3,560,743
Beneficiary certificates	1,376,371	41,963	1,124,412	34,502
Exchange traded funds	-	-	1,027,934	31,541
Government bonds	15,687,834	478,288	46,612,724	1,430,277
Corporate bonds	49,862,628	1,520,202	36,866,882	1,131,233
Financial debentures	25,592,959	780,273	67,170,521	2,061,077
Overseas financial instruments	93,268,550	2,843,553	90,527,907	2,777,782
Real estate investment trust beneficiary	3,183,126	97,046	9,227,656	283,144
Valuation adjustment	-	-	20,797,237	638,148
Total	<u>\$274,916,284</u>	<u>\$8,381,594</u>	<u>\$389,399,889</u>	<u>\$11,948,447</u>

As of December 31, 2006, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$12,780,900 (US\$392,172). Such repurchase agreements amounting of NT\$13,915,399 (US\$426,984) were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements entered prior to December 31, 2006 will be settled at NT\$13,947,971 (US\$427,983) prior to March, 2007.

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

English Translation of Financial Statements Originally Issued in Chinese

8. Held-to-maturity financial assets-net

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Government bonds	\$17,381,750	\$529,931	\$12,026,686	\$369,030
Corporate bonds	8,664,531	264,163	6,836,089	209,760
Financial debentures	15,120,729	460,998	19,409,812	595,576
Overseas financial instruments	423,381,580	12,907,975	487,094,018	14,946,119
Collateralized loans obligation and collateralized bonds obligation	1,909,654	58,221	17,456,930	535,653
Short-term notes	4,985,939	152,010	1,982,298	60,825
Subtotal	471,444,183	14,373,298	544,805,833	16,716,963
Less: Accumulated impairment	-	-	(2,018)	(62)
Total	\$471,444,183	\$14,373,298	\$544,803,815	\$16,716,901

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

9. Investments-equity method

Investee	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$93,736	\$2,858	\$120,060	\$3,684
Cathay Capital Management	40,077	1,222	57,764	1,772
Seaward Card	52,847	1,611	40,098	1,230
Cathay Property Insurance Agent	10,774	328	9,180	282
Cathay Life Insurance Agent	123,627	3,769	92,291	2,832
Cathay Insurance (Bermuda)	67,504	2,058	73,730	2,262
WK Technology Fund VI Co., Ltd	384,610	11,726	433,755	13,309
Vista Technology Venture Capital Corp.	55,308	1,686	56,787	1,743
Omnitek Venture Capital Corp.	169,019	5,153	334,511	10,264
Wa Tech Venture Capital Co., Ltd.	155,291	4,735	204,470	6,274
Taiwan Real-estate Management Corp.	15,734	480	19,441	597
Taiwan Finance Corp.	1,391,169	42,414	1,375,154	42,196
IBT Venture Capital Corp.	564,610	17,214	602,317	18,482
Cathay Securities Investment Trust Co., Ltd.	253,915	7,741	280,545	8,608
Subtotal	3,378,221	102,995	3,700,103	113,535
Less: Unrealized gain from intercompany transactions	(31,844)	(971)	-	-
Total	\$3,346,377	\$102,024	\$3,700,103	\$113,535

English Translation of Financial Statements Originally Issued in Chinese

10. Other financial assets-net

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial assets for hedging	\$-	\$-	\$251,901	\$7,729
Financial assets carried at cost	26,832,728	818,071	25,402,810	779,467
Separate account products assets	94,670,418	2,886,293	161,880,392	4,967,180
Structured time deposits	7,206,390	219,707	15,295,144	469,320
Other miscellaneous financial assets	254,797	7,769	718,698	22,053
Total	<u>\$128,964,333</u>	<u>\$3,931,840</u>	<u>\$203,548,945</u>	<u>\$6,245,749</u>

11. Investments in real estate

Item	December 31, 2005									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments										
in real estate	\$109,289,194	\$3,331,988	\$4,563	\$139	\$(13,000,846)	\$(396,367)	\$(196,952)	\$(6,005)	\$96,095,959	\$2,929,755
Construction	1,675,244	51,074	-	-	-	-	-	-	1,675,244	51,074
Prepayments										
for										
buildings										
and land	3,808,047	116,099	-	-	-	-	-	-	3,808,047	116,099
Leased assets	218,700	6,668	-	-	(14,036)	(428)	-	-	204,664	6,240
Total	<u>\$114,991,185</u>	<u>\$3,505,829</u>	<u>\$4,563</u>	<u>\$139</u>	<u>\$(13,014,882)</u>	<u>\$(396,795)</u>	<u>\$(196,952)</u>	<u>\$(6,005)</u>	<u>\$101,783,914</u>	<u>\$3,103,168</u>

Item	December 31, 2006									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$115,783,294	\$3,552,725	\$4,632	\$142	\$(13,933,607)	\$(427,543)	\$(196,952)	\$(6,043)	\$101,657,367	\$3,119,281
Construction	682,662	20,947	-	-	-	-	-	-	682,662	20,947
Prepayments										
for										
buildings										
and land	6,032	185	-	-	-	-	-	-	6,032	185
Leased assets	213,046	6,537	-	-	(13,950)	(428)	-	-	199,096	6,109
Total	<u>\$116,685,034</u>	<u>\$3,580,394</u>	<u>\$4,632</u>	<u>\$142</u>	<u>\$(13,947,557)</u>	<u>\$(427,971)</u>	<u>\$(196,952)</u>	<u>\$(6,043)</u>	<u>\$102,545,157</u>	<u>\$3,146,522</u>

English Translation of Financial Statements Originally Issued in Chinese

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semiannually, 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 Min Sheng Commercial Building, An He Commercial Building and World Building in 2006. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The gain on disposal of real estates under “total amount accrual method” was NT\$4,168,073 (US\$127,894) in 2006.
- (5) Cathay Life has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. Related information is as follows:

Cathay Life transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$263,041).

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 securities and therefore the gains on disposal of real estates are required to be deferred. Cathay Life has deferred the gains on disposal of the real estates of NT\$1,773,919 (US\$54,431) based on the percentage of the outstanding securities Cathay Life held on the REIT. However, as of December 31, 2006, Cathay Life’s ownership on the REIT has decreased below 20%, all gains deferred in the prior year has been recognized in the current period.

English Translation of Financial Statements Originally Issued in Chinese

12. Commercial paper payable

Item	December 31, 2005			
	Rate	Amount(NT\$)	Amount(US\$)	Collaterals
E. Sun Bills financial Corp.	1.55%	\$150,000	\$4,573	None
Taching Bills finance Ltd.	1.54%	180,000	5,488	None
Hua Nan Bills finance Corp.	1.56%	50,000	1,524	None
Grand Bills financial Corp.	1.50%	180,000	5,488	Real estate
International Bills financial Corp.	1.54%	240,000	7,317	None
Chinatrust Bills financial Corp.	1.538%	100,000	3,049	Real estate
China Bills finance Corp.	1.55%	250,000	7,622	Real estate
Mega Bills finance Crop.	1.55%	250,000	7,622	Real estate
Total		1,400,000	42,683	
Less: unamortized discount		(558)	(17)	
Net		\$1,399,442	\$42,666	

As of December 31, 2006, all commercial paper payable have been repaid.

13. Financial liabilities at fair value through profit or loss

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial instruments	\$2,159,337	\$65,834	\$1,266,444	\$38,860
Securities purchased under agreements to resell-securities financing	691,924	21,095	-	-
Financial debentures	39,700,000	1,210,366	39,700,000	1,218,165
Subordinated financial debentures	10,000,000	304,878	10,000,000	306,842
Valuation adjustment	-	-	17,087,644	524,322
Total	\$52,551,261	\$1,602,173	\$68,054,088	\$2,088,189

English Translation of Financial Statements Originally Issued in Chinese

On May 23, 2002, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$5,000,000 (US\$153,421) 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\$153,421) with a floating interest rate or inverse floating interest rate and the interest is paid semiannually. The subordinated financial debentures are repayable at maturity.

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

On June 20, 2003, Cathay United Bank issued five-year and six-month dominant financial debentures amounting to NT\$5,000,000 (US\$153,421) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued five-year dominant financial debentures amounting to NT\$3,200,000 (US\$98,190), NT\$2,700,000 (US\$82,847) and NT\$1,800,000 (US\$55,232), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$61,369) with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually.

On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$30,684), NT\$3,500,000 (US\$107,395), NT\$2,000,000 (US\$61,369), and NT\$1,000,000 (US\$30,684), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$76,711), NT\$1,500,000 (US\$46,026), NT\$1,500,000 (US\$46,026), NT\$2,500,000 (US\$76,711), NT\$1,500,000 (US\$46,026), NT\$2,500,000 (US\$76,711), NT\$1,000,000 (US\$30,684) and NT\$1,000,000 (US\$30,684), NT\$2,000,000 (US\$61,369), NT\$1,500,000 (US\$46,026), respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity and the interest is payable quarterly.

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

English Translation of Financial Statements Originally Issued in Chinese

14. Deposits

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Check deposits	\$14,401,830	\$439,080	\$15,469,285	\$474,664
Demand deposits	130,959,490	3,992,667	162,375,312	4,982,366
Savings deposits	555,879,245	16,947,538	606,492,105	18,609,761
Time deposits	172,974,020	5,273,598	177,837,860	5,456,823
Remittances payable	633,022	19,300	398,331	12,222
Total	<u>\$874,847,607</u>	<u>\$26,672,183</u>	<u>\$962,572,893</u>	<u>\$29,535,836</u>

15. Bonds payable

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Bonds payable	\$13,405,171	\$408,695	\$4,273,210	\$131,120
Subordinated financial debentures	18,760,000	571,951	18,675,000	573,029
Discount in financial debentures	(3,703)	(113)	(106,218)	(3,259)
Valuation adjustment	-	-	(432,964)	(13,285)
Total	<u>\$32,161,468</u>	<u>\$980,533</u>	<u>\$22,409,028</u>	<u>\$687,605</u>

On April 28, 2003, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$72,108) 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.

English Translation of Financial Statements Originally Issued in Chinese

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).

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.

English Translation of Financial Statements Originally Issued in Chinese

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.

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.

English Translation of Financial Statements Originally Issued in Chinese

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 December 31, 2006, a total of US\$585,255 convertible notes have been converted into common stocks of 391,040 thousand shares. The redemption premiums payable and additional paid-in capital from the conversion amounted to NT\$17,184,147 (US\$527,283) and was recognized as capital surplus. As of December 31, 2006 the Holder has exercised the repurchase right with US\$2,500 by par value. The Company has repurchased such Holder's notes at par value plus the redemption premium with US\$214.

16. Reserve for operations and liabilities

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Reserve for insurance business	\$1,658,988,799	\$50,578,927	\$1,826,450,945	\$56,043,294
Reserves for losses on guarantees	28,688	874	28,668	880
Reserves for losses on stock brokerage transactions	49,656	1,514	17,129	525
Reserves for losses on trading securities	150,646	4,593	150,610	4,621
Total	<u>\$1,659,217,789</u>	<u>\$50,585,908</u>	<u>\$1,826,647,352</u>	<u>\$56,049,320</u>

English Translation of Financial Statements Originally Issued in Chinese

17. Other financial liabilities

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Derivative financial liabilities for hedging	\$-	\$-	\$487,429	\$14,956
Borrowed funds	311,511	9,497	312,160	9,579
Separate account products liabilities	94,670,418	2,886,293	161,880,392	4,967,180
Others	-	-	175,703	5,391
Total	\$94,981,929	\$2,895,790	\$162,855,684	\$4,997,106

18. Common stock

As of December 31, 2005 and 2006, the authorized share capital amounted NT\$120,000,000 (US\$3,682,111), and the issued share capital amounted NT\$85,242,234 (US\$2,598,849) and NT\$92,068,174 (US\$2,825,044), respectively.

The undistributed earnings recapitalization of NT\$4,263,443 (US\$130,821) thousand by issuing 426,344 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 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 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 consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus was NT\$68,092,037 (US\$2,075,977) and NT\$78,867,213 (US\$2,419,982) as of December 31, 2005 and 2006, respectively. Before conversion into a financial holding company, NT\$267,215 (US\$8,199) constituted retained earnings of certain subsidiaries of the Company.
- (2) The capital surplus 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 capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends.

English Translation of Financial Statements Originally Issued in Chinese

- (3) In addition, pursuant to the Company Act, 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 Act, 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) Undistributed earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deductions, if any, shall be appropriated as legal reserve and 0.01%~0.05% for employees' bonus. The remainder must be appropriated in accordance with the resolutions passed at the stockholders' meeting.

B. On June 3, 2005, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2004. The Company declared cash dividends and cash bonus of NT\$2.5 (US\$0.08) per common share and such dividends were paid on July 11, 2005.

C. 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 record dates are NT\$1.5 (US\$0.05) and NT\$0.5 (US\$0.01) on July 17 and August 14, 2006, respectively.

D. The Company is required to pay an extra 10% in the forthcoming tax year for undistributed earnings.

English Translation of Financial Statements Originally Issued in Chinese

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.

H. Dividends policy

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

I. Accounting to the regulations issued by SFC, the Company should assume the dividends for year 2005 would be appropriated to the employees, directors and supervisors, and pro-forma earnings per share for the current year.

	For the year ended December 31, 2005	
	NT\$	US\$
a. Distribution		
Bonus paid to employees-Cash	\$1,706	\$52
Bonus paid to employees-Stock	-	-
Remuneration paid to directors and supervisors	5,700	175
B. Earnings per share after income taxes (expressed in dollars)	\$2.57	\$0.08
Pro-forma earnings per share (expressed in dollars)	2.57	0.08

English Translation of Financial Statements Originally Issued in Chinese

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

The surplus appropriation act of 2006 has not yet passed by the board of directors of the Company as the date of this audit report is issued.

21. Treasury stock

The following is a summary of the movement of treasury stock for the years ended December 31, 2005 and 2006:

		December 31, 2005									
		In thousands of shares			Book value		Book value Per share		Market value Per share		
Reason for acquisition	January 1, 2005	Increase	Decrease	December 31, 2005	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)	
Shares held by subsidiaries	6,897	-	6,897	-	\$-	\$-	\$-	\$-	\$-	\$-	
		December 31, 2006									
		In thousands of shares			Book value		Book value Per share		Market value Per share		
Reason for acquisition	January 1, 2006	Increase	Decrease	December 31, 2006	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)	
Shares held by share exchange	-	66,660	-	66,660	\$4,140,047	\$127,034	\$62.11	\$1.91	\$74	\$2.27	

22. Estimated income taxes

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Income tax calculates on accounting income	\$1,748,262	\$53,300	\$94,604	\$2,903
Plus: Interest income of tax on a separate basis	674,650	20,569	1,020,896	31,326
Extra 10% income tax on undistributed retained earnings	372,329	11,351	257,799	7,910

English Translation of Financial Statements Originally Issued in Chinese

	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Income basic tax payable	-	-	12,740	391
Allocation of the cumulative effect of changes in accounting principles	-	-	763,130	23,416
Tax effects under consolidated income tax return	(298,353)	(9,096)	246,192	7,554
Less: Income tax credit	(60,640)	(1,849)	(15,651)	(480)
Deferred income tax benefits	(2,084,345)	(63,547)	(5,180,823)	(158,970)
Adjustment of income tax	118,955	3,627	(571,592)	(17,539)
Total income tax expenses (benefits)	<u>\$470,858</u>	<u>\$14,355</u>	<u>\$(3,372,705)</u>	<u>\$(103,489)</u>

In accordance with the Financial Holding Company Act, the Company elected to file consolidated income tax return along with 10% additional undistributed earning tax for all subsidiaries being held over 12 months within a taxable year by the Company.

(2)Income tax returns:

		December 31, 2006
	Income tax returns examined by tax authorities	Notes
The Company	through 2003	The Company filed applications for reexamination of 2002 and 2003 tax returns.
Cathay Life	through 2003	Cathay Life filed applications for reexamination of 2002 and 2003 tax returns.
Cathay United Bank	through 2003	-
Cathay Century	through 2003	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 Century also filed an application for reexamination of 2003 tax return.

English Translation of Financial Statements Originally Issued in Chinese

December 31, 2006		
	Income tax returns examined by tax authorities	Notes
Cathay Securities	through 2004	Cathay Securities filed an application for reexamination of 2004 tax return.
Cathay Pacific Venture	through 2003	-
Symphox Information	through 2004	-
Cathay Futures	through 2004	-
Lucky Bank	through 2004	-
Cathay Venture	through 2004	-
Cathay II Venture	through 2004	-

(3) Information related to tax imputation:

A. Balance of imputation credit account

	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
The Company	\$1,551,691	\$47,308	\$1,055,225	\$32,379
Cathay Life	998,420	30,440	764,057	23,445
Cathay United Bank	162,284	4,948	412,069	12,644
Cathay Century	8,898	271	4,361	134
Cathay Securities	6,385	195	8,236	253
Cathay Pacific Venture	392	12	565	17
Cathay Venture	15,545	474	18,381	564
Cathay II Venture	4,595	140	7,862	241
Lin Yuan Property Management	17,333	528	-	-
Cathay Futures	11,772	359	14,480	444
Seaward Leasing	76,640	2,337	-	-
Lucky Bank	264	8	14,116	433

English Translation of Financial Statements Originally Issued in Chinese

B Imputation credit account ratio

	For the years ended December 31,	
	2005	2006
The Company		
-cash dividends	11.97%	5.35%
-stock dividends	11.96%	-
Cathay Life	7.33%	5.08%
Cathay United Bank	13.98%	-
Cathay Century	1.73%	0.60%
Cathay Securities	14.45%	12.47%
Cathay Pacific Venture	-	1.06%
Cathay Venture	-	29.01%
Cathay II Venture	33.33%	7.31%
Seaward Leasing	37.08%	-
Cathay Futures	-	33.33%
Lin Yuan Property Management	33.99%	-
Lucky Bank	-	4.68%

(4) Information relating of undistributed earnings:

Year	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Prior to 1997	\$267,215	\$8,147	\$267,215	\$8,199
After 1998	28,146,255	858,117	19,710,210	604,793
Total	\$28,413,470	\$866,264	\$19,977,425	\$612,992

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 year ended December 31, 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	\$22,230,083	\$677,746	\$21,759,225	\$663,391	8,888,971	\$2.50	\$0.08	\$2.45	\$0.07
Effect of potentially dilutive common stock:									
Convertible notes payable	569,524	17,364	427,143	13,023	299,010				
Fully-diluted earnings per share:									
Consolidated income	\$22,799,607	\$695,110	\$22,186,368	\$676,414	9,187,981	\$2.48	\$0.08	\$2.41	\$0.07

English Translation of Financial Statements Originally Issued in Chinese

For the year ended December 31, 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	\$4,114,933	\$126,264	\$7,487,638	\$229,753	8,988,827	\$0.46	\$0.01	\$0.83	\$0.03				
Cumulative effect of changes in													
accounting principles	2,486,193	76,287	3,249,323	99,703	8,988,827	0.27	0.01	0.36	0.01				
Consolidated income	\$6,601,126	\$202,551	\$10,736,961	\$329,456	8,988,827	\$0.73	\$0.02	\$1.19	\$0.04				

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 July 1, 2006)
Indovina Bank	Subsidiary of the Company
Cathay Pacific Partners	Subsidiary of the Company
Cathay Insurance (Bermuda)	Subsidiary of the Company
Cathay Securities Investment	Subsidiary of the Company
Cathay Life Insurance Agent	Subsidiary of the Company
Seaward Card	Subsidiary of the Company

English Translation of Financial Statements Originally Issued in Chinese

Name	Relationship
Cathay Property Insurance Agent	Subsidiary of the Company
Lin Yuan Property Management	Subsidiary of the Company (Became affiliated after January 13, 2006)
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee in accounted for using the equity method
Taiwan Real-estate Management Corp.	The investee in 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 Charity Foundation	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
Shanghai East Fly Service Co., Ltd.	Affiliate
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliate
China Eastern Aviation IMP/EXP Corp.	Affiliate
Pai Hsing Investment Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Other related parties	Includes chairmen, managers, their spouses and linear relatives

English Translation of Financial Statements Originally Issued in Chinese

(2) Significant transactions with related parties:

A. Cash in banks

		For the year ended December 31, 2005				
Name	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$-	\$-	0.72%-1.44%	\$1,609	\$49

		For the year ended December 31, 2006				
Name	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$-	\$-	0.72%-1.44%	\$248	\$8

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

		For the years ended December 31,							
		2005				2006			
Name		Ending balance		Interest revenue		Ending balance		Interest revenue	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Industrial and Commercial Bank of Vietnam		\$253	\$8	\$3	\$-	\$1,656	\$51	\$19	\$1

C. Financial assets at fair value through profit or loss

Name	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$5,707,588	\$174,012	\$6,642,591	\$203,823

D. Securities purchased under agreements to resell

		For the years ended December 31,							
		2005				2006			
Name		Ending balance		Interest revenue		Ending balance		Interest revenue	
		NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Taiwan Finance Corp.		\$49,904	\$1,521	\$2,005	\$61	\$-	\$-	\$10	\$-

English Translation of Financial Statements Originally Issued in Chinese

E. Receivables

Name	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$17,491	\$533	\$8,303	\$255
Cathay Capital Management	7,782	237	10,605	326
Cathay General Hospital	9,006	275	1,184	36
Cathay Real Estate Development Co., Ltd.	909	28	-	-
Cathay Securities Investment Trust Co., Ltd.	397	12	-	-
Lin Yuan Property Management	-	-	1,760	54
Total	\$35,585	\$1,085	\$21,852	\$671

F. Loans

Name	For the year ended December 31, 2005			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Revenue (NT\$)	Interest Revenue (US\$)
Taiwan Real-estate Management Corp.	\$134,000	\$4,085	\$4,394	\$134
Cathay General Hospital	3,025,612	92,244	75,491	2,302
Others	403,525	12,303	15,002	457
Total	\$3,563,137	\$108,632	\$94,887	\$2,893

Name	For the year ended December 31, 2006			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Revenue (NT\$)	Interest Revenue (US\$)
Seaward Leasing	\$2,120,000	\$65,051	\$31,375	\$963
Taiwan Real-estate Management Corp.	130,000	3,989	3,871	119
Cathay General Hospital	4,406,762	135,218	131,446	4,033
Others	413,962	12,702	11,765	361
Total	\$7,070,724	\$216,960	\$178,457	\$5,476

English Translation of Financial Statements Originally Issued in Chinese

G. Available-for-sale financial assets

Name	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$1,163,271	\$35,466	\$705,967	\$21,662

H. Deposit

Name	For the year ended December 31, 2005			
	Ending Balance	Ending Balance	Interest Expense	Interest Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Taiwan Finance Corp.	\$107,262	\$3,270	\$1,330	\$41
Others	3,923,321	119,614	39,010	1,189
Total	\$4,030,583	\$122,884	\$40,340	\$1,230

Name	For the year ended December 31, 2006			
	Ending Balance	Ending Balance	Interest Expense	Interest Expense
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$118,185	\$3,626	\$167	\$5
Taiwan Finance Corp.	135,473	4,157	2,276	70
Others	3,738,652	114,718	50,020	1,535
Total	\$3,992,310	\$122,501	\$52,463	\$1,610

I. 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.

English Translation of Financial Statements Originally Issued in Chinese

Name	For the year ended December 31, 2005		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$359,060	\$10,947
	Tianmu Base-A	2,769	84
	Cathay Golden & Sliver Building	3,791	116
	Sheraton Taipei Hotel	53,742	1,638
	Siangyang Building	4,222	129
	Cathay Land Mark	3,000	91
	Financial Center Hsing-E	2,609	80
	Other	293	9
	Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	3,537
Cathay Land Mark		1,000	30
	Total	<u>\$434,023</u>	<u>\$13,232</u>

Name	For the year ended December 31, 2006		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital	\$6,488	\$199
	Cathay Land Mark	2,240	69
	Other	1,074	33
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management	Cathay Cosmos Building	5,315	163
	Li-Yuan Building	18,206	559
	Jhong Jheng Building	9,033	277
	International Building	2,560	79
	World commercial Building	2,742	84
	Financial Center Hsing-E	8,889	273
	Yuanlin Second Building	3,109	95
	Changhua Second Building	1,431	44
	Central industrial & Commercial Building	1,406	43
	Taipei Royalty Building	14,485	444
	Jhong Gang Building	12,005	368
	Cathay Building	21,201	651
	Tun Nan Commercial Building	6,119	188

English Translation of Financial Statements Originally Issued in Chinese

Name	For the year ended December 31, 2006		
	Item	NT\$	US\$
Min Sheng Chien Kuo	Building	1,268	39
Wanbon Commercial	Building	10,557	324
Sih Wei Financial	Building	3,467	106
Sih Wei Building		2,086	64
Min Sheng Commercial	Building	1,135	35
Feng Chia Building		3,163	97
Sianyang Building		1,950	60
World Building		3,906	120
Central Commercial	Building	2,885	88
Shezi Building		2,582	79
Tamsui Education Center		1,468	45
Xinying Zhong Zheng	Building	1,300	40
Other		19,715	605
Total		<u>\$173,285</u>	<u>\$5,317</u>

The total amount of the contracted projects for real estate as of December 31, 2005 and 2006 between Cathay Life and San Ching Engineering Co., Ltd. was NT\$1,620,227 (US\$49,397) and NT\$22,435 (US\$688), respectively.

b. Real estates acquired by Cathay Life:

Name	Item	For the year ended December 31, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$162,320</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$75,790</u>

Cathay Life prepaid NT\$3,808,047 (US\$116,099) in 2005 for the above transaction.

The appraisal report has been taken into the consideration of determination on contract prices and the title has been transferred in 2006.

English Translation of Financial Statements Originally Issued in Chinese

c. The Company disposal of property and equipment information:

		For the year ended December 31, 2005			
Name	Item	Amount		Loss	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$1,300	\$40	\$(792)	\$(24)

The Company did not sell any to its related parties in the 2006.

d. Real estate rental income from Cathay Life, Cathay United Bank and Seaward Leasing:

Name	Rental income			
	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$3,639	\$111	\$3,343	\$103
Cathay Capital Management	1,928	59	1,988	61
Cathay Real Estate Development Co., Ltd.	15,819	482	15,756	483
Cathay General Hospital	133,356	4,066	145,666	4,470
San Ching Engineering Co., Ltd.	7,569	231	7,455	229
Cathay Securities Investment Trust Co., Ltd.	11,612	354	12,062	370
Taiwan Asset Management Corporation	14,342	437	13,963	428
Taipei Smart Card Corp.	5,707	174	6,196	190
Culture and Charity Foundation of CUB	1,000	30	1,000	31
Total	\$194,972	\$5,944	\$207,429	\$6,365

Name	Guarantee deposits in			
	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$877	\$27	\$877	\$27
Cathay Capital Management	479	15	479	15
Cathay Real Estate Development Co., Ltd.	3,645	111	3,645	112
Cathay General Hospital	4,509	137	7,324	225
San Ching Engineering Co., Ltd.	2,009	61	1,709	52
Cathay Securities Investment Trust Co., Ltd.	2,738	84	2,738	84
Taiwan Asset Management Corporation	3,477	106	3,477	106
Total	\$17,734	\$541	\$20,249	\$621

English Translation of Financial Statements Originally Issued in Chinese

Periods payment terms with lease per lease contracts, lease periods are generally 2-5 years and rentals are collected monthly.

e. Real estate rental expense from Cathay Life, Cathay United Bank and Lucky Bank.

Name	Rental expense			
	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	\$43,470	\$1,325	\$42,562	\$1,306
Lin Yuan Investment Co., Ltd.	3,476	106	2,512	77
Yi Ru Corporation	4,082	125	4,292	132
Total	<u>\$51,028</u>	<u>\$1,556</u>	<u>\$49,366</u>	<u>\$1,515</u>

Name	Guarantee deposits paid			
	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,426	\$379	\$11,561	\$355
Lin Yuan Investment Co., Ltd.	628	19	628	19
Yi Ru Corporation	1,190	36	1,190	37
Total	<u>\$14,244</u>	<u>\$434</u>	<u>\$13,379</u>	<u>\$411</u>

According to the contracts, periods of leases generally were 3 years and rents were paid monthly.

J. Other assets

Prepayment

Name	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Lin Yuan Investment Co., Ltd.	<u>\$-</u>	<u>\$-</u>	<u>\$419</u>	<u>\$13</u>

English Translation of Financial Statements Originally Issued in Chinese

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

Name	For the year ended December 31, 2005			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$2,980	\$17,174	\$91	\$524

Name	For the year ended December 31, 2006			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$63,599	\$260	\$1,951	\$8

L. Funds borrowed from the Central and other banks

Name	For the year ended December 31, 2005			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Bank overdraft				
Industrial and Commercial				
Bank of Vietnam	\$144,718	Note	\$4,412	Note

Note: The interest expense is an aggregation of the bank overdraft and the Due to commercial banks.

M. Securities sold under agreements to repurchase

Name	December 31,			
	Ending balance			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Wan Pao Development Co., Ltd.	\$3,401,736	\$103,711	\$4,462,438	\$136,927
Other related parties	862,705	26,302	1,136,573	34,875
Total	\$4,264,441	\$130,013	\$5,599,011	\$171,802

English Translation of Financial Statements Originally Issued in Chinese

Name	For the years ended December 31,			
	Interest expenses			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$1,988	\$60	\$-	\$-
Wan Pao Development Co., Ltd.	3,536	108	47,401	1,454
Other related parties	10,524	321	14,431	443
Total	\$16,048	\$489	\$61,832	\$1,897

N. Payables

Name	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Seaward Card	\$42,461	\$1,295	\$16,296	\$500
Lin Yuan Property Management	-	-	5,926	182
San Ching Engineering Co., Ltd.	54,164	1,651	2,572	79
Cathay Real Estate Development Co., Ltd.	947	29	1,200	37
Cathay Pacific Partners	-	-	8,471	260
Total	\$97,572	\$2,975	\$34,465	\$1,058

O. Advance receipts

Name	December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Taiwan Asset Management Corporation	\$-	\$-	\$2,484	\$76

P. Net commission and handling fee

a. Handling fee Income

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$1,914	\$58	\$3,842	\$118
Cathay securities investment Trust Co., Ltd.	-	-	895	27
Total	\$1,914	\$58	\$4,737	\$145

b. Reinsurance handling fee income

Name	For the year ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$4,779	\$146	\$571	\$18

English Translation of Financial Statements Originally Issued in Chinese

c. Commissions expense

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life Insurance Agent	\$185,278	\$5,649	\$121,083	\$3,715
Cathay Property Insurance Agent	32,968	1,005	17,616	541
Total	<u>\$218,246</u>	<u>\$6,654</u>	<u>\$138,699</u>	<u>\$4,256</u>

d. Reinsurance commissions expense

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	<u>\$18,355</u>	<u>\$560</u>	<u>\$13,895</u>	<u>\$426</u>

Q. Net premiums from insurance business

a. Insurance income

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$-	\$-	\$338	\$10
Cathay General Hospital	28,486	869	33,611	1,031
Cathay Real Estate Development Co., Ltd.	2,627	80	2,394	73
San Ching Engineering Co., Ltd.	2,801	85	1,198	37
Lin Yuan Investment Co., Ltd.	329	10	-	-
Lin Yuan Property Management	-	-	2,019	62
Wan Pao Development Co., Ltd.	-	-	938	29
China Eastern Airlines Co., Ltd.	198,583	6,054	338,019	10,372
Cathay Securities Investment Trust Co., Ltd.	817	25	954	30
Shanghai China Eastern Media Co., Ltd.	1,457	44	1,533	47
CEA Futures Brokerage Co., Ltd.	2,672	82	-	-
CEA Finance Holding Co., Ltd.	2,587	79	308	9
CEA Finance Co., Ltd.	4,736	144	-	-
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	368	11	457	14
China Eastern Aviation IMP/EXP Corp.	1,756	54	-	-
Other related parties	-	-	48,943	1,502
Total	<u>\$247,219</u>	<u>\$7,537</u>	<u>\$430,712</u>	<u>\$13,216</u>

English Translation of Financial Statements Originally Issued in Chinese

b. Reinsurance income

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$139,957	\$4,267	\$136,465	\$4,187

c. Insurance claims payment

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
China Eastern Airlines Co., Ltd.	\$-	\$-	\$813	\$25

d. Reinsurance claims payment

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Insurance (Bermuda)	\$68,743	\$2,096	\$87,991	\$2,700

R. Net other non-interest income

a. Sales

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$155	\$5	\$342	\$11
Cathay General Hospital	586	18	11,224	344
Cathay Securities Investment Trust Co., Ltd.	5,212	159	3,938	121
Lin Yuan Property Management	-	-	595	18
San Ching Engineering Co., Ltd.	243	7	357	11
Cathay Real Estate Development Co., Ltd.	1,981	60	1,151	35
Pai Hsing Investment Co., Ltd.	-	-	712	22
Total	\$8,177	\$249	\$18,319	\$562

English Translation of Financial Statements Originally Issued in Chinese

b. Service Income

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$355	\$11	\$-	\$-
Cathay General Hospital	99,412	3,031	5,751	177
Cathay Securities Investment Trust Co., Ltd.	2,097	64	1,278	39
Cathay Real Estate Development Co., Ltd.	37,841	1,154	794	24
Lin Yuan Investment Co., Ltd.	11,954	364	-	-
San Ching Engineering Co., Ltd.	1,933	59	433	13
Lin Yuan Property Management	-	-	884	27
Total	\$153,592	\$4,683	\$9,140	\$280

c. Miscellaneous income

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$11,378	\$347	\$14,753	\$453
Cathay Securities Investment	-	-	309	9
Total	\$11,378	\$347	\$15,062	\$462

S. Sale of securities

For the year ended December 31, 2006						
Name	Securities	Shares (in thousand)	Amount		Gain on disposal	
			(NT\$)	(US\$)	(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Lin Yuan Property Management	2,400	\$47,554	\$1,459	\$3,707	\$114
Cathay Real Estate Development Co., Ltd.	Seaward Leasing	200,000	3,170,460	97,283	1,323,466	40,609
Total			\$3,218,014	\$98,742	\$1,327,173	\$40,723

English Translation of Financial Statements Originally Issued in Chinese

T. Operating expense

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Securities Investment	\$52,500	\$1,601	\$52,938	\$1,624
Seaward Card	930,561	28,371	401,610	12,323
Cathay Pacific Management	57,383	1,749	63,895	1,961
Cathay Pacific Partners	15,000	457	23,471	720
Lin Yuan Property Management	-	-	646,830	19,848
Cathay Real Estate Development Co., Ltd.	14,463	441	13,984	429
San Ching Engineering Co., Ltd.	7,127	217	5,326	163
Cathay Charity Foundation	-	-	2,250	69
Cathay General Hospital	-	-	10,503	322
Cathay Lin Yuan Security Co., Ltd.	-	-	5,707	175
Taiwan Asset Management Corporation	-	-	960	30
Total	<u>\$1,077,034</u>	<u>\$32,836</u>	<u>\$1,227,474</u>	<u>\$37,664</u>

U. Others

- a. Cathay United Bank purchased automated systems for its 24-hour self-service banking centers from San Ching Engineering Corp. for the amounts of NT\$3,820 (US\$116) and NT\$90,623 (US\$2,781) in 2005 and 2006, respectively.
- b. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amounts of NT\$17,146 (US\$526) during the year ended December 31, 2006.
- c. As of December 31, 2006, the notional amount of the forward Cathay United Bank entered into transactions with Cathay Global Money Market Fund etc. (the funds are managed by Cathay Securities Trust Co., Ltd) was US\$81,383.
- d. Cathay United Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd for NT\$300,334(US\$9,216) (taxes were deducted) during the year period ended December 31, 2006, the relevant carrying values were NT\$308,037 (US\$9,452) and the disposal losses were NT\$7,703 (US\$236).

English Translation of Financial Statements Originally Issued in Chinese

- e. Cathay United Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three years starting 2006 and the royalty was paid amounted to NT\$103,125 (US\$3,164) (amortized NT\$2,865 (US\$88) per month) in January, 2006.
- f. Cathay Futures paid reparation fee to Lin Yuan Property Management and Maintenance Co., Ltd. in the amounts of NT\$1,445 (US\$44) during the year ended December 31, 2006.
- g. Seaward Leasing commend administration construction in progress and reparation of real estate to San Ching Engineering Corp., Seaward Leasing paid NT\$3,114 (US\$95)and NT\$12,646 (US\$388) during the year ended December 31, 2005 and 2006, respectively.

(3)The Company's significant transactions with related parties

A. Cash in bank

		For the year ended December 31, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,585,383	1.15%-4.375%	\$182,861
	Cash in bank	1,982	0.10%	67
	Total	<u>\$3,587,365</u>		<u>\$182,928</u>

		For the year ended December 31, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$109,311	1.15%-4.375%	\$5,575
	Cash in bank	60	0.10%	2
	Total	<u>\$109,371</u>		<u>\$5,577</u>

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,375,703	4.375%- 5.498%	\$170,746
	Cash in bank	2,783	0.10%-2.35%	272
	Total	<u>\$3,378,486</u>		<u>\$171,018</u>

English Translation of Financial Statements Originally Issued in Chinese

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$103,581	4.375%- 5.498%	\$5,239
	Cash in bank	85	0.10%-2.35%	9
	Total	<u>\$103,666</u>		<u>\$5,248</u>

B. Receivable

		December 31,			
Name	Item	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay United Bank	Consolidated income tax return, interest	\$2,252,809	\$68,683	\$21,161	\$649
Cathay Century	Consolidated income tax return	100,943	3,078	154,364	4,737
Cathay Capital Management	Consolidated income tax return	7,782	237	10,605	326
Cathay Securities	Consolidated income tax return	14,558	444	6,582	202
Cathay Pacific Venture	Consolidated income tax return	-	-	19,176	588
Cathay II Venture	Consolidated income tax return	-	-	3,263	100
Total		<u>\$2,376,092</u>	<u>\$72,442</u>	<u>\$215,151</u>	<u>\$6,602</u>

English Translation of Financial Statements Originally Issued in Chinese

C. Acquisition of property and equipment:

Name	Item	As of and for the years ended December 31,			
		2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$1,850	\$56	\$-	\$-
Symphox Information	Other Equipment	-	-	49	2
Total		\$1,850	\$56	\$49	\$2

D. Disposal of property and equipment:

Name	Item	As of and for the year ended December 31, 2005			
		Amount		Loss	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation and communication equipment	\$950	\$29	\$(473)	\$(14)

The Company did not sell any property or equipment to its related parties for the year ended December 31, 2006.

E. Payable

Name	Item	December 31,			
		2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life	Consolidated income tax return	\$2,171,620	\$66,208	\$757,004	\$23,228
Cathay United Bank	Consolidated income tax return	571,606	17,427	1,430,294	43,888
Cathay Pacific Venture	Consolidated income tax return	665	20	-	-
Cathay II Venture	Consolidated income tax return	3,072	94	-	-
Total		\$2,746,963	\$83,749	\$2,187,298	\$67,116

English Translation of Financial Statements Originally Issued in Chinese

F. Operating expenses

Name	For the years ended December 31,			
	2005(NT\$)	2005(US\$)	2006(NT\$)	2006(US\$)
Cathay Life	\$10,138	\$309	\$10,765	\$331
Seaward Leasing	902	27	1,009	31
Symphox Information	412	13	660	20
Seaward Card	382	12	-	-
Lucky Bank	1,900	58	-	-
Total	\$13,734	\$419	\$12,434	\$382

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

A. Cathay Life

a. Cash in banks

		For the year ended December 31,2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$516,250	0.00%-1.69%	\$175,785
Bank	Cash in bank	3,139,040	0.00%-1.05%	3,173
Total		\$3,655,290		\$178,958

		For the year ended December 31,2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$15,739	0.00%-1.69%	\$5,359
Bank	Cash in bank	95,703	0.00%-1.05%	97
Total		\$111,442		\$5,456

		For the year ended December 31,2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$26,250	1.05%-2.06%	\$82,141
Bank	Cash in bank	2,603,715	0.00%-0.10%	1,794
Total		\$2,629,965		\$83,935

English Translation of Financial Statements Originally Issued in Chinese

		For the year ended December 31,2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposit	\$806	1.05%-2.06%	\$2,520
	Cash in bank	79,893	0.00%-0.10%	55
	Total	\$80,699		\$2,575

b. Receivable

Name	December 31,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding	\$2,171,620	\$66,208	\$757,004	\$23,228
Cathay Century	-	-	109,550	3,362
Total	\$2,171,620	\$66,208	\$866,554	\$26,590

c. Other financial assets – current

		For the year ended December 31,2005		
Name	Ending balance (NT\$)	Rate	Interest income (NT\$)	
Cathay United Bank	\$-	0.12%-3.03%	\$29,902	

		For the year ended December 31,2005		
Name	Ending balance (US\$)	Rate	Interest income (US\$)	
Cathay United Bank	\$-	0.12%-3.03%	\$912	

		For the year ended December 31,2006		
Name	Ending balance (NT\$)	Rate	Interest income (NT\$)	
Cathay United Bank	\$2,100,000	1.80%-2.27%	\$24,945	

		For the year ended December 31,2006		
Name	Ending balance (US\$)	Rate	Interest income (US\$)	
Cathay United Bank	\$64,437	1.80%-2.27%	\$765	

English Translation of Financial Statements Originally Issued in Chinese

d. Secured loans

For the year ended December 31,2005				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$2,656,679	\$2,650,612	2.60%-3.09%	\$66,678

For the year ended December 31,2005				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$80,996	\$80,811	2.60%-3.09%	\$2,033

For the year ended December 31,2006				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,070,069	\$4,069,793	3.14%-3.37%	\$122,444

For the year ended December 31,2006				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$124,887	\$124,879	3.14%-3.37%	\$3,757

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

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$5,038,740	\$153,620	\$6,281,292	\$192,737

English Translation of Financial Statements Originally Issued in Chinese

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 years ended December 31, 2005 and 2006 are listed below:

Name	Item	For the year ended December 31, 2005		
		NT\$	US\$	
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$359,060	\$10,947	
	Tianmu Jung Cheng-A	2,769	84	
	Cathay Golden & Silver Building	3,791	116	
	Sheraton Taipei Hotel	53,742	1,638	
	Sianyang Building	4,222	129	
	Cathay Land Mark	3,000	91	
	Financial Center Hsing-E	2,609	80	
	Other	293	9	
	Lin Yuan Property Management	Cathay General Hospital	1,166	36
		Cathay Comos Building	13,631	416
Lin-Yuan Building		2,205	67	
Jhong Jheng Building		1,235	38	
Sih Wei Financial Building		1,475	45	
Min Sheng Chien Kuo Building		4,181	127	
Min Sheng Commercial Building		18,647	569	
Min Sheng Trading Building		1,029	31	
Tianmu Bose-A		2,834	86	
Kaohsiung Linyuan Building		3,187	97	
Taipei Chung Hua Building		1,305	40	
Taipei Royalty Building		1,048	32	
Jhong Gang Building		3,223	98	
Cathay Building		7,417	226	
Tun Nan Commercial Building		1,693	52	
Taoyuan Fuxing Building		1,011	31	
Taitung Siwei Building		4,213	128	
Chu Tong Building		1,445	44	
Other		15,338	468	
Total		\$515,769	\$15,725	

English Translation of Financial Statements Originally Issued in Chinese

Name	Item	For the year ended December 31, 2006	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital	\$6,488	\$199
	Cathay Land Mark	2,240	69
	Other	1,074	33
Lin Yuan Property Management	Cathay Cosmos Building	5,315	163
	Li-Yuan Building	18,206	559
	Jhong Jheng Building	9,033	277
	International Building	2,560	79
	World Commercial Building	2,742	84
	Financial Center Hsing-E	8,889	273
	Yuanlin Second Building	3,109	95
	Changhua Second Building	1,431	44
	Central Industrial & Commercial Building	1,406	43
	Taipei Royalty Building	14,485	444
	Jhong Gang Building	12,005	368
	Cathay Building	21,201	651
	Tun Nan Commercial Building	6,119	188
	Min Sheng Chien Kuo Building	1,268	39
	Wanbon Commercial Building	10,557	324
	Sih Wei Financial Building	3,467	106
	Sih Wei Building	2,086	64
	Min Sheng Commercial Building	1,135	35
	Feng Chia Building	3,163	97
	Sianyang Building	1,950	60
World Building	3,906	120	
Central Commercial Building	2,885	88	
Shezih Building	2,582	79	
Dan Shuei Education Center	1,468	45	
Sinying Jhong Jheng Building	1,300	40	
Other	19,715	605	
	Total	<u>\$171,785</u>	<u>\$5,271</u>

English Translation of Financial Statements Originally Issued in Chinese

The total amounts of contracted projects for real estate as of December 31, 2005 and 2006 between Cathay Life and San Ching Engineering Co., Ltd. were NT\$1,620,227 (US\$49,397) and NT\$22,435 (US\$688), respectively.

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

Cathay Life did not acquire any real estates from its related parties in 2005.

Name	Item	For the year ended December 31, 2006	
		Contract price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$162,320</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$75,790</u>

Cathay Life prepaid NT\$3,808,047 (US\$116,099) in 2005 for the above transaction.

The appraisal report has been taken into the consideration of determination on contract prices and the title has been transferred in 2006.

(c) Real estate rentals from related parties for the years ended December 31, 2005 and 2006 are as follows:

Name	Rental income			
	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	\$264,035	\$8,050	\$249,486	\$7,655
Cathay General Hospital	133,356	4,066	145,666	4,470
Total	<u>\$397,391</u>	<u>\$12,116</u>	<u>\$395,152</u>	<u>\$12,125</u>

Periods payment terms with lease per lease contracts, lease periods are generally 2-5 years and rentals are collected monthly.

g. Guarantee deposits paid

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Futures	<u>\$317,156</u>	<u>\$9,669</u>	<u>\$377,481</u>	<u>\$11,583</u>

English Translation of Financial Statements Originally Issued in Chinese

h. Insurance income

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	\$301,670	\$9,197	\$412,680	\$12,663

i. Reinsurance income

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Insurance (Bermuda)	\$139,957	\$4,267	\$136,465	\$4,187

j. Miscellaneous income

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Century	\$545,578	\$16,633	\$665,730	\$20,428
Cathay United Bank	146,936	4,480	111,894	3,433
Total	\$692,514	\$21,113	\$777,624	\$23,861

The miscellaneous income primarily was cross-selling income received by Cathay Life.

k. Cost of disposal real estate

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities	\$158,000	\$4,817	\$37,800	\$1,160

l. Insurance expenses

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Century	\$136,317	\$4,156	\$105,526	\$3,238

English Translation of Financial Statements Originally Issued in Chinese

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$14,877 (US\$454) and NT\$11,383 (US\$349) paid by Cathay Life on behalf the employees for fidelity bond insurance were included in insurance expenses for the years ended December 31, 2005 and 2006.

m. Commission expense

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life Insurance Agent	\$185,278	\$5,649	\$121,083	\$3,715

n. Operating expense

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Lin Yuan Property Management	\$689,163	\$21,011	\$644,903	\$19,788
Symphox Information	240,745	7,340	206,583	6,339
Total	\$929,908	\$28,351	\$851,486	\$26,127

o. Other

As of December 31, 2005 and 2006, the notional amounts of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	December 31,	
	2005	2006
Forward foreign exchange contracts	USD125,545	USD565,572
CCS contracts	USD435,000	USD1,362,000

B. Cathay United Bank

a. Loans and deposits

Account	For the years ended December 31,							
	2005				2006			
	Ending Balance		Interest revenue (expense)		Ending Balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans	\$2,582,525	\$78,736	\$50,134	\$1,528	\$2,926,267	\$89,790	\$53,977	\$1,656
Deposits	\$15,222,926	\$464,114	\$(437,057)	\$(13,325)	\$15,120,288	\$463,955	\$(360,875)	\$(11,073)

English Translation of Financial Statements Originally Issued in Chinese

For the year ended December 31, 2005							
Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$689,220	\$21,013	\$588,951	\$17,956	2.48%-7.80%	\$19,251	\$587

For the year ended December 31, 2006							
Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	\$768,544	\$23,582	\$111,784	\$3,430	4.38%-7.80%	\$26,872	\$825

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

b. Securities sold under agreements to repurchase

Name	December 31,			
	Ending balance			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Wan Pao Development Co., Ltd.	\$3,401,736	\$103,711	\$4,462,438	\$136,927
Other related parties	862,705	26,302	1,136,573	34,875
Total	\$4,264,441	\$130,013	\$5,599,011	\$171,802

Name	For the years ended December 31,			
	Interest expense			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Wan Pao Development Co., Ltd.	\$3,536	\$108	\$47,401	\$1,454
Other related parties	10,524	321	14,431	443
Total	\$14,060	\$429	\$61,832	\$1,897

c. Receivable

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
	Cathay Financial Holding Co., Ltd.	\$571,606	\$17,427	\$1,430,294
Seaward Leasing	-	-	218,761	6,712
Total	\$571,606	\$17,427	\$1,649,055	\$50,600

English Translation of Financial Statements Originally Issued in Chinese

d. Payable

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	\$2,245,837	\$68,471	\$-	\$-

e. Rent expense

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$262,969	\$8,017	\$248,246	\$7,617

f. General expense

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Seaward Card	\$927,908	\$28,290	\$397,937	\$12,210
Cathay Life	508,182	15,493	379,300	11,639
Cathay Century	147,748	4,505	125,396	3,848
Symphox Information	27,041	824	270,735	8,307
Total	\$1,610,879	\$49,112	\$1,173,368	\$36,004

g. Other

- (a) As of December 31, 2005 and 2006, the notional amounts of the forward and cross-currency swaps the Bank entered into transactions with Cathay Life Insurance Co., Ltd. were US\$560,000 and US\$1,927,573, respectively.
- (b) Cathay United Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd for NT\$300,334(US\$9,216) (taxes were deducted) during the year ended December 31, 2006, the relevant carrying values were NT\$308,037 (US\$9,452) and the disposal losses were NT\$7,703 (US\$236).
- (c) Cathay United Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three years starting 2006 and the royalty was paid amounted to NT\$103,125 (US\$3,164) (amortized NT\$2,865 (US\$88) per month) in January, 2006.

English Translation of Financial Statements Originally Issued in Chinese

- (d) For organization restructuring, Cathay United Bank's board of directors resolved to sell its 64,994 thousand shares of Cathay Futures Corp. to Cathay Securities Corp. on February 10, 2006. The carrying value on the date when the transaction occurred was NT\$736,454 (US\$22,598) and net selling price was NT\$708,275 (US\$21,733) (the security transaction cost NT\$2,132 (US\$65) was deducted). The loss from the transaction was NT\$28,179 (US\$865) classified as the loss from disposal of the investment recognized by equity method.
- (e) For prospective operation and concentration on banking development, the board of directors of Cathay United Bank resolved to sell out the stocks of Seaward Leasing Ltd. to the Cathay Real Estate Development for the amount of NT3,180,000 (US\$97,576) on June 30, 2006, with NT\$15.9 dollars (US\$0.49) dollars per share. The gain from disposal of the investment recognized by the equity method was NT\$1,323,466 (US\$40,610), with selling price NT\$3,170,460 (US\$97,283) (securities transaction cost NT\$9,540 (US\$293) was deducted) minus the carrying value NT\$1,846,994 (US\$56,674).

C. Cathay Century

a. Cash in banks

		For the year ended December 31, 2005		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$293,029	0.00%-0.10%	\$105
	Time deposits	393,450	1.63%-1.85%	5,119
Total		<u>\$686,479</u>		<u>\$5,224</u>

		For the year ended December 31, 2005		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$8,934	0.00%-0.10%	\$3
	Time deposits	11,995	1.63%-1.85%	156
Total		<u>\$20,929</u>		<u>\$159</u>

English Translation of Financial Statements Originally Issued in Chinese

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$404,793	0.00%-0.10%	\$180
	Time deposits	400,655	1.93%-2.21%	7,112
Total		<u>\$805,448</u>		<u>\$7,292</u>

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$12,421	0.00%-0.10%	\$6
	Time deposits	12,294	1.93%-2.21%	218
Total		<u>\$24,715</u>		<u>\$224</u>

b. Financial assets at fair value through profit or loss-current

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$203,176</u>	<u>\$6,194</u>	<u>\$66,016</u>	<u>\$2,026</u>

c. Accrued Marketing expense

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	<u>\$54,399</u>	<u>\$1,659</u>	<u>\$115,027</u>	<u>\$3,530</u>

d. Other payables

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Financial Holding Co., Ltd.	<u>\$100,943</u>	<u>\$3,078</u>	<u>\$154,364</u>	<u>\$4,737</u>

English Translation of Financial Statements Originally Issued in Chinese

e. Premiums income

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$136,317	\$4,156	\$105,526	\$3,238
Cathay United Bank	184,297	5,619	125,396	3,848
Total	\$320,614	\$9,775	\$230,922	\$7,086

f. Insurance claims payment

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	\$254,412	\$7,756	\$27,110	\$832

g. Operating expense

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$622,993	\$18,994	\$703,826	\$21,596

D. Cathay Securities

a. Cash in bank

Name	Item	For the year ended December 31, 2005		
		Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$51,772	0.00%-0.10%	\$134
	Negotiable certificates of deposit	2,565,000	0.85%-1.20%	28,302
		\$2,616,772		\$28,436

Name	Item	For the year ended December 31, 2005		
		Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$1,579	0.00%0.10%	\$4
	Negotiable certificates of deposit	78,201	0.85%-1.20%	863
		\$79,780		\$867

English Translation of Financial Statements Originally Issued in Chinese

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$18,918	0.00%-0.10%	\$99
	Negotiable certificates of deposit	915,000	1.24%-1.50%	17,838
		<u>\$933,918</u>		<u>\$17,937</u>

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$581	0.00%-0.10%	\$3
	Negotiable certificates of deposit	28,076	1.24%-1.50%	547
		<u>\$28,657</u>		<u>\$550</u>

As of December 31, 2005 and 2006, except for NT\$1,300,000 (US\$39,634) and NT\$650,000 (US\$19,945) 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	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.				
– Cathay Bond Fund	\$400,000	\$12,195	\$203,358	\$6,240
– Cathay Soaring Eagle Bond Fund	-	-	20,082	616
Total	<u>\$400,000</u>	<u>\$12,195</u>	<u>\$223,440</u>	<u>\$6,856</u>

English Translation of Financial Statements Originally Issued in Chinese

c. Receivable

Name	Item	December 31,			
		2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	Real Estate Investment Trust (REIT)	\$-	\$-	\$263,402	\$8,082

d. Revenue from underwriting commissions

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$158,000	\$4,817	\$37,800	\$1,160

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

Name	For the year ended December 31, 2005							
	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	\$104	\$3	\$79	\$2	\$42	\$1	\$61,813	\$1,885

Name	For the year ended December 31, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures	\$485	\$15	\$541	\$17	\$71	\$2	\$308,568	\$9,468

E. Cathay Pacific Venture

a. Cash in bank

Name	Item	For the year ended December 31, 2005		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$4,175	0.10%	\$4

English Translation of Financial Statements Originally Issued in Chinese

		For the year ended December 31, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$127	0.10%	\$-

		For the year ended December 31, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$508,297	1.23%-1.44%	\$4,613
	Cash in bank	9,996	0.10%	9
	Total	\$518,293		\$4,622

		For the year ended December 31, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$15,596	1.23%-1.44%	\$142
	Cash in bank	307	0.10%	-
	Total	\$15,903		\$142

b. Available-for-sale financial assets-current

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$420,000	\$12,805	\$-	\$-

F. Lin Yuan Property Management

Service Income

Name	For the year ended December 31, 2005	
	NT\$	US\$
Cathay Life	\$742,058	\$22,634

English Translation of Financial Statements Originally Issued in Chinese

G. Seaward Leasing

a. Cash in bank

		For the year ended December 31, 2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	\$17,756	0.00%-0.10%	\$31

		For the year ended December 31, 2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	\$541	0.00%-0.10%	\$1

b. Short-term debts

		For the year ended December 31, 2005		
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest expense
Cathay United Bank	\$1,670,000	\$1,670,000	1.48%-1.51%	\$21,041

		For the year ended December 31, 2005		
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest expense
Cathay United Bank	\$50,915	\$50,915	1.48%-1.51%	\$641

H. Indovina Bank

Call Loans to Banks

		For the year ended December 31, 2005			
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)	
Cathay United Bank	\$588,951	\$17,956	\$21,785	\$664	
Industrial and Commercial Bank of Vietnam	144,718	4,412	17,174	524	
Total	\$733,669	\$22,368	\$38,959	\$1,188	

English Translation of Financial Statements Originally Issued in Chinese

For the year ended December 31, 2006

Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$111,742	\$3,429	\$26,133	\$802

I. Cathay Futures

a. Cash in bank

For the year ended December 31, 2005

Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$200,000	0.75%-1.40%	\$2,023
	Cash in bank	14,644	0.00%-1.20%	206
	Total	\$214,644		\$2,238

For the year ended December 31, 2005

Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$6,098	0.75%-1.40%	\$62
	Cash in bank	446	0.00%-1.20%	6
	Total	\$6,544		\$68

For the year ended December 31, 2006

Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$275,000	1.17%-1.71%	\$3,211
	Cash in bank	12,751	0.00%-1.20%	78
	Total	\$287,751		\$3,289

For the year ended December 31, 2006

Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$8,438	1.17%-1.71%	\$99
	Cash in bank	391	0.00%-1.20%	2
	Total	\$8,829		\$101

English Translation of Financial Statements Originally Issued in Chinese

b. Customer's margin accounts

Name	December 31,					
	2005			2006		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	\$478,431	\$14,586	0.01%-2.10%	\$777,442	\$23,855	0.01%-1.71%

c. Futures customer's equity

Name	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$317,156	\$9,670	\$377,481	\$11,583
Cathay Securities	6,469	197	308,568	9,468
Total	\$323,625	\$9,867	\$686,049	\$21,051

J. Lucky Bank

Loans and deposits

	December 31, 2005			
	Ending balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans	\$135,407	\$4,128	\$4,979	\$152
Deposits	\$635,532	\$19,376	\$(7,936)	\$(242)

	December 31, 2006			
	Ending balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans	\$87,420	\$2,682	\$2,568	\$79
Deposits	\$726,252	\$22,285	\$(9,680)	\$(297)

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

K. Cathay Life (Shanghai)

Premiums income

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
China Eastern Airlines Co., Ltd.	\$198,583	\$6,054	\$338,019	\$10,372

English Translation of Financial Statements Originally Issued in Chinese

L. Symphox Information

Cash in bank

		For the year ended December 31,2005		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$80,000	1.50%-1.85%	\$934
Bank	Cash in bank	28,660	0.10%	12
Total		<u>\$108,660</u>		<u>\$946</u>

		For the year ended December 31,2005		
Name	Item	Ending balance (US\$)	Rate	Interest income (US \$)
Cathay United	Time deposit	\$2,439	1.50%-1.85%	\$28
Bank	Cash in bank	874	0.10%	1
Total		<u>\$3,313</u>		<u>\$29</u>

		For the year ended December 31,2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$80,210	2.02%-2.16%	\$1,592
Bank	Cash in bank	3,399	0.10%	-
Total		<u>\$83,609</u>		<u>\$1,592</u>

		For the year ended December 31,2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US \$)
Cathay United	Time deposit	\$2,461	2.02%-2.16%	\$49
Bank	Cash in bank	104	0.10%	-
Total		<u>\$2,565</u>		<u>\$49</u>

Sales income

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay United Bank	<u>\$54,078</u>	<u>\$1,649</u>	<u>\$191,604</u>	<u>\$5,879</u>

English Translation of Financial Statements Originally Issued in Chinese

Service Revenue

Name	For the years ended December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Cathay Life	\$186,229	\$5,678	\$177,480	\$5,446
Cathay United Bank	64,320	1,961	134,194	4,117
Total	\$250,549	\$7,639	\$311,674	\$9,563

25. Pledged assets

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

Item	Guarantee purpose	Carrying amount			
		2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, Loan, others financial or leasing	\$2,286,530	\$69,711	\$1,563,932	\$47,988
Government bonds	Guarantee deposits paid	8,403,325	256,199	8,593,633	263,689
Financial assets at fair value through profit or loss	Business reserves and guarantees	2,405,108	73,326	168,786	5,179
Available-for-sale financial assets	Business reserves and guarantees	245,240	7,477	234,318	7,190
Held-to-maturity financial assets	Business reserves and guarantees	84,761	2,584	2,314,641	71,023
Investments in debt securities with no active market	Business reserves and guarantees	14,600,000	445,122	14,830,000	455,048
Property and equipment	Land, buildings and construction	2,336,168	71,225	-	-
Other assets	Land for sale, buildings for sale	706,441	21,538	-	-

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\$736) 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 lawsuit procedure was continuance since May, 2006 and receive a judgment from the High Court on July 11, 2006, ordering Cathay United Bank pay NT\$9,447 (US\$290) plus interest to clients. Cathay United Bank file an appeal against such judgment.
- 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\$18,411) for the purchase of a certain certificate of time deposit. Such certificates of time deposit were 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\$1,847) 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\$1,224). The District Prosecutors Office has taken a public prosecution. Cathay United Bank also filed an incidental civil procedure.

English Translation of Financial Statements Originally Issued in Chinese

- 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. About provisional measures, the Taipei District Court adjudged that Cathay United Bank win the lawsuit on December 31, 2006. However, Pacific SOGO appealed and the appeal is being reviewed by the High Court. Furthermore, Cathay United Bank also filed an incidental civil procedures and claim, which is being review by the Taipei District Court, against Pacific SOGO. Then the Taipei District Court issued a judgment favoring Cathay United Bank on October 20, 2006, ordering Pacific SOGO to pay the punitive damages of NT\$400,000 (US\$12,274). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.
- E. On December 25, 2004, a charge of embezzlement in the amount of NT\$24,971 (US\$766) by one of Cathay United Bank's employees was brought to the Taipei District Prosecutors Office.
- F. As of December 31, 2006, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$2,923,595 (US\$89,708) with prepayments of NT\$1,047,825 (US\$32,152). In addition, foreclosed properties are transferring from the court were amount of NT\$314,500 (US\$9,650).

(2) Cathay Century

Cathay Century and Itanara Import Export Company have a dispute on cargo insurance benefits. The Itanara filed a lawsuit against Cathay Century and claimed for US\$773 with related notarization expenses. The Taiwan Taipei District Court ruled in favor of Itanara in the lawsuit except the notarization expenses. Cathay Century appealed to the higher court and the lawsuit is still in progress.

(3) Lucky Bank

- A. In 2003, Lucky Bank together with one of its employee 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\$675) 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.

English Translation of Financial Statements Originally Issued in Chinese

B. In 2006, embezzlement and illegal acts involving Lucky Bank's client deposit amounting of NT\$11,654 (US\$358) was committed by one of Lucky Bank's ex-employees. Lucky Bank had compensated to its client and made a claim to the ex-employee. As of the date of this report, the case is heard by Taichung District Court. Lucky Bank has estimated a loss NT\$11,165 (US\$343) classified as the other loss except for interest account on the basis of conservatism principle.

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

	December 31,			
	2005 (NT\$)	2005 (US\$)	2006 (NT\$)	2006 (US\$)
Trust and security held for safekeeping	\$549,209,361	\$16,744,188	\$262,256,972	\$8,047,161
Travelers checks for sale	644,025	19,635	657,094	20,162
Bills for collection	58,653,847	1,788,227	51,246,626	1,572,465
Guarantees on duties and contracts	14,588,644	444,776	17,141,844	525,985
Unused commercial letters of credit	3,797,286	115,771	2,831,671	86,888
Irrevocable loan commitments	41,802,994	1,274,482	43,296,052	1,328,507
Credit card lines	290,194,193	8,847,384	283,220,679	8,690,417
Stamp tax, securities and memorial currency consignments	1,727	53	1,727	53
Book-entry for government bonds and depository for short-term marketable securities under management	-	-	345,264,800	10,594,195

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

Periods	NT\$	US\$
June 1, 2007~December 31, 2007	\$164,193	\$5,038
January 1, 2008~December 31, 2010	318,935	9,787
January 1, 2011~December 31, 2011	89,071	2,733
Total	\$572,199	\$17,558

27. Significant disaster losses: None.

English Translation of Financial Statements Originally Issued in Chinese

28. Subsequent events:

Cathay Life

On January 12, 2007, the board of directors of the Company resolved and announced the commencement of the securitization of Cathay Tun Nan Commercial Building.

29. Other significant matters

(1) Pension related information

A. Net periodic pension cost:

	For the years ended December 31,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
(1) Service cost	\$893,600	\$27,244	\$730,493	\$22,414
(2) Interest cost	431,770	13,164	392,320	12,038
(3) Projected return on plan assets	(389,223)	(11,867)	(463,992)	(14,237)
(4) Amortization of unrealized gain on pension	(147)	(5)	11	-
(5) Amortization of unrealized transit on obligation	(377,986)	(11,524)	(377,988)	(11,598)
(6) Net amortization	38,671	1,179	62,607	1,921
(7) Gains from settlement	-	-	(28,592)	(877)
(8) Amortization of prior service cost	51,733	1,577	51,733	1,587
(9) Amortization of gain or loss	2,907	89	(214,253)	(6,574)
(10) Net periodic pension cost	<u>\$651,325</u>	<u>\$19,857</u>	<u>\$152,339</u>	<u>\$4,674</u>

B. Pension funded status:

	For the years ended December 31,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
(1) Vested benefit obligation	\$(6,848,173)	\$(208,786)	\$(7,394,439)	\$(226,893)
(2) Non-vested benefit obligation	<u>(3,209,213)</u>	<u>(97,842)</u>	<u>(3,338,362)</u>	<u>(102,435)</u>
(3) Accumulated benefit obligation	(10,057,386)	(306,628)	(10,732,801)	(329,328)
(4) Additional benefits based on future salaries	<u>(3,464,771)</u>	<u>(105,633)</u>	<u>(2,782,486)</u>	<u>(85,379)</u>

English Translation of Financial Statements Originally Issued in Chinese

	For the years ended December 31,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
(5) Projected benefit obligation	(13,522,157)	(412,261)	(13,515,287)	(414,707)
(6) Fair value of plan assets	11,654,425	355,318	15,894,473	487,711
(7) Funded status=(5)+(6)	(1,867,732)	(56,943)	2,379,186	73,004
(8) Unrecognized transitional net assets	(1,602,292)	(48,850)	(1,262,995)	(38,754)
(9) Unrecognized prior service cost	310,401	9,463	258,667	7,937
(10) Unrecognized pension gain and loss	1,284,230	39,153	(3,263,768)	(100,147)
(11) Additional accrued pension liability	(45,628)	(1,391)	(121,228)	(3,720)
(12) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	<u>\$ (1,921,021)</u>	<u>\$ (58,568)</u>	<u>\$ (2,010,138)</u>	<u>\$ (61,680)</u>
(13) Vested benefit	<u>\$9,640,734</u>	<u>\$293,925</u>	<u>\$10,459,900</u>	<u>\$320,954</u>

C. Actuarial assumptions

	For the years ended December 31,	
	2005	2006
	(1) Discount rate	3.00%-3.70%
(2) Rate of increase in future salaries	1.00%~3.00%	1.50%~3.00%
(3) Expected return on pension plan assets	2.75%-3.70%	2.75%-3.70%

(2) Financial instruments related information

A. The Company

a. Information of fair value

Item	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$10,448,439	\$10,448,439	\$318,550	\$318,550
Receivables	3,004,003	3,004,003	91,585	91,585
Investments under equity method	188,100,384	188,100,384	5,734,768	5,734,768
Other financial assets	100,000	100,000	3,049	3,049

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Payables	3,340,194	3,340,194	101,835	101,835
Bonds payable	13,405,171	13,405,171	408,694	408,694
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
IRS, option	-	-	-	-
Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$13,249,833	\$13,249,833	\$406,561	\$406,561
Receivables	2,035,749	2,035,749	62,466	62,466
Investments under equity method	205,492,604	205,492,604	6,305,388	6,305,388
Other financial assets	31,720	31,720	973	973
<u>Liabilities</u>				
Payables	2,341,369	2,341,369	71,843	71,843
Bonds payable	4,273,209	4,273,209	131,120	131,120
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
IRS, option	1,013,833	1,013,833	31,109	31,109

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.

English Translation of Financial Statements Originally Issued in Chinese

- 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	December 31, 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	\$-	\$-	\$13,249,833	\$406,561
Receivables	-	-	2,035,749	62,466
Investments under equity method	-	-	205,492,604	6,305,388
Other financial assets	-	-	31,720	973
<u>Liabilities</u>				
Payables	-	-	2,341,369	71,843
Bonds payable	-	-	4,273,209	131,120
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
IRS, option	-	-	1,013,833	31,109

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

- d. Information on financial risk

- (a) Risk of interest rate

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

Fixed interest rate

Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

English Translation of Financial Statements Originally Issued in Chinese

Item	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

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	\$-	\$-	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

Item	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$1,013,833	\$31,109

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.

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.

English Translation of Financial Statements Originally Issued in Chinese

B. Cathay Life

a. Information of fair value

Item	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$287,012,435	\$287,012,435	\$8,750,379	\$8,750,379
Notes receivable	14,014,632	14,014,632	427,275	427,275
Financial assets at fair value through profit or loss - current	113,545,203	118,685,933	3,461,744	3,618,474
Available-for-sale financial assets - current	117,150,563	124,643,533	3,571,664	3,800,108
Held-to-maturity financial assets - current	11,916,287	11,916,287	363,302	363,302
Investments in debt securities with no active market - current	977,811	977,811	29,811	29,811
Available-for-sale financial assets - noncurrent	112,234,628	114,235,161	3,421,787	3,482,779
Held-to-maturity financial assets - noncurrent	447,234,395	447,234,395	13,635,195	13,635,195
Financial assets carried at cost - noncurrent	20,445,384	20,445,384	623,335	623,335
Investments in debt securities with no active market - noncurrent	44,628,749	44,628,749	1,360,633	1,360,633
Long-term investments in stocks under the equity method	3,883,938	3,883,938	118,413	118,413
Guarantee deposits paid	8,192,004	8,192,004	249,756	249,756
<u>Liabilities</u>				
Notes payable	1,651	1,651	50	50
Guarantee deposits received	1,643,683	1,643,683	50,112	50,112

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31,2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	\$1,690,783	\$1,673,501	\$51,548	\$51,021
Option	31,466	26,543	959	809
Forward	2,170,213	2,721,241	66,165	82,965
IRS	29,830	85,991	910	2,622
<u>Derivative financial assets for hedging-current</u>				
IRS	-	465,308	-	14,186
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	11,524	13,081	351	399
Forward	2,028,859	4,086,463	61,856	124,587
IRS	34,785	724,149	1,061	22,078
<u>Derivative financial liabilities for hedging-current</u>				
IRS	-	44,390	-	1,353
Item	December 31,2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$270,353,723	\$270,353,723	\$8,295,604	\$8,295,604
Notes receivable	12,542,006	12,542,006	384,842	384,842
Financial assets at fair value through profit or loss - current				
	87,855,778	87,855,778	2,695,789	2,695,789

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets - current	\$155,178,894	\$155,178,894	\$4,761,549	\$4,761,549
Held-to-maturity financial assets - current	13,313,233	13,827,143	408,507	424,276
Investments in debt securities with no active market - current	5,001,829	5,001,829	153,478	153,478
Available-for-sale financial assets - noncurrent	175,323,875	175,323,875	5,379,683	5,379,683
Held-to-maturity financial assets - noncurrent	524,210,596	515,447,224	16,085,014	15,816,116
Financial assets carried at cost - noncurrent	19,621,636	19,621,636	602,075	602,075
Investments in debt securities with no active market - noncurrent	42,782,186	42,778,440	1,312,740	1,312,625
Long-term investments in stocks under the equity method	4,290,720	4,290,720	131,658	131,658
Guarantee deposits paid	8,181,101	8,181,101	251,031	251,031
<u>Liabilities</u>				
Notes payable	2,474	2,474	76	76
Guarantee deposits received	1,464,317	1,464,317	44,931	44,931
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	1,879,552	1,879,552	57,673	57,673
Option	7,691	7,691	236	236
Forward	8,022,181	8,022,181	246,155	246,155
IRS	421,537	421,537	12,934	12,934
Derivative financial assets for hedging - current				
IRS	251,901	251,901	7,729	7,729

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31,2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	\$9,996	\$9,996	\$307	\$307
Forward	11,361,889	11,361,889	348,631	348,631
IRS	203,592	203,592	6,247	6,247
Derivative financial liabilities for hedging - current				
IRS	23,867	23,867	732	732

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, 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.

English Translation of Financial Statements Originally Issued in Chinese

(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 December 31, 2006:

Financial Instruments	December 31, 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	\$82,130,365	\$82,130,365	\$5,725,413	\$5,725,413
Available-for-sale financial assets - current	155,175,002	155,175,002	3,892	3,892
Held-to-maturity financial assets - current	12,305,497	12,824,516	1,007,736	1,002,627
Investments in debt securities with no active market - current	5,001,829	5,001,829	-	-
Available-for-sale financial assets - noncurrent	161,485,292	161,485,292	13,838,583	13,838,583
Held-to-maturity financial assets - noncurrent	85,732,482	94,605,321	438,478,114	420,841,903
Financial assets carried at cost - noncurrent	19,621,636	19,621,636	-	-
Investment in debt securities with no active market - noncurrent	12,120,203	12,293,185	30,661,983	30,485,255
Long-term investments in stocks under the equity method	-	-	4,290,720	4,290,720
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	1,879,552	1,879,552	-	-
Option	7,691	7,691	-	-
Forward contracts	-	-	8,022,181	8,022,181
IRS	-	-	421,537	421,537

English Translation of Financial Statements Originally Issued in Chinese

Financial Instruments	December 31, 2006			
	NT\$			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial assets for hedging - current				
IRS	-	-	251,901	251,901
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	9,996	9,996	-	-
Forward contracts	-	-	11,361,889	11,361,889
IRS	-	-	203,592	203,592
Derivative financial assets for hedging - current				
IRS	-	-	23,867	23,867

Financial Instruments	December 31, 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	\$2,520,109	\$2,520,109	\$175,680	\$175,680
Available-for-sale financial assets - current	4,761,430	4,761,430	119	119
Held-to-maturity financial assets - current	377,585	393,511	30,922	30,765
Investments in debt securities with no active market - current	153,478	153,478	-	-
Available-for-sale financial assets - noncurrent	4,955,056	4,955,056	424,627	424,627
Held-to-maturity financial assets - noncurrent	2,630,638	2,902,894	13,454,376	12,913,222
Financial assets carried at cost - noncurrent	602,075	602,075	-	-
Investment in debt securities with no active market - noncurrent	371,899	377,207	940,840	935,418
Long-term investments in stocks under the equity method	-	-	131,658	131,658

English Translation of Financial Statements Originally Issued in Chinese

Financial Instruments	December 31, 2006			
	US\$			
	Based on the quoted market price		Based on pricing models	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	57,673	57,673	-	-
Option	236	236	-	-
Forward contracts	-	-	246,155	246,155
IRS	-	-	12,934	12,934
Derivative financial assets for hedging - current				
IRS	-	-	7,729	7,729
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	307	307	-	-
Forward contracts	-	-	348,631	348,631
IRS	-	-	6,247	6,247
Derivative financial assets for hedging - current				
IRS	-	-	732	732

d. Information on financial risk

(a) Interest rate risk

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

English Translation of Financial Statements Originally Issued in Chinese

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	\$313,548	\$9,621	\$1,767,224	\$54,226	\$134,668	\$4,132	\$222,340	\$6,822
Available-for-sale financial								
assets	1,669,024	51,213	1,258,468	38,615	476,726	14,628	3,525,334	108,172
Held-to-maturity financial assets	11,610,611	356,263	3,315,525	101,734	10,327,699	316,898	5,070,199	155,575
Investments in debt securities								
with no active market	50,323	1,544	1,031,669	31,656	663,402	20,356	480,100	14,732

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	\$4,348,930	\$133,444	\$14,696,709	\$450,958	\$21,483,419	\$659,203
Available-for-sale financial						
assets	3,138,983	96,317	95,303,204	2,924,308	105,371,739	3,233,254
Held-to-maturity financial assets	15,958,842	489,685	408,267,689	12,527,392	454,550,565	13,947,547
Investments in debt securities						
with no active market	1,984,567	60,895	29,928,574	918,336	34,138,635	1,047,519

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	\$7,183,884	\$220,432	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial								
assets	70,559,958	2,165,080	-	-	-	-	-	-
Held-to-maturity financial assets	82,973,264	2,545,973	-	-	-	-	-	-
Investments in debt securities								
with no active market	13,645,379	418,698	-	-	-	-	-	-

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	\$-	\$-	\$-	\$-	\$7,183,884	\$220,432
Available-for-sale financial						
assets	-	-	-	-	70,559,958	2,165,080
Held-to-maturity financial assets	-	-	-	-	82,973,264	2,545,973
Investments in debt securities						
with no active market	-	-	-	-	13,645,379	418,698

English Translation of Financial Statements Originally Issued in Chinese

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	\$17,498	\$537	\$18,748	\$575	\$16,259	\$499	\$4,462	\$137
Derivative financial assets for								
hedging	13,565	416	29,040	891	13,118	403	119,741	3,674
Financial liabilities at fair value								
through profit or loss	55,861	1,714	606	18	1,032	32	13,028	400
Derivative financial liabilities								
for hedging	4,030	123	710	22	19,127	587	-	-

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	\$15,857	\$486	\$349,718	\$10,731	\$422,542	\$12,965
Derivative financial assets for						
hedging	61,507	1,887	14,930	458	251,901	7,729
Financial liabilities at fair value						
through profit or loss	-	-	142,194	4,363	212,721	6,527
Derivative financial liabilities						
for hedging	-	-	-	-	23,867	732

(b) Credit risk

Cathay Life's exposure to credit risk is minimal.

e. Hedging activities

Cash flow hedges - IRS

Cathay Life held interest swap agreements to hedge the risks from interest rate fluctuation. The terms of the agreements are as follows:

English Translation of Financial Statements Originally Issued in Chinese

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$187,500	\$5,753	ARMS	Each quarter	2009/3/24
185,000	5,677	ARMS	Each quarter	2009/3/24
350,000	10,739	4.0005%-6ml	Half year	2008/9/26
500,000	15,342	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Each quarter	2007/10/10
500,000	15,342	7.05%-90BACP	Each quarter	2007/10/10
300,000	9,205	5.5%-6m Libor	Half year	2007/12/26
500,000	15,342	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,137	4.003%-6ml	Half year	2008/6/13
500,000	15,342	4%-12m Libor	Yearly	2008/6/5
300,000	9,205	4.3%-12m Libor	Yearly	2010/6/20
200,000	6,137	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
300,000	9,205	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,137	7.603%-6ml	Half year	2007/7/31
300,000	9,205	94/6/17~94/7/31 : 7.25%-6ml 94/7/31~95/7/31 : 7.5%-6ml 95/7/31~96/7/31 : 7.75%-6ml	Half year	2007/7/31
300,000	9,205	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31
200,000	6,137	0.5Y:3.8%,6ml if 3.0%*n/N 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y:1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0%	Half year	2011/3/19
300,000	9,205	5.1%-6m Libor	Half year	2007/12/19

English Translation of Financial Statements Originally Issued in Chinese

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	6,137	If 6ml<0.95%, Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,205	If 6ml<0.95%,Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,137	4.000%-6ml	Half year	2010/4/7
300,000	9,205	4.0002%-6ml	Half year	2010/4/7
400,000	12,274	4.0006%-6ml	Half year	2010/4/7
400,000	12,274	4.0007%-6ml	Half year	2010/4/7
250,000	7,671	90DCP	Each quarter	2008/8/10
900,000	27,616	90DCP	Each quarter	2010/8/18
600,000	18,411	90DCP	Each quarter	2010/8/19
100,000	3,068	4.0006%-6ml	Half year	2010/4/7
100,000	3,068	4.0007%-6ml	Half year	2010/4/7
450,000	13,808	90DCP	Each quarter	2008/8/22
330,000	10,126	90DCP	Each quarter	2008/8/24
300,000	9,205	5.35%-6ml	Each quarter	2008/1/8
200,000	6,137	4.0003%-6ml	Half year	2010/4/7
300,000	9,205	5.37%-6ml	Half year	2011/3/15
200,000	6,137	5.85%-6ml	Half year	2009/1/13
50,000	1,534	4.15%-6ml	Half year	2009/1/16
200,000	6,137	6.3%-6ml	Half year	2010/11/27
300,000	9,025	180DCP + 40bps	Half year	2008/3/24
300,000	9,025	180DCP	Half year	2008/6/12
500,000	15,342	90DCP+75bps	Each quarter	2008/7/19
500,000	15,342	90DCP+75bps	Each quarter	2008/7/19
500,000	15,342	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,287	90DCP+30bps	Each quarter	2008/9/17
782,304	24,004	1.25% + 3ml	Each quarter	2009/9/23
782,304	24,004	6ml	Half year	2013/9/20

The terms of interest rate swap agreements are established based on the terms of the bonds being hedged.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$427,686 (US\$13,123) as of December 31, 2006.

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, 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 methods, Position Limit, VaR Limit and Loss Limit are used to effectively manage the market risk of Cathay Life's financial assets.

Credit Risk

Credit risk is the risk of loss due to counterparty or a debtor defaulting on their contractual obligations. Cathay Life minimizes the credit risk exposure by performing the following evaluations and controls:

English Translation of Financial Statements Originally Issued in Chinese

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.

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.

English Translation of Financial Statements Originally Issued in Chinese

C. Cathay United Bank

a. Information of fair value

	December 31, 2006			
	Carrying amount		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$51,047,557	\$1,566,356	\$51,047,557	\$1,566,356
Available-for-sale financial assets	53,972,357	1,656,102	53,972,357	1,656,102
Held-to-maturity financial assets and debt securities with no active market	239,973,461	7,363,408	240,012,859	7,364,617
Investment accounted for using equity method	2,334,860	71,643	2,334,860	71,643
Others	791,493,225	24,286,383	791,493,225	24,286,383
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	49,168,383	1,508,695	49,168,383	1,508,695
Financial debentures payable	18,135,818	556,484	18,135,818	556,484
Others	1,030,529,858	31,621,045	1,030,529,858	31,621,045
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	5,998,705	184,066	5,998,705	184,066
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	6,228,317	191,111	6,228,317	191,111
Others	463,562	14,224	463,562	14,224

b. The methodologies and assumptions used by Cathay United 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, 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.

English Translation of Financial Statements Originally Issued in Chinese

(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) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.

(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.

(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.

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:

English Translation of Financial Statements Originally Issued in Chinese

	December 31, 2006			
	Based on the quoted market price		Based on the pricing models	
	NT	US	NT	US
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$48,186,910	\$1,478,580	\$2,860,647	\$87,776
Available-for-sale financial assets	53,972,357	1,656,102	-	-
Held-to-maturity financial assets and debt securities without active market	188,241,366	5,776,047	51,771,493	1,588,570
Others	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	49,168,383	1,508,695
Financial debentures payable	-	-	18,135,818	556,484
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	1,200	37	5,997,505	184,029
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	221	7	6,228,096	191,105
Others	-	-	463,562	14,224

Note: Most of such assets and liabilities are investment accounted for cost or using equity method. The amount of fair value is not determined by quoted market price or pricing models but estimated face value.

- d. Gains recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT\$434,805(US\$13,342) for the year ended December 31, 2006.
- e. Cathay United Bank recognized NT\$39,158,811 (US\$1,201,559) and NT\$16,248,895 (US\$498,585) as interest income and expense from financial assets or liabilities not at fair value through profit or loss, respectively, for the year ended December 31, 2006.
- f. Cathay United Bank recognized an unrealized gains or losses of NT\$856,329 (US\$26,276) in shareholders' equity for the changes in fair value of available-for-sale financial assets and realized gains of NT\$498,993 (US\$15,311) in income statement for the year ended December 31, 2006.

English Translation of Financial Statements Originally Issued in Chinese

g. The interest income of NT\$36 (US\$1) from financial assets was impaired which 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.

① 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.

② 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.

③ 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.

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 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	\$79,515	\$2,440	\$138,367	\$4,246	\$43,942	\$1,348
Foreign exchange	43,677	1,340	117,919	3,618	727	22
Equity Securities price	51,318	1,575	80,270	2,463	17,301	531

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(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.

- ① The credit risk amounts pertain to contracts with a fair value on balance sheet date and off-balance-sheet commitment and guarantee contracts. The maximum credit risk exposure amounts of various financial instruments are the same as carrying value except which Cathay United Bank held are as following:

Items	December 31, 2006			
	Carrying value		Maximum credit risk exposed amount	
	NT	US	NT	US
Guarantees on duties and contracts	\$-	\$-	\$17,141,844	\$525,985
Unused commercial letters of credit	-	-	2,545,146	78,096
Irrevocable loan commitments	-	-	28,780,105	883,096
Credit card lines	-	-	283,220,679	8,690,417

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- ⑥ Cathay United Bank mitigates the credit risk by diversifying counterparties and customers. However, Cathay United Bank is likely to be exposed to region or industry concentration risk. Cathay United Bank information of concentration of credit risk is as follows:

Loans, customers' liabilities under acceptances and guarantees account	December 31,			
	2005		2006	
	NT	US	NT	US
Industry type				
Manufacturing	\$75,480,780	\$2,301,243	\$104,002,149	\$3,191,229
Financial institutions and insurance	36,776,019	1,121,220	43,912,932	1,347,435
Leasing and real estate	68,322,909	2,083,016	67,285,836	2,064,616
Individuals	369,265,755	11,258,102	371,330,781	11,394,010
Others	97,073,470	2,959,557	106,071,482	3,254,725
Total	646,918,933	19,723,138	692,603,180	21,252,015
Valuation allowance	(15,769,322)	(480,772)	(15,883,008)	(487,358)
Maximum credit risk exposed	\$631,149,611	\$19,242,366	\$676,720,172	\$20,764,657
Geographic Region				
Domestic	\$610,686,961	\$18,618,505	\$645,989,735	\$19,821,716
South East Asia	10,400,952	317,102	16,859,532	517,322
North East Asia	40,493	1,235	-	-
North America	9,757,586	297,487	11,556,020	354,588
Others	16,032,941	488,809	18,197,893	558,389
Total	646,918,933	19,723,138	692,603,180	21,252,015
Valuation allowance	(15,769,322)	(480,772)	(15,883,008)	(487,358)
Maximum credit risk exposed	\$631,149,611	\$19,242,366	\$676,720,172	\$20,764,657

(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.

English Translation of Financial Statements Originally Issued in Chinese

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.

(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 December 31, 2006, there is no significant change in these dates.

As of December 31, 2006, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

<u>Financial instruments</u>	<u>Effective interest rate (%)</u>
Available-for-sale financial assets	
Bonds	1.1364-6.8366
Overseas financial instruments	1
Held-to-maturity financial assets	
Bonds	1.6534-6.9578
Overseas financial instruments	3.45-7.625
Investments in debt securities with no active market	
Preferred stocks	5
Certificates of deposit	1.66-1.1919
Overseas financial instruments	0-7.61
Financial debentures payable	2-5.59

English Translation of Financial Statements Originally Issued in Chinese

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 December 31, 2006
Financial debentures payable	Interest rate swap	NT\$463,562 (US\$14,224)

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	December 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,619,412	\$2,619,412	\$79,860	\$79,860
Financial assets at fair value through profit or loss - current	536,498	536,498	16,357	16,357
Available-for-sale financial assets - current	1,695,811	1,695,811	51,702	51,702
Investments in debt securities with no active market-current	254,121	254,121	7,748	7,748
Receivables	1,373,799	1,373,799	41,884	41,884
Claims recoverable from reinsurers	215,775	215,775	6,578	6,578
Due from reinsurers and ceding Companies	80,499	80,499	2,454	2,454
Secured loans	1,321,212	1,321,212	40,281	40,281
Held-to-maturity financial assets - noncurrent	3,153,954	3,153,954	96,157	96,157

English Translation of Financial Statements Originally Issued in Chinese

Assets	December 31, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Financial assets carried at cost				
- noncurrent	\$36,000	\$36,000	\$1,098	\$1,098
Investments in debt securities with no active market – noncurrent				
	307,799	307,799	9,384	9,384
Long-term investments under equity method				
	382,522	382,522	11,662	11,662
Guarantee deposits paid	383,859	383,859	11,703	11,703
Derivative financial instruments:				
Financial assets at fair value through profit or loss – current				
Futures Contract	8,854	8,854	270	270
Options Contract	131	131	4	4
Liabilities				
Non-derivative financial instrument :				
Claims outstanding	628	628	19	19
Due to reinsurers and ceding companies	224,011	224,011	6,829	6,829
Operating and debt reserve	8,124,052	8,124,052	247,684	247,684
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss – current				
Foreign exchange SWAP	2,256	2,256	69	69
December 31, 2006				
Assets	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$1,971,694	\$1,971,694	\$60,500	\$60,500
Financial assets at fair value through profit or loss – current				
	502,961	502,961	15,433	15,433

English Translation of Financial Statements Originally Issued in Chinese

Assets	December 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments:</u>				
Available-for-sale financial assets - current	\$2,548,140	\$2,548,140	\$78,188	\$78,188
Investments in debt securities with no active market-current	76,981	76,981	2,362	2,362
Receivables	1,715,787	1,715,787	52,647	52,647
Claims recoverable from reinsurers	170,371	170,371	5,228	5,228
Due from reinsurers sand ceding companies	76,565	76,565	2,349	2,349
Secured loans	2,095,268	2,095,268	64,292	64,292
Held-to-maturity financial assets				
- noncurrent	3,749,347	3,749,347	115,046	115,046
Financial assets carried at cost				
- noncurrent	60,000	60,000	1,841	1,841
Investments in debt securities with no active market – noncurrent	229,220	229,220	7,033	7,033
Long-term investments under equity method	449,041	449,041	13,779	13,779
Guarantee deposits paid	509,527	509,527	15,634	15,634
<u>Derivative financial instruments:</u>				
Financial assets at fair value through profit or loss - current				
Futures Contract	8,437	8,437	259	259
Options Contract	285	285	9	9
Foreign exchange SWAP	-	-	-	-
<u>Liabilities</u>				
<u>Non-derivative financial instrument:</u>				
Claims outstanding	19,550	19,550	600	600
Due to reinsurers and ceding companies	260,583	260,583	7,996	7,996
Operating and debt reserve	9,293,401	9,293,401	285,161	285,161
<u>Derivative financial instruments:</u>				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	61,846	61,846	1,898	1,898

English Translation of Financial Statements Originally Issued in Chinese

- 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.
- c. The following table summarizes the fair value information of Cathay Century's financial assets and liabilities at December 31, 2006:

English Translation of Financial Statements Originally Issued in Chinese

Financial Instruments	December 31,2006			
	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-non-derivative</u>				
Financial assets at fair value through profit or loss-current	\$502,961	\$502,961	\$-	\$-
Available-for-sale financial assets-current	2,548,140	2,548,140	-	-
Investment in debt securities with no active market-current	-	-	76,981	-
Held-to-maturity financial assets-noncurrent	-	-	3,749,347	-
Financial assets carried at cost-noncurrent	-	-	60,000	-
Investment in debt securities with no active market-noncurrent	-	-	229,220	-
Long-term investments in stocks under the equity method	-	-	449,041	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	8,437	8,437	-	-
Option	285	285	-	-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	61,846	61,846	-	-

English Translation of Financial Statements Originally Issued in Chinese

Financial Instruments	December 31,2006			
	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	\$15,433	\$15,433	\$-	\$-
Available-for-sale financial assets-current	78,188	78,188	-	-
Investment in debt securities with no active market-current	-	-	2,362	-
Held-to-maturity financial assets-noncurrent	-	-	115,046	-
Financial assets carried at cost-noncurrent	-	-	1,841	-
Investment in debt securities with no active market-noncurrent	-	-	7,033	-
Long-term investments in stocks under the equity method	-	-	13,779	-
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	259	259	-	-
Option	9	9	-	-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	1,898	1,898	-	-

d. Information on financial risk

(a) Risk of interest rate

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

English Translation of Financial Statements Originally Issued in Chinese

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	\$-	\$-	\$49,504	\$1,519	\$849,233	\$26,058	\$357,990	\$10,985
Investments in debt securities								
with no active market	76,981	2,362	125,889	3,863	103,331	3,170	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$461,154	\$14,150	\$2,031,466	\$62,334	\$3,749,347	\$115,046
Investments in debt securities						
with no active market	-	-	-	-	306,201	9,395

(b) Credit risk

Cathay Century's exposure to credit risk in minimal.

e. Hedging activities

Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		December 31, 2005		December 31, 2006	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas investments in bonds	Foreign exchange SWAP	<u>\$(2,256)</u>	<u>\$(69)</u>	<u>\$(61,846)</u>	<u>\$(1,898)</u>

f. Financial risk management objectives policies

Cathay Century's primary financial instruments other than derivatives consists of 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.

English Translation of Financial Statements Originally Issued in Chinese

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	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,463,108	\$1,463,108	\$44,607	\$44,607
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	760,000	760,060	23,171	23,173
Operating securities – net	123,825	123,975	3,775	3,780
Receivables – net	5,924	5,924	181	181
Restricted assets – current	1,300,000	1,300,000	39,634	39,634
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,558	6,558
Settlement and clearance funds	43,035	43,035	1,312	1,312
Guarantee deposits paid	19,225	19,225	586	586
<u>Liabilities</u>				
Payables	36,699	36,699	1,118	1,118
Guarantee deposits-in	1,638	1,638	50	50

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	\$61,813	\$61,813	\$1,884	\$1,884
Derivative financial instrument assets – GreTai (over-the-counter)	5,245	5,245	160	160
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	133	133	4	4
Other financial liabilities – current	61,163	61,163	1,865	1,865
Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$450,393	\$450,393	\$13,820	\$13,820
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	622,779	622,779	19,109	19,109
Operating securities – net	371,197	371,197	11,390	11,390
Receivable amount for margin loans	752,429	752,429	23,088	23,088
Receivables – net	11,123	11,123	341	341
Restricted assets – current	650,000	650,000	19,945	19,945
Long-term investments under equity method	719,669	719,669	22,082	22,082
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,600	6,600
Settlement and clearance funds	46,734	46,734	1,434	1,434
Guarantee deposits paid	38,239	38,239	1,173	1,173

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities</u>				
Securities financing guarantee deposits-in	\$11,707	\$11,707	\$359	\$359
Deposit payable for securities financing	12,875	12,875	395	395
Payables	36,282	36,282	1,114	1,114
Guarantee deposits-in	141	141	4	4
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	308,568	308,568	9,468	9,468
Derivative financial instrument assets – GreTai (over-the-counter)	-	-	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	4,200	4,200	129	129
Repurchase of issued call (put) warrants	(2,914)	(2,914)	(90)	(90)
Put options – futures	-	-	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	4,946	4,946	152	152
Other financial liabilities – current	175,703	175,703	5,392	5,392

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

- (a) Short-term financial instruments are stated at their carrying amount on the balance sheet date. Because the maturity date of these instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. This assumption is adopted for the following accounts: cash and cash equivalents, securities purchased under agreements to resell, receivable amount for margin loans, receivables, restricted assets, operating deposits, settlement and clearance funds, guarantee deposits paid, securities sold under agreements to repurchase, securities financing guarantee deposits-in, deposit payable for securities financing, payables and guarantee deposits-in.

English Translation of Financial Statements Originally Issued in Chinese

- (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, the Company assesses the fair value by using pricing model. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value of financial assets and liabilities as of December 31, 2006:

Item	December 31, 2006			
	Based on the	Based on	Based on the	Based on
	quoted market price	pricing models	quoted market price	pricing models
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$622,779	\$-	\$19,109	\$-
Operating securities – net	371,197	-	11,390	-
Margin for futures trading – own funds	308,568	-	9,468	-
Derivative financial instrument assets – GreTai (over-the-counter)	-	-	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	4,200	-	129	-

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31, 2006			
	Based on the	Based on	Based on the	Based on
	quoted market price	pricing models	quoted market price	pricing models
	(NT\$)	(NT\$)	(US\$)	(US\$)
<u>Liabilities</u>				
Repurchase of issued call (put) warrants	\$ (2,914)	\$ -	\$ (90)	\$ -
Put options – futures	-	-	-	-
Derivative financial instrument liabilities - GreTai (over-the-counter)	-	4,946	-	152
Other financial liabilities – current	-	175,703	-	5,392

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

c. Derivatives

(a) Issuance of call warrants

① Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2005		December 31, 2006	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call warrants	\$ -	\$ -	NT\$11,120 (US\$341)	\$ -

The Company collects premium from investors when issuing call warrants. Therefore, the Company believes it does not have any credit risk with respect to investors.

ⓑ Market price risk

Market risk for call warrants issued arises from changes in the prices of the underlying securities. Although market risk can be avoided by adjusting the Company's warrant and hedging positions, certain market risk still exist.

ⓒ Liquidity risk, cash flow risk and future cash requirements

When issuing call warrants, the Company utilizes existing holdings of underlying securities and premiums received in advance to establish hedging positions. Further, because underlying securities must meet specific regulatory requirements with respect to market price and shareholder diversification, the Company believes they can be easily sold at reasonable prices and that liquidity risk is low. Risk may arise from the need for capital when adjusting hedging position in response to price changes of underlying securities. However, assuming strong market liquidity, the Company believes cash flow risk is low.

The call warrants issued by the Company typically have contract periods of six months starting from the date when the warrants are listed. Except for the flow of cash related to hedging transactions, there are no other cash requirements.

ⓓ Types, purposes, and strategies for derivatives

The Company's hedging positions are not held for trading purposes but instead, are held to minimize the risk of investors exercising warrants. The Company's hedging strategy is focused on avoiding market price risks. The value of the underlying securities for hedging are highly correlated to the fair value of the issued call warrants. The Company's hedging positions are evaluated and adjusted periodically.

ⓔ Financial statement presentation of derivative financial instruments

As of December 31, 2005 and 2006, the disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

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Balance sheet

	December 31, 2006	
	Financial liabilities at fair value through profit or loss-current	
	NT\$	US\$
Liabilities for issuance of call (put) warrants	\$4,200	\$129
Repurchase of issued call (put) warrants	(2,914)	(90)
Total	\$1,286	\$39

Statement of income

	For the year ended December 31, 2006		
	Profit from issuing call (put) warrants		Comments
	NT\$	US\$	
	Liabilities of call (put) warrants	\$6,920	\$212
Repurchase of issued call (put) warrants			
Loss on disposal	(1,865)	(57)	
Loss of valuation	(3,505)	(107)	Fair value method
Total	\$1,550	\$48	

(a) Structured notes transactions

Ⓐ Nominal principal or contract amount and credit risk

	December 31, 2005		December 31, 2006	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Equity-linked notes	NT\$58,200 (US\$1,774)	\$-	\$-	\$-
Principal guaranteed notes	\$-	\$-	NT\$177,900 (US\$5,459)	\$-

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

② Market risk

In structured notes transactions, the Company receives proceeds from investors on the contract date and makes its investments pursuant to the contract. The Company 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, the Company believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

③ Risk from liquidity, cash flow and future cash requirements

In structured notes transactions, the Company 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, the Company considers liquidity risk when investing in fixed income securities. As a result, the Company does not expect any significant cash requirements at expiration of the contract.

④ Types, purposes, and strategies for financial derivatives

The structured notes transactions of the Company 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.

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(b) Financial statement presentation of derivative financial instruments

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

<u>Balance sheet</u>	December 31, 2005			
	Financial assets at fair value through profit or loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit or loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Equity – linked notes	\$5,245	\$160	\$61,163	\$1,865

<u>Statement of income</u>	For the year ended December 31, 2005		
	Gain from derivative financial instruments – GreTai (over-the-counter)		Comments
	(NT\$)	(US\$)	
Interest rate swaps	\$(790)	\$(24)	Fair value method
Equity-linked notes	1,234	38	"
Principal guaranteed notes	3,911	119	"
	\$4,355	\$133	

<u>Balance sheet</u>	December 31, 2006			
	Financial assets at fair value through profit or loss – current (derivative financial instrument assets – GreTai (over-the-counter))		Financial liabilities at fair value through profit or loss – current (derivative financial instrument liabilities – GreTai (over-the-counter)) and other financial liabilities – current	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Principal guaranteed notes	\$-	\$-	\$180,649	\$5,544

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<u>Statement of income</u>	For the year ended December 31, 2006		Comments
	Loss from derivative financial instruments – GreTai (over-the-counter)		
	(NT\$)	(US\$)	
Equity – linked notes	\$8,839	\$271	Fair value method
Principal guaranteed notes	3,506	108	"
Total	\$12,345	\$379	

d. Futures and options transactions

As of December 31, 2005 and 2006, the Company's unexercised options were as follows:

December 31, 2005

Item	Nature of transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Options	TXO-Call	Sell	14	\$6	\$-	\$5	\$-
Options	TXO-Put	Sell	826	\$217	\$7	\$128	\$4
Futures	TAIEX futures	Buy	35	\$46,420	\$1,415	\$46,165	\$1,407

As of December 31, 2006, all of the Company's futures and options transactions were exercised.

(a) Nominal principal or contract amount and credit risk

Financial instruments	December 31, 2005	
	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$224 (US\$7)	\$-
TAIEX futures	NT\$46,420 (US\$1,415)	\$-

The Company 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

The Company's 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, the Company's believes it can limit its losses to within an expected range. However market risk still exists.

(c) Risk from liquidity, cash flow, and future cash requirements

The Company's unexercised options could all be liquidated at reasonable prices in the market. As a result, the Company believes liquidity risk is low.

The Company's 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, the Company has sufficient working capital to meet its requirements, and hence the Company believes funding risk and cash flow risk are low. With respect to the Company's trading in options, prior to any transaction pays or receives option premium. If the Company sells call options and the counterparty exercises its option, the Company has sufficient working capital to cover the exercise and hence the Company believes funding risk and cash flow risk are low.

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

The Company's 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 (margin for futures trading – own funds) on the balance sheet. For the year ended December 31, 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 year ended December 31, 2005	
	(NT\$)	(US\$)
Gain from derivative financial instruments – futures		
Gain on futures contracts	\$1,110	\$34
(Includes unrealized gain from options transactions of NT\$255 (US\$8))		
Loss from options transactions	\$236	\$7
(Includes unrealized gain from options transactions of NT\$90 (US\$3))		

	For the year ended December 31, 2006	
	(NT\$)	(US\$)
Gain from derivative financial instruments – futures		
Gain on futures contracts	\$5,626	\$173
Gain from options transactions	\$1,026	\$31

F. Cathay Pacific Venture

a. Information of fair value

Non-derivative financial instruments

Assets	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$4,175	\$4,175	\$127	\$127
Available-for-sale financial assets-current	420,000	420,015	12,805	12,805
Available-for-sale financial assets-noncurrent	64,198	64,198	1,957	1,957
Financial assets carried at cost-noncurrent	75,260	75,260	2,295	2,295

English Translation of Financial Statements Originally Issued in Chinese

Assets	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$518,313	\$518,313	\$15,904	\$15,904
Other receivables (contain transactions with related parties)	3,894	3,894	119	119
Available-for-sale financial assets-noncurrent	181,097	181,097	5,557	5,557
Financial assets carried at cost-noncurrent	88,971	88,971	2,730	2,730
Liabilities				
Other payable (contain transactions with related parties)	18,872	18,872	579	579

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.

G. Cathay Futures

a. Information of fair value

Non-derivative financial instruments

Assets	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$134,700	\$134,700	\$4,107	\$4,107
Financial assets at fair value through profit or loss-current	74,848	74,848	2,282	2,282

English Translation of Financial Statements Originally Issued in Chinese

Assets	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Customers' margin accounts	\$655,852	\$655,852	\$19,995	\$19,995
Futures trading deposits receivable	806	806	25	25
Accounts receivable – related parties	42	42	1	1
Other receivables (contain transactions with related parties)	\$1,311	\$1,311	\$40	\$40
Available-for-sale financial assets-noncurrent	30,500	30,500	930	930
Operating deposits	80,000	80,000	2,439	2,439
Settlement and clearance funds	56,000	56,000	1,707	1,707
Guarantee deposits paid	1,767	1,767	54	54
Liabilities				
Futures customers' equity	655,093	655,093	19,972	19,972
Payables (contain transactions with related parties)	1,887	1,887	58	58
Advance receipts	246	246	8	8
Other payable (contain transactions with related parties)	6,816	6,816	208	208
Guarantee deposits in	146	146	4	4
December 31, 2006				
Assets	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$227,802	\$227,802	\$6,990	\$6,990
Customers' margin accounts	972,500	972,500	29,840	29,840
Futures trading deposits receivable	628	628	19	19
Accounts receivable-related parties	71	71	2	2
Other receivable (contain transactions with related parties)	3,458	3,458	106	106
Available-for-sale financial assets-noncurrent	30,500	30,500	936	936
Operating deposits	60,000	60,000	1,841	1,841
Settlement and clearance funds	57,000	57,000	1,749	1,749
Guarantee deposits paid	1,247	1,247	38	38

English Translation of Financial Statements Originally Issued in Chinese

Liabilities	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Futures customers' equity	\$972,302	\$972,302	\$29,834	\$29,834
Payables (contain transactions with related parties)	2,068	2,068	63	63
Advance receipts	178	178	5	5
Other payable (contain transactions with related parties)	1,791	1,791	55	55

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, Advance receipts 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.

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

English Translation of Financial Statements Originally Issued in Chinese

	December 31,							
	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	\$-	\$-	\$134,700	\$4,107	\$-	\$-	\$227,802	\$6,990
Financial assets at fair value through profit or loss-current	2,629	80	72,219	2,202	-	-	-	-
Customer's margin accounts	-	-	655,852	19,995	-	-	972,500	29,840
Futures trading deposits receivable	-	-	806	25	-	-	628	19
Accounts receivable-related parties	-	-	42	1	-	-	71	2
Other receivable (contain transactions with related parties)	-	-	1,311	40	-	-	3,458	106
Available-for-sale financial assets-non current	-	-	30,500	930	-	-	30,500	936
Operating deposits	-	-	80,000	2,439	-	-	60,000	1,841
Settlement and clearance funds	-	-	56,000	1,707	-	-	57,000	1,749
Guarantee deposits paid	-	-	1,767	54	-	-	1,247	38
<u>Liabilities</u>								
Futures customer's equity	-	-	655,093	19,972	-	-	972,302	29,834
Payable (contain transactions with related parties)	-	-	1,887	58	-	-	2,068	63
Advance receipts	-	-	246	8	-	-	178	5
Other payable (contain transactions with related parties)	-	-	6,816	208	-	-	1,791	55
Guarantee deposits in	-	-	146	4	-	-	-	-

English Translation of Financial Statements Originally Issued in Chinese

d. Information on financial risk

- (a) Market risk – The derivatives transactions of funds and options by proprietary trading department are primarily for trading purposes. The higher transaction price fluctuation is due to the higher leverage ratio on the derivatives transactions. However, the proprietary trading department has ceased operation on March 21, 2006. Another risk is that the fair values of the shares on listed companies held by Cathay Futures fluctuate along with the related stock market factors.
- (b) Credit risk – Appropriate credit evaluation processes and continuous monitor of credit-lines are in place for all customers of the brokerage department. In addition, all transactions conducted by proprietary trading department go through Taiwan Futures Exchange and therefore no significant credit risk is expected.
- (c) Liquidity risk and cash flow risk – Cathay Futures has sufficient working capital for its operation and there is no liquidity risk on default. In addition, except for the financial assets carried at cost and long term investment under equity method which are embedded of liquidity risks due to lack of active market, all other stocks Cathay Futures held are able to be disposed rapidly at prices close to fair values.

For trading purposes, Cathay Futures conducts derivatives transactions including Taiwan Stock Index Futures (TSIF), Taiwan Stock Index Options (TSIO), foreign futures approved by authorities and option products. There was no open interest on the above products as of December 31, 2005 and 2006.

The excess margins from the proprietary were NT\$72,219(US\$2,202) and NT\$0(US\$0) in 2005 and 2006, respectively, and were recoded as “Financial assets at fair value through profit or loss – current”. The realized gains or losses on the derivatives (TSIF and TSIO - proprietary) of Cathay Futures for 2005 and 2006 are as follows:

	December 31,			
	2005		2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain on derivatives	\$82,223	\$2,507	\$6,783	\$208
Losses on derivatives	(69,177)	(2,109)	(3,764)	(115)
Net	\$13,046	\$398	\$3,019	\$93

English Translation of Financial Statements Originally Issued in Chinese

H. Symphox Information

a. Information of fair value

Item	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$109,047	\$109,047	\$3,325	\$3,325
Financial assets at fair value				
through profit or loss-current	200,524	200,524	6,114	6,114
Receivables	85,710	85,710	2,613	2,613
Guarantee deposits paid	9,435	9,435	288	288
<u>Liabilities</u>				
Payables	98,074	98,074	2,990	2,990
Guarantee deposits in	83	83	3	3

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$84,203	\$84,203	\$2,584	\$2,584
Financial assets at fair value				
through profit or loss-current	223,500	223,500	6,858	6,858
Receivables	139,472	139,472	4,280	4,280
Guarantee deposits paid	10,184	10,184	312	312
<u>Liabilities</u>				
Payables	111,882	111,882	3,433	3,433
Guarantee deposits in	85	85	3	3

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

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- (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	December 31, 2005			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$792,958	\$792,958	\$24,176	\$24,176
Financial assets at fair value through profit or loss-current	424,166	424,166	12,932	12,932
Available-for-sale financial assets-noncurrent	366,731	366,731	11,181	11,181
Held-to-maturity financial assets-noncurrent	819,954	819,954	24,999	24,999
Guarantee deposits paid	664,974	664,974	20,274	20,274
<u>Liabilities</u>				
Guarantee deposits in	366	366	11	11

English Translation of Financial Statements Originally Issued in Chinese

Item	December 31, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,579,733	\$1,579,733	\$48,473	\$48,473
Premium receivable	1,087	1,087	33	33
Financial assets at fair value through profit or loss-current	385,259	385,259	11,821	11,821
Available-for-sale financial assets-current	61,272	61,272	1,880	1,880
Held-to-maturity financial assets-current	41,777	41,777	1,282	1,282
Available-for-sale financial assets-noncurrent	211,010	211,010	6,475	6,475
Held-to-maturity financial assets-noncurrent	248,818	248,818	7,635	7,635
Investment in debt securities with no active market-noncurrent	1,203,707	1,249,535	36,935	38,341
Guarantee deposits paid	683,862	683,862	20,984	20,984
<u>Liabilities</u>				
Guarantee deposits in	773	773	24	24

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 premium receivables.
- (b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.

English Translation of Financial Statements Originally Issued in Chinese

J. Lucky Bank

a. Information of fair value

	December 31,							
	2005				2006			
	Carrying amount		Fair Value		Carrying amount		Fair Value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Financial Assets</u>								
Cash and cash equivalents	\$4,668,723	\$142,339	\$4,668,723	\$142,339	\$6,461,558	\$198,268	\$6,461,558	\$198,268
Due from Central Bank and call loans to banks	2,447,504	74,619	2,447,504	74,619	2,410,995	73,979	2,410,995	73,979
Financial assets at fair value through profit or loss								
Mutual funds	49,323	1,504	49,323	1,504	-	-	-	-
Receivables	231,503	7,058	231,503	7,058	299,492	9,190	299,492	9,190
Bills and loans	58,895,205	1,795,586	58,895,205	1,795,586	53,668,319	1,646,773	53,668,319	1,646,773
Available-for-sale financial assets	468,109	14,272	468,109	14,272	528,186	16,207	528,186	16,207
Investment accounted for using equity method	106,446	3,245	106,446	3,245	-	-	-	-
Other financial assets	24,610,235	750,312	24,610,235	750,312	23,495,274	720,935	23,495,274	720,935
<u>Financial liabilities</u>								
Due to commercial banks	567,183	17,292	567,183	17,292	145,219	4,456	145,219	4,456
Payables	1,636,814	49,903	1,636,814	49,903	1,695,272	52,018	1,695,272	52,018
Deposits and remittances	87,829,465	2,677,728	87,829,465	2,677,728	82,958,055	2,545,506	82,958,055	2,545,506

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 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.

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(c) Bills and loans, deposits are interest bearing of financial assets and liabilities, the carrying value approximates fair value. The carrying value of delinquent accounts is determined by the recoverable amount of estimating after decreasing doubtful accounts, 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:

	December 31,							
	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>Financial instruments</u>								
Cash and cash equivalents	\$4,668,723	\$142,339	\$-	\$-	\$6,461,558	\$198,268	\$-	\$-
Due from Central Bank and call loans to banks	2,447,504	74,619	-	-	2,410,995	73,979	-	-
Financial assets at fair value through profit or loss	-	-	49,323	1,504	-	-	-	-
Receivables	231,503	7,058	-	-	299,492	9,190	-	-
Bills and loans	58,895,205	1,795,585	-	-	53,668,319	1,646,773	-	-
Available-for-sale financial assets	-	-	468,109	14,272	-	-	528,186	16,207
Investment accounted for using equity method	106,446	3,245	-	-	-	-	-	-
Other financial assets	24,610,235	750,312	-	-	23,495,274	720,935	-	-

English Translation of Financial Statements Originally Issued in Chinese

	December 31,							
	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>Financial liabilities</u>								
Due to commercial banks	\$567,183	\$17,292	\$-	\$-	\$145,219	4,456	\$-	\$-
Payables	1,636,814	49,903	-	-	1,695,272	52,018	-	-
Deposits and remittances	87,829,465	2,677,728	-	-	82,958,055	2,545,507	-	-

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 year ended December 31, 2005 and 2006.

e. Lucky Bank recognized NT\$2,070,311 (US\$63,119) and NT\$2,047,724 (US\$62,833) as interest income, NT\$889,343 (US\$27,114) and NT\$1,047,291 (US\$32,135) as interest expense from the financial assets or liabilities that were not valued at fair value through profit or loss, respectively, for the year ended December 31, 2005 and 2006. The adjustment in shareholders' equity arising from available-for-sale financial assets for the year ended December 31, 2005 and 2006 were NT\$(54,137) (US\$1,651) and NT\$53,952 (US\$1,655), respectively, and realizing gains or losses in income statements are both NT\$0 (US\$0) for the year ended December 31, 2005 and 2006. The impairment loss of financial assets had not take place for the year ended December 31, 2005 and 2006.

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.

English Translation of Financial Statements Originally Issued in Chinese

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 82% 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.

Financial assets	December 31,							
	2005				2006			
	Book value		Maximum risk exposed amount		Book value		Maximum risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Available-for-sale								
financial assets	\$362,983	\$11,067	\$362,983	\$11,067	\$359,200	\$11,022	\$359,200	\$11,022
Other financial assets								
Preferred stocks	149,730	4,565	149,730	4,565	149,730	4,594	149,730	4,594
Certificate of								
deposits	24,315,000	741,311	24,315,000	741,311	23,300,000	714,944	23,300,000	714,944
Bills and loans	58,895,205	1,795,585	58,895,205	1,795,585	53,668,319	1,646,773	53,668,319	1,646,773
Off-balance sheet								
commitments and								
guarantees	16,263,211	495,829	16,263,211	495,829	14,802,472	454,203	14,802,472	454,203
Total	\$99,986,129	\$3,048,357	\$99,986,129	\$3,048,357	\$92,279,721	\$2,831,536	\$92,279,721	\$2,831,536

English Translation of Financial Statements Originally Issued in Chinese

The amount of the credit risks regards fair value on balance sheet date as the positive number and off-balance sheet commitments and guarantees as evaluated target. Concentrations of credit risk exist when the counterparty to financial instrument transactions are either concentrated in certain individuals or group of individuals or engaged in business activities in the same industry, which would impair their ability to meet contractual obligations under negative economic or other conditions. Lucky Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, Lucky Bank is likely to be exposed to industry concentration risk. Lucky Bank's information on concentration of credit risk is as follows:

Item	December 31,			
	2005		2006	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Industry type				
Government institution	\$9,027,931	\$275,242	\$5,556,209	\$170,488
Leasing and real estate	2,656,058	80,977	2,969,979	91,132
Manufacturing	4,228,677	128,923	2,966,240	91,017
Individuals	36,258,922	1,105,455	35,523,034	1,089,998
Others	7,233,777	220,542	7,281,592	223,430
Total	<u>\$59,405,365</u>	<u>\$1,811,139</u>	<u>\$54,297,054</u>	<u>\$1,666,065</u>

The credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and 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.

English Translation of Financial Statements Originally Issued in Chinese

(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	December 31, 2005			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$2,943,150	\$89,730	\$3,450,724	\$105,205
Repurchase bonds	3,487,493	106,326	3,488,377	106,353
Convertible bonds	33,867	1,032	35,167	1,072
Short-term notes	3,076	94	3,076	94
Bonds	5,136,796	156,610	5,175,026	157,775
Cash in banks	196,365	5,987	196,372	5,987
Net other assets less liabilities	20	-	20	1
Total	\$11,800,767	\$359,779	\$12,348,762	\$376,487

Item	December 31, 2006			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$6,828,317	\$209,522	\$6,828,317	\$209,522
Repurchase bonds	3,971,896	121,875	3,974,041	121,941
Short-term notes	10,004	307	10,004	307
Bonds	1,278,125	39,218	1,278,125	39,218
Cash in banks	408,610	12,538	408,614	12,538
Net other assets less liabilities	1,284	39	1,284	39
Total	\$12,498,236	\$383,499	\$12,500,385	\$383,565

As of December 31, 2005 and 2006, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$10,450,000 (US\$318,598), and NT\$10,300,000 (US\$316,048), respectively.

English Translation of Financial Statements Originally Issued in Chinese

(4) Capital adequacy ratio on a consolidated basis:

As of December 31, 2005

Item	Eligible capital		Legal capital	
	(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	187,529,477	5,717,362	190,878,937	5,819,480
Cathay United Bank	96,875,616	2,953,525	56,759,323	1,730,467
Lucky Bank	2,906,823	88,622	2,541,168	77,475
Cathay Securities	3,617,407	110,287	188,844	5,757
Cathay Life	107,796,599	3,286,482	54,940,870	1,675,027
Cathay Century	4,437,999	135,305	1,667,048	50,825
Cathay Pacific Venture	568,960	17,346	284,251	8,666
Cathay Venture	224,835	6,855	112,682	3,435
Cathay II Venture	605,369	18,456	302,782	9,231
Cathay Capital Management	46,860	1,429	29,380	896
Less: Item	209,802,846	6,396,428	188,100,384	5,734,768
Subtotal	(A) 194,807,099	5,934,241	(B) 119,604,901	3,646,491
Consolidated capital adequacy ratios		(C)=(A)/(B)		162.88%

As of December 31, 2006

Item	Eligible capital		Legal capital	
	(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	215,718,784	6,619,171	208,398,312	6,394,548
Cathay United Bank (merged)	91,879,740	2,819,262	59,644,358	1,830,143
Lucky Bank	4,077,724	125,122	2,830,017	86,837
Cathay Securities	2,920,723	89,620	485,342	14,892
Cathay Life	116,475,475	3,573,964	68,268,162	2,094,758
Cathay Century	4,786,937	146,883	1,819,098	55,818
Cathay Pacific Venture	766,911	23,532	397,359	12,192
Cathay Venture	264,640	8,120	133,297	4,090
Cathay II Venture	826,704	25,367	415,746	12,757
Cathay Capital Management	57,764	1,772	36,328	1,115
Less: Item	224,965,167	6,902,889	205,492,604	6,305,388
Subtotal	(A) 212,810,235	6,529,924	(B) 136,935,415	4,201,762
Consolidated capital adequacy ratios		(C)=(A)/(B)		155.41%

English Translation of Financial Statements Originally Issued in Chinese

(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.

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 year ended December 31, 2005 have been reclassified in order to be comparable with those in the consolidated financial statements for the year ended December 31, 2006.

English Translation of Financial Statements Originally Issued in Chinese

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 December 31, 2006, Cathay Life's remittances to this company totaled approximately US\$48,330.

31. Segment information

For the year ended December 31, 2005

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	27,902,089	54,358,548	258,300	5,946	(499,273)	82,025,610
Non income other than interest	6,415,156	164,358,418	2,515,585	132,191	783,321	174,204,671
Provision for premiums reserve	-	(167,579,168)	(603,618)	-	-	(168,182,786)
Total income	34,317,245	51,137,798	2,170,267	138,137	284,048	88,047,495
Bad debt expenses-Loan	(14,994,758)	-	-	-	-	(14,994,758)
Operating expenses	(13,346,897)	(35,279,839)	(1,172,712)	(308,653)	(714,553)	(50,822,654)
Income from continuing operations before income taxes	5,975,590	15,857,959	997,555	(170,516)	(430,505)	22,230,083
Income taxes (expense) benefit	(1,300,029)	1,217,402	(160,777)	(28,910)	(198,544)	(470,858)
Consolidated income	4,675,561	17,075,361	836,778	(199,426)	(629,049)	21,759,225

For the year ended December 31, 2005

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Others division (US \$)	Total (US \$)
Net interest income	850,674	1,657,273	7,875	181	(15,222)	2,500,781
Non income other than interest	195,584	5,010,927	76,695	4,030	23,882	5,311,118
Provision for premiums reserve	-	(5,109,121)	(18,403)	-	-	(5,127,524)
Total income	1,046,258	1,559,079	66,167	4,211	8,660	2,684,375
Bad debt expenses-Loan	(457,157)	-	-	-	-	(457,157)
Operating expenses	(406,918)	(1,075,605)	(35,754)	(9,410)	(21,785)	(1,549,472)
Income from continuing operations before income taxes	182,183	483,474	30,413	(5,199)	(13,125)	677,746
Income taxes (expense) benefit	(39,635)	37,116	(4,902)	(881)	(6,053)	(14,355)
Consolidated income	142,548	520,590	25,511	(6,080)	(19,178)	663,391

English Translation of Financial Statements Originally Issued in Chinese

For the year ended December 31, 2006

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	24,886,051	62,551,220	311,901	9,751	(746,311)	87,012,612
Non income other than interest	7,043,859	150,086,273	3,388,752	287,318	679,884	161,486,086
Provision for premiums reserve	-	(166,260,710)	(1,153,010)	-	-	(167,413,720)
Total income	31,929,910	46,376,783	2,547,643	297,069	(66,427)	81,084,978
Bad debt expenses-Loan	(25,750,139)	(139,326)	-	-	-	(25,889,465)
Operating expenses	(10,980,265)	(37,706,694)	(1,195,651)	(296,546)	(901,424)	(51,080,580)
Income from continuing operations before income taxes	(4,800,494)	8,530,763	1,351,992	523	(967,851)	4,114,933
Income taxes (expense) benefit	2,188,257	1,814,601	(178,615)	(10,304)	(441,234)	3,372,705
Cumulative effect of changes in accounting principles	726,679	3,319,319	60,141	29	(856,845)	3,249,323
Consolidated income	(1,885,558)	13,664,683	1,233,518	(9,752)	(2,265,930)	10,736,961

For the year ended December 31, 2006

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Others division (US \$)	Total (US \$)
Net interest income	763,610	1,919,338	9,571	299	(22,900)	2,669,918
Non income other than interest	216,136	4,605,286	103,980	8,816	20,862	4,955,080
Provision for premiums reserve	-	(5,101,587)	(35,379)	-	-	(5,136,966)
Total income	979,746	1,423,037	78,172	9,115	(2,038)	2,488,032
Bad debt expenses-Loan	(790,124)	(4,275)	-	-	-	(794,399)
Operating expenses	(336,922)	(1,157,002)	(36,687)	(9,099)	(27,659)	(1,567,369)
Income from continuing operations before income taxes	(147,300)	261,760	41,485	16	(29,697)	126,264
Income taxes (expense) benefit	67,145	55,680	(5,481)	(316)	(13,539)	103,489
Cumulative effect of changes in accounting principles	22,298	101,851	1,845	1	(26,292)	99,703
Consolidated income	(57,857)	419,291	37,849	(299)	(69,528)	329,456

32. Parent company financial statements

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Balance Sheets

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

	December 31, 2005		December 31, 2006	
	NT \$	US \$	NT \$	US \$
Assets				
Cash and cash equivalents	\$10,448,439	\$318,550	\$13,249,833	\$406,561
Receivables -net	3,004,003	91,585	2,035,749	62,466
Investments-equity method	188,100,384	5,734,768	205,492,604	6,305,388
Other financial assets -net	100,000	3,049	31,720	973
Property and equipment -net	4,975	152	4,422	136
Other assets -net	2,829,182	86,255	3,034,678	93,117
Total assets	<u>204,486,983</u>	<u>6,234,359</u>	<u>\$223,849,006</u>	<u>6,868,641</u>
Liabilities & stockholders' equity				
Financial liabilities at fair value through profit or loss	\$-	\$-	\$1,013,833	\$31,109
Payables	3,340,194	101,835	2,341,369	71,843
Bonds payable	13,405,171	408,694	4,273,209	131,120
Other liabilities	10,980	335	74,733	2,293
Total liabilities	<u>16,756,345</u>	<u>510,864</u>	<u>7,703,144</u>	<u>236,365</u>
Stockholders' equity				
Capital stock				
Common stock	85,242,234	2,598,849	92,068,174	2,825,044
Capital surplus	68,092,037	2,075,977	78,867,213	2,419,982
Retained earnings				
Legal reserve	6,009,431	183,214	8,188,136	251,247
Special reserve	226,579	6,908	-	-
Undistributed earnings	28,146,255	858,117	19,710,210	604,793
Other stockholders' equity				
Unrealized revaluation increments	3,048	93	2,106	65
Cumulative translation adjustments	81,154	2,474	105,170	3,227
Unrealized gains or losses on financial instruments	(68,263)	(2,081)	21,345,473	654,970
Treasury stock	-	-	(4,140,047)	(127,034)
Net loss not recognized as pension cost	(1,837)	(56)	(573)	(18)
Total stockholders' equity	<u>187,730,638</u>	<u>5,723,495</u>	<u>216,145,862</u>	<u>6,632,276</u>
Total liabilities and stockholders' equity	<u>\$204,486,983</u>	<u>\$6,234,359</u>	<u>\$223,849,006</u>	<u>\$6,868,641</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Income

For the years ended December 31, 2005 and 2006

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

	January 1 ~ December 31, 2005		January 1 ~ December 31, 2006	
	NT \$	US \$	NT \$	US \$
Income				
Investment income under equity method	\$22,277,613	\$679,196	\$12,505,905	\$383,735
Gains on financial assets and liabilities at fair value through profit or loss	-	-	131,252	4,027
Gains on foreign exchange	300,815	9,171	-	-
Other operating income	9,068	276	33,014	1,013
Total income	22,587,496	688,643	12,670,171	388,775
Expenses and loss				
Interest income	940,097	28,662	1,095,537	33,616
Less: interest expenses	(1,227,327)	(37,419)	(1,663,377)	(51,039)
Net interest income	(287,230)	(8,757)	(567,840)	(17,424)
Losses on foreign exchange	-	-	(23,475)	(720)
Operating expenses	(334,713)	(10,205)	(234,966)	(7,210)
Income from continuing operations before income taxes	21,965,553	669,681	11,843,890	363,421
Income taxes expense	(178,500)	(5,442)	(407,816)	(12,513)
Cumulative effect of changes in accounting principles	-	-	(858,814)	(26,352)
Net income	\$21,787,053	\$664,239	\$10,577,260	\$324,556

Earnings per share (expressed in dollars)

	2005		2006		2005		2006	
	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Primary earnings per share:								
Net income from continuing operations	\$2.47	\$2.45	\$0.08	\$0.07	\$1.32	\$1.27	\$0.04	\$0.04
Cumulative effect of changes in accounting principles	-	-	-	-	(0.13)	(0.09)	-	-
Net income	\$2.47	\$2.45	\$0.08	\$0.07	\$1.19	\$1.18	\$0.04	\$0.04
Fully-diluted earnings per share:								
Net income from continuing operations	\$2.45	\$2.42	\$0.07	\$0.07				
Cumulative effect of changes in accounting principles	-	-	-	-				
Net income	\$2.45	\$2.42	\$0.07	\$0.07				

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

were not treated as treasury stock:

Income from continuing operations before income taxes	\$21,962,594	\$669,591
Net income	\$21,784,094	\$664,149

Earnings per share(expressed in dollars)

	2005		2006	
	Before taxes	After taxes	Before taxes	After taxes
Primary earnings per share:				
Net income from continuing operations	\$2.47	\$2.45	\$0.08	\$0.07
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	\$2.47	\$2.45	\$0.08	\$0.07
Fully-diluted earnings per share:				
Net income from continuing operations	\$2.45	\$2.42	\$0.07	\$0.07
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	\$2.45	\$2.42	\$0.07	\$0.07

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity												
	Common stock		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Unrealized revaluation increments		Cumulative translation adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost		Total		
	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	\$2,535,583	\$58,955,649	\$1,797,428	\$3,026,715	\$92,278	\$122,653	\$3,739	\$30,640,997	\$934,177	\$3,048	\$93	\$(96,005)	\$(2,927)	\$(110,435)	\$(3,367)	\$(354,955)	\$(10,822)	\$(5,560)	\$(170)	#####	\$5,346,013	
Appropriations and distribution for 2004																							
Legal reserve					2,982,716	90,936			(2,982,716)	(90,936)												-	-
Special reserve							103,926	3,169	(103,926)	(3,169)												-	-
Cash dividends									(21,187,334)	(645,955)												(21,187,334)	(645,955)
Remuneration paid to directors and supervisors									(5,700)	(174)												(5,700)	(174)
Bonus paid to employees									(2,119)	(65)												(2,119)	(65)
Convertible notes converted into common stock	2,075,104	63,266	9,067,913	276,461																		11,143,017	339,726
Cash dividends to subsidiaries				8,749		267																8,749	267
Capital surplus				1,572		48																1,572	48
Cumulative translation adjustments												177,159	5,401									177,159	5,401
Unrealized gains or losses of financial instruments															42,172	1,286						42,172	1,286
Treasury stock				58,154		1,773											354,955	10,822				413,109	12,595
Consolidated income for the year ended December 31, 2005									21,787,053	664,239												21,787,053	664,239
Net loss not recognized as pension cost																						3,723	114
Balance on December 31, 2005	\$85,242,234	\$2,598,849	\$68,092,037	\$2,075,977	\$6,009,431	\$183,214	\$226,579	\$6,908	\$28,146,255	\$858,117	\$3,048	\$93	\$81,154	\$2,474	\$(68,263)	\$(2,081)	\$-	\$-	\$(1,837)	\$(56)	#####	\$5,723,495	
Balance on January 1, 2006	\$85,242,234	\$2,615,595	\$68,092,037	\$2,089,354	\$6,009,431	\$184,395	\$226,579	\$6,952	\$28,146,255	\$863,647	\$3,048	\$94	\$81,154	\$2,490	\$(68,263)	\$(2,095)	\$-	\$-	\$(1,837)	\$(57)	#####	\$5,760,376	
Effect on first time of adoption of unrealized gains on financial instruments															10,485,096	321,728						10,485,096	321,727
Appropriations and distribution for 2005																							
Legal reserve					2,178,705	66,852			(2,178,705)	(66,852)												-	-
Special reserve							(226,579)	(6,952)	226,579	6,952												-	-
Cash dividends									(12,790,330)	(392,462)												(12,790,330)	(392,462)
Stock dividend to be distributed	4,263,443	130,821							(4,263,443)	(130,821)												-	-
Remuneration paid to directors and supervisors									(5,700)	(175)												(5,700)	(175)
Bonus paid to employees									(1,706)	(52)												(1,706)	(51)
Convertible notes converted into common stock	1,743,056	53,484	7,693,643	236,074																		9,436,699	289,558
Reserve for land revaluation increment											(942)	(29)										(942)	(29)
Capital surplus				(549)		(17)																(549)	(17)
Cumulative translation adjustments													24,016	737								24,016	737
Unrealized gains or losses of financial instruments															10,928,640	335,337						10,928,640	335,337
Shares exchanges	819,441	25,144	3,082,082	94,571																		3,901,523	119,715
Treasury stock																	\$(4,140,047)	\$(127,034)				(4,140,047)	(127,034)
Consolidated income for the year ended December 31, 2006									10,577,260	324,556												10,577,260	324,555
Net loss not recognized as pension cost																						1,264	39
Balance on December 31, 2006	\$92,068,174	\$2,825,044	\$78,867,213	\$2,419,982	\$8,188,136	\$251,247	\$-	\$-	\$19,710,210	\$604,793	\$2,106	\$65	\$105,170	\$3,227	\$21,345,473	\$654,970	\$(4,140,047)	\$(127,034)	\$(573)	\$(18)	#####	\$6,632,276	

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd.
Statements of Cash Flows
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)**

	January 1 ~ December 31, 2005		January 1 ~ December 31, 2006	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Net income	\$21,787,053	\$664,239	\$10,577,260	\$324,556
Adjustments:				
Amortizations	59,248	1,806	-	-
Depreciation	1,180	36	1,267	39
Losses on disposal of property and equipment	473	14	-	-
Investment income from equity method investments in (excess) smaller of cash dividends received	(4,308,166)	(131,346)	3,805,516	116,769
Increase in bonds payable redemption premium	569,524	17,364	376,445	11,551
Effects of exchange rate changes	(595,759)	(18,163)	55,471	1,703
Cumulative effect of changes in accounting principles	-	-	858,814	26,352
Changes in operating assets and liabilities				
(Increase) decrease in accounts receivable	(1,829,789)	(55,786)	968,254	29,710
(Increase) decrease in deferred income tax assets	(51,344)	(1,565)	61,901	1,899
Decrease in other financial assets	-	-	68,280	2,095
(Increase) decrease in other assets	(20)	(1)	22	1
Increase (decrease) in accounts payable	2,149,957	65,547	(536,128)	(16,451)
Decrease in financial liabilities at fair value through profit and loss	-	-	(131,252)	(4,027)
Increase in income tax payable	-	-	(462,698)	(14,198)
(Decrease) increase in deferred income tax liabilities	(49,794)	(1,518)	57,193	1,755
Increase in other liabilities	5,957	182	7,824	240
Net cash provided by operating activities	17,738,520	540,809	15,708,169	481,994
Cash flows from investing activities				
Acquisition of investments-equity method	(4,744,726)	(144,656)	-	-
Disposal of property and equipment	950	29	-	-
Acquisition of property and equipment	(2,757)	(84)	(714)	(22)
Decreased (increase) in deferred charges	7,259	221	(1,547)	(47)
(Increase) decrease in other assets	(2,628,000)	(80,122)	20,400	626
Net cash (used in) provided by investing activities	(7,367,274)	(224,612)	18,139	557
Cash flows from financing activities				
Decrease in bonds payable	204,104	6,223	(71,707)	(2,201)
Remuneration paid to directors and supervisors	(5,700)	(174)	(5,700)	(175)
Bonus paid to employees	(2,119)	(65)	(1,706)	(51)
Cash dividends	(21,187,334)	(645,955)	(12,790,330)	(392,462)
Net cash used in financing activities	(20,991,049)	(639,971)	(12,869,443)	(394,889)
Effects of exchange rate changes	595,759	18,163	(55,471)	(1,703)
(Decrease) increase in cash and cash equivalents	(10,024,044)	(305,611)	2,801,394	85,959
Cash and cash equivalents at the beginning of the year	20,472,483	624,161	10,448,439	320,602
Cash and cash equivalents at the end of the year	\$10,448,439	\$318,550	\$13,249,833	\$406,561
Supplemental disclosure of cash flows information				
Interest paid during the period	\$594,782	\$18,134	\$1,271,083	\$39,002
Income tax paid	\$28,399	\$866	\$320,414	\$9,832
Investing and financing activities with no cash flow effects				
Conversion of convertible notes into common stock	\$11,143,017	\$339,726	\$9,436,699	\$289,558
Acquisition through share exchange	\$-	\$-	\$3,901,523	\$119,715

English Translation of Financial Statements Originally Issued in Chinese

33. The major subsidiaries' condensed balance sheets and statements of income

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Item	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$569,142,904	\$17,351,918	\$591,665,056	\$18,154,804
Loans	443,106,727	13,509,351	482,913,569	14,817,845
Funds and investments	736,006,344	22,439,218	878,925,074	26,969,165
Property and equipment	13,956,163	425,493	12,808,115	393,008
Intangible assets	178,208	5,433	329,989	10,125
Other assets	105,397,775	3,213,347	174,122,384	5,342,816
Total assets	\$1,867,788,121	\$56,944,760	\$2,140,764,187	\$65,687,763
Liabilities				
Current liabilities	\$9,980,160	\$304,273	\$28,001,298	\$859,199
Long-term liabilities	1,631,044	49,727	1,686,763	51,757
Other liabilities	1,758,584,852	53,615,392	1,991,255,218	61,100,191
Total liabilities	1,770,196,056	53,969,392	2,020,943,279	62,011,147
Stockholders' equity				
Capital stock	50,686,158	1,545,310	50,686,158	1,555,267
Capital surplus	10,105	308	9,648	296
Retained earnings	46,896,873	1,429,783	48,865,298	1,499,395
Others	(1,071)	(33)	20,259,804	621,658
Total stockholders' equity	97,592,065	2,975,368	119,820,908	3,676,616
Total liabilities and stockholders' equity	\$1,867,788,121	\$56,944,760	\$2,140,764,187	\$65,687,763

**Cathay Life Insurance Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earnings per share)**

Item	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$545,577,204	\$16,633,451	\$606,216,208	\$18,601,295
Operating costs	(520,631,173)	(15,872,901)	(587,335,325)	(18,021,949)
Operating gross profit	24,946,031	760,550	18,880,883	579,346
Operating expenses	(10,248,535)	(312,455)	(10,386,235)	(318,694)
Non-operating revenues & gains	2,297,854	70,056	1,669,619	51,231
Non-operating expenses & losses	(290,096)	(8,845)	(247,291)	(7,588)
Income from continuing operations before income taxes	\$16,705,254	\$509,306	\$9,916,976	\$304,295
Cumulative effect of changes in accounting principles	\$-	\$-	\$3,315,855	\$101,744
Net income	\$17,922,656	\$546,422	\$15,047,432	\$461,719
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$3.30	\$0.10	\$1.96	\$0.06
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.66	\$0.02
Net income	\$3.54	\$0.11	\$2.97	\$0.09

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$6,879,971	\$209,755	\$7,376,712	\$226,349
Loans	1,321,212	40,281	2,095,268	64,292
Funds and investments	3,880,275	118,301	4,487,608	137,699
Fixed assets	55,683	1,698	45,578	1,399
Intangible assets	16,815	513	7,085	217
Other assets	538,650	16,422	663,715	20,365
Total assets	\$12,692,606	\$386,970	\$14,675,966	\$450,321
Liabilities				
Current liabilities	\$1,291,528	\$39,376	\$1,747,589	\$53,623
Long-term liabilities	6,869	209	3,405	105
Other liabilities	8,199,992	250,000	9,353,386	287,002
Total liabilities	9,498,389	289,585	11,104,380	340,730
Stockholders' equity				
Capital stock	2,317,006	70,640	2,317,006	71,096
Capital surplus	2,021	62	1,929	59
Retained earnings	875,348	26,688	1,073,623	32,943
Others	(158)	(5)	179,028	5,493
Total stockholders' equity	3,194,217	97,385	3,571,586	109,591
Total liabilities and stockholders' equity	\$12,692,606	\$386,970	\$14,675,966	\$450,321

**Cathay Century Insurance Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$17,233,281	\$525,405	\$16,380,514	\$502,624
Operating costs	(14,774,236)	(450,434)	(13,608,104)	(417,555)
Operating gross profit	2,459,045	74,971	2,772,410	85,069
Operating expenses	(1,719,803)	(52,433)	(1,927,756)	(59,151)
Non-operating revenues	12,102	369	3,652	112
Non-operating expenses	(23)	-	(65)	(2)
Income from continuing operations before income taxes	\$751,321	\$22,907	\$848,241	\$26,028
Cumulative effect of changes in accounting principles	\$-	\$-	\$60,141	\$1,845
Net income	\$590,545	\$18,005	\$729,766	\$22,392
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$3.24	\$0.10	\$3.66	\$0.11
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.26	\$0.01
Net income	\$2.55	\$0.08	\$3.15	\$0.10

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Ltd.(Shanghai)
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$1,691,728	\$51,577	\$2,094,079	\$64,255
Loans	-	-	447	14
Funds and investments	1,186,686	36,179	1,708,680	52,430
Fixed assets	24,009	732	36,880	1,132
Intangible assets	2,722	83	3,011	92
Other assets	885,204	26,988	1,300,183	39,895
Total assets	\$3,790,349	\$115,559	\$5,143,280	\$157,818
Liabilities				
Current liabilities	\$21,039	\$641	\$57,885	\$1,776
Other liabilities	697,235	21,257	2,042,432	62,671
Total liabilities	718,274	21,898	2,100,317	64,447
Stockholders' equity				
Capital stock	3,257,378	99,310	3,257,378	99,950
Retained earnings	(177,170)	(5,401)	(291,561)	(8,946)
Others	(8,133)	(248)	77,146	2,367
Total stockholders' equity	3,072,075	93,661	3,042,963	93,371
Total liabilities and stockholders' equity	\$3,790,349	\$115,559	\$5,143,280	\$157,818

**Cathay Life Insurance Ltd.(Shanghai)
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$792,351	\$24,157	\$1,608,313	\$49,350
Operating costs	(707,781)	(21,579)	(1,399,044)	(42,929)
Operating gross profit	84,570	2,578	209,269	6,421
Operating expenses	(213,208)	(6,500)	(298,955)	(9,173)
Non-operating revenues	6,982	213	6,079	187
Non-operating expenses	(16,619)	(507)	(20,963)	(643)
Loss from continuing operations before income taxes	\$(138,275)	\$(4,216)	\$(104,570)	\$(3,208)
Cumulative effect of changes in accounting principles	\$-	\$-	\$3,463	\$106
Net loss	\$(138,275)	\$(4,216)	\$(101,107)	\$(3,102)
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 no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay United Bank Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$29,450,099	\$897,869	\$27,751,092	\$851,522
Due from the Central Bank and call loans to banks	49,970,575	1,523,493	48,860,554	1,499,250
Financial assets at fair value through profit or loss	49,271,058	1,502,166	57,046,262	1,750,422
Securities purchased under agreements to resell	1,192,252	36,349	1,786,058	54,804
Available-for-sale financial assets-net	41,723,494	1,272,058	53,972,357	1,656,102
Receivables-net	65,418,677	1,994,472	48,804,664	1,497,535
Loans and advances to customers-net	616,014,774	18,780,938	658,723,594	20,212,445
Held-to-maturity financial assets-net	8,352,445	254,648	5,636,310	172,946
Investments-equity method	5,115,939	155,974	2,334,860	71,643
Premises and equipment-net	24,743,550	754,377	23,827,555	731,131
Other financial assets-net	175,763,601	5,358,646	238,784,538	7,326,927
Other assets-net	7,044,559	214,773	10,217,714	313,523
Total assets	\$1,074,061,023	\$32,745,763	\$1,177,745,558	\$36,138,250
Liabilities				
Due to the Central Bank and call loans from banks	\$70,825,308	\$2,159,308	\$99,870,957	\$3,064,466
Payables	25,014,534	762,638	22,532,530	691,394
Deposits and remittances	794,041,906	24,208,595	882,628,725	27,082,808
Financial liabilities at fair value through profit or loss	50,412,542	1,536,968	55,396,700	1,699,807
Securities sold under agreements to repurchase	33,864,935	1,032,468	23,661,740	726,043
Funds borrowed from the Central and other banks	820,500	25,015	816,250	25,046
Financial debentures payable	18,756,296	571,838	18,135,818	556,484
Other financial liabilities	311,510	9,497	775,722	23,803
Other liabilities	2,085,417	63,580	1,785,533	54,788
Total liabilities	996,132,948	30,369,907	1,105,603,975	33,924,639
Shareholders' equity				
Capital stock	46,420,518	1,415,260	46,420,518	1,424,379
Capital reserves	13,464,276	410,496	13,464,276	413,141
Retained earnings	17,968,156	547,810	11,482,369	352,328
Others	75,125	2,290	774,420	23,763
Total shareholders' equity	77,928,075	2,375,856	72,141,583	2,213,611
Total liabilities and shareholders' equity	\$1,074,061,023	\$32,745,763	\$1,177,745,558	\$36,138,250

**Cathay United Bank Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except per share information)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$26,579,510	\$810,351	\$23,513,711	\$721,501
Non-interest income	6,859,445	209,129	7,019,087	215,375
Net operating income	33,438,955	1,019,480	30,532,798	936,876
Provision for loan losses	(14,962,133)	(456,163)	(25,750,139)	(790,124)
Operating expenses	(13,364,079)	(407,441)	(11,701,205)	(359,043)
Income from continuing operations before income taxes	\$5,112,743	\$155,876	\$(6,918,546)	\$(212,291)
Cumulative effect of changes in accounting principles	\$-	\$-	\$726,679	\$22,298
Net income	\$3,852,743	\$117,462	\$(3,788,867)	\$(116,259)
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$0.83	\$0.03	\$(0.97)	\$(0.03)
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.16	\$-
Net income	\$0.83	\$0.03	\$(0.81)	\$(0.02)

English Translation of Financial Statements Originally Issued in Chinese

Lucky Bank, Inc.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$4,668,723	\$142,339	\$6,461,558	\$198,268
Due from the Central Bank and call loans to banks	2,447,504	74,619	2,410,995	73,979
Financial assets at fair value through profit or loss	49,323	1,504	-	-
Available-for-sale financial assets-net	468,109	14,272	528,186	16,207
Receivables-net	231,503	7,058	299,492	9,190
Loans and advances to customers-net	58,895,205	1,795,585	53,668,319	1,646,773
Investments-equity method	106,446	3,245	-	-
Premises and equipment-net	1,691,124	51,559	1,633,660	50,128
Other financial assets-net	24,610,235	750,312	23,495,274	720,935
Other assets-net	794,862	24,234	506,457	15,540
Total assets	\$93,963,034	\$2,864,727	\$89,003,941	\$2,731,020
Liabilities				
Due to the Central Bank and call loans from banks	\$567,183	\$17,292	\$145,219	\$4,456
Payables	1,636,814	49,903	1,695,272	52,018
Deposits and remittances	87,829,465	2,677,728	82,958,055	2,545,507
Other liabilities	284,468	8,673	204,416	6,272
Total liabilities	90,317,930	2,753,596	85,002,962	2,608,253
Shareholders' equity				
Capital stock	3,146,000	95,915	3,146,000	96,533
Capital reserves	463,482	14,130	463,482	14,222
Retained earnings	106,866	3,258	408,789	12,543
Others	(71,244)	(2,172)	(17,292)	(531)
Total shareholders' equity	3,645,104	111,131	4,000,979	122,767
Total liabilities and shareholders' equity	\$93,963,034	\$2,864,727	\$89,003,941	\$2,731,020

Lucky Bank, Inc.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except per share information)

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$1,158,381	\$35,317	\$1,023,020	\$31,391
Non-interest income	(299,852)	(9,142)	201,373	6,179
Net operating revenue	858,529	26,175	1,224,393	37,570
Provision for loan losses	(98,476)	(3,003)	83,864	2,573
Operating expenses	(922,706)	(28,131)	(867,206)	(26,610)
(Loss) income from continuing operations before income taxes	\$(162,653)	\$(4,959)	\$441,051	\$13,533
Net (loss) income	\$(166,788)	\$(5,085)	\$301,923	\$9,264
Earnings per share (In dollars)				
(Loss) income from continuing operations before income taxes	\$(0.52)	\$(0.02)	\$1.40	\$0.04
Net (loss) income	\$(0.53)	\$(0.02)	\$0.96	\$0.03

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Cash and cash equivalents	\$1,082,663	\$33,008	\$1,040,215	\$31,918
Due from the Central Bank and call loans to banks	252,740	7,706	477,910	14,664
Financial assets at fair value through profit or loss	20,674	630	131,522	4,036
Investments in debt securities with no active market	-	-	318,401	9,770
Receivables-net	31,070	947	68,791	2,111
Loans and advances to customers-net	6,117,367	186,505	8,931,424	274,054
Premises and equipment-net	76,430	2,330	133,330	4,091
Other assets-net	340,641	10,386	263	8
Total assets	\$7,921,585	\$241,512	\$11,101,856	\$340,652
Liabilities				
Due to the Central Bank and call loans from banks	\$1,371,518	\$41,815	\$646,973	\$19,852
Payables	185,394	5,652	89,319	2,741
Deposits and remittances	5,209,279	158,820	8,567,886	262,899
Other liabilities	80,597	2,457	239,473	7,348
Total liabilities	6,846,788	208,744	9,543,651	292,840
Shareholders' equity				
Capital stock	791,658	24,136	1,118,158	34,310
Retained earnings	249,682	7,612	412,742	12,664
Others	33,457	1,020	27,305	838
Total shareholders' equity	1,074,797	32,768	1,558,205	47,812
Total liabilities and shareholders' equity	\$7,921,585	\$241,512	\$11,101,856	\$340,652

Indovina Bank Limited
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except per share information)

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Net interest income	\$244,396	\$7,451	\$363,598	\$11,157
Non-interest income	70,164	2,139	169,381	5,197
Net operating revenue	314,560	9,590	532,979	16,354
Provision for loan losses	(32,626)	(995)	(25,777)	(791)
Operating expenses	(100,348)	(3,059)	(149,607)	(4,590)
Income from continuing operations before income taxes	\$181,586	\$5,536	\$357,595	\$10,973
Net income	\$145,421	\$4,434	\$281,981	\$8,652
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 no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Corporation
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$3,721,177	\$113,450	\$3,168,646	\$97,228
Funds and investments	18	1	719,687	22,083
Property and equipment	105,780	3,225	96,425	2,959
Intangible assets	1,400	43	2,190	67
Other assets	306,041	9,330	324,529	9,957
Total assets	\$4,134,416	\$126,049	\$4,311,477	\$132,294
Liabilities				
Current liabilities	\$107,344	\$3,272	\$249,234	\$7,648
Long-term liabilities	-	-	469	14
Other liabilities	11,739	358	20,244	621
Total liabilities	119,083	3,630	269,947	8,283
Stockholders' equity				
Capital stock	3,700,000	112,805	3,700,000	113,532
Capital surplus	258,434	7,879	258,434	7,930
Retained earnings	56,899	1,735	83,096	2,549
Total stockholders' equity	4,015,333	122,419	4,041,530	124,011
Total liabilities and stockholders' equity	\$4,134,416	\$126,049	\$4,311,477	\$132,294

**Cathay Securities Corporation
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except for earnings per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Revenue	\$393,235	\$11,989	\$381,042	\$11,692
Expenses	(307,454)	(9,374)	(344,714)	(10,577)
Income (loss) from continuing operations before income taxes	\$85,781	\$2,615	\$36,328	\$1,115
Cumulative effect of changes in accounting principles	\$-	\$-	\$173	\$5
Net income (loss)	\$56,899	\$1,735	\$26,197	\$804
Earnings per share (in dollars)				
Income (loss) from continuing operations before income taxes	\$0.24	\$0.01	\$0.10	\$-
Cumulative effect of changes in accounting principles	\$-	\$-	\$-	\$-
Net income (loss)	\$0.16	\$-	\$0.07	\$-

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Pacific Venture Capital Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$427,274	\$13,027	\$524,650	\$16,098
Funds and investments	139,458	4,252	270,068	8,287
Other assets	2,434	74	-	-
Total assets	\$569,166	\$17,353	\$794,718	\$24,385
Liabilities				
Current liabilities	\$206	\$7	\$27,807	\$853
Total liabilities	206	7	27,807	853
Stockholders' equity				
Capital stock	600,000	18,292	600,000	18,410
Retained earnings	(31,040)	(946)	53,347	1,637
Equity adjustment	-	-	113,564	3,485
Total stockholders' equity	568,960	17,346	766,911	23,532
Total liabilities and stockholders' equity	\$569,166	\$17,353	\$794,718	\$24,385

**Cathay Pacific Venture Capital Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$36,766	\$1,121	\$138,072	\$4,237
Operating costs	(36,859)	(1,124)	(10,783)	(331)
Operating gross profit	(93)	(3)	127,289	3,906
Operating expenses	(16,119)	(491)	(24,180)	(742)
Non-operating revenues	-	-	219	7
Non-operating expenses	-	-	-	-
Income from continuing operations before income taxes	\$(16,212)	\$(494)	\$103,328	\$3,171
Net income	\$(15,547)	\$(474)	\$84,387	\$2,589
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$0.27	\$0.01	\$1.72	\$0.05
Net income	\$0.26	\$0.01	\$1.41	\$0.04

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Capital Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$665,754	\$20,297	\$588,593	\$18,061
Funds and investments	836,677	25,509	1,188,705	36,474
Total assets	\$1,502,431	\$45,806	\$1,777,298	\$54,535
Liabilities				
Current liabilities	\$3,528	\$108	\$13,032	\$400
Total liabilities	3,528	108	13,032	400
Stockholders' equity				
Capital stock	1,500,000	45,731	1,500,000	46,026
Retained earnings	(1,090)	(33)	107,277	3,292
Equity adjustment	(7)	-	156,989	4,817
Total stockholders' equity	1,498,903	45,698	1,764,266	54,135
Total liabilities and stockholders' equity	\$1,502,431	\$45,806	\$1,777,298	\$54,535

**Cathay Venture Capital Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$128,828	\$3,927	\$176,641	\$5,420
Operating costs	(36,154)	(1,102)	(29,829)	(915)
Operating gross profit	92,674	2,825	146,812	4,505
Operating expenses	(25,521)	(778)	(30,076)	(923)
Non-operating expenses	-	-	(3)	-
Income from continuing operations before income taxes	\$67,153	\$2,047	\$116,733	\$3,582
Net income	\$63,687	\$1,942	\$108,372	\$3,325
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$0.53	\$0.02	\$0.78	\$0.02
Net income	\$0.50	\$0.02	\$0.72	\$0.02

English Translation of Financial Statements Originally Issued in Chinese

**Cathay II Venture Capital Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$66,179	\$2,017	\$93,572	\$2,871
Funds and investments	539,390	16,445	737,919	22,643
Total assets	<u>\$605,569</u>	<u>\$18,462</u>	<u>\$831,491</u>	<u>\$25,514</u>
Liabilities				
Current liabilities	\$200	\$6	\$4,787	\$147
Total liabilities	<u>200</u>	<u>6</u>	<u>4,787</u>	<u>147</u>
Stockholders' equity				
Capital stock	600,000	18,292	600,000	18,411
Retained earnings	5,369	164	107,443	3,297
Equity adjustment	-	-	119,261	3,659
Total stockholders' equity	<u>605,369</u>	<u>18,456</u>	<u>826,704</u>	<u>25,367</u>
Total liabilities and stockholders' equity	<u>\$605,569</u>	<u>\$18,462</u>	<u>\$831,491</u>	<u>\$25,514</u>

**Cathay II Venture Capital Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$25,598	\$780	\$112,810	\$3,462
Operating gross profit	25,598	780	112,810	3,462
Operating expenses	(12,292)	(374)	(10,550)	(324)
Non-operating revenues	-	-	14	-
Non-operating expenses	(33)	(1)	-	-
Income from continuing operations before income taxes	<u>\$13,273</u>	<u>\$405</u>	<u>\$102,274</u>	<u>\$3,138</u>
Net income	<u>\$13,273</u>	<u>\$405</u>	<u>\$102,073</u>	<u>\$3,132</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.22</u>	<u>\$0.01</u>	<u>\$1.70</u>	<u>\$0.05</u>
Net income	<u>\$0.22</u>	<u>\$0.01</u>	<u>\$1.70</u>	<u>\$0.05</u>

English Translation of Financial Statements Originally Issued in Chinese

**Symphox Information Co., Ltd.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$450,346	\$13,730	\$518,888	\$15,922
Fixed assets	160,564	4,895	158,259	4,856
Intangible assets	4,897	149	7,380	226
Other assets	13,245	404	14,899	457
Total assets	\$629,052	\$19,178	\$699,426	\$21,461
Liabilities				
Current liabilities	\$183,185	\$5,585	\$261,944	\$8,037
Other liabilities	82	2	86	3
Total liabilities	183,267	5,587	262,030	8,040
Stockholders' equity				
Capital stock	499,000	15,213	499,000	15,311
Retained earnings	(53,215)	(1,622)	(61,604)	(1,890)
Total stockholders' equity	445,785	13,591	437,396	13,421
Total liabilities and stockholders' equity	\$629,052	\$19,178	\$699,426	\$21,461

**Symphox Information Co., Ltd.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$644,296	\$19,643	\$877,909	\$26,938
Operating costs	(587,262)	(17,904)	(808,237)	(24,800)
Operating gross profit	57,034	1,739	69,672	2,138
Operating expenses	(62,599)	(1,909)	(82,517)	(2,532)
Non-operating revenues	6,125	187	3,308	101
Non-operating expenses	(351)	(11)	(660)	(20)
Income from continuing operations before income taxes	\$209	\$6	\$(10,197)	\$(313)
Cumulative effect of changes in accounting principles	\$-	\$-	\$1,809	\$56
Net income	\$209	\$6	\$(8,388)	\$(257)
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$0.004	\$-	\$(0.21)	\$(0.01)
Cumulative effect of changes in accounting principles	\$-	\$-	\$0.04	\$-
Net income	\$0.004	\$-	\$(0.17)	\$(0.01)

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Futures Corp.
Condensed Balance Sheets
December 31, 2005 and 2006
(Expressed in thousands of dollars)**

Items	December 31, 2005		December 31, 2006	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$868,010	\$26,464	\$1,204,848	\$36,970
Funds and investments	30,500	930	30,500	936
Fixed assets	342,367	10,438	331,664	10,177
Other assets	147,492	4,496	136,282	4,181
Total assets	\$1,388,369	\$42,328	\$1,703,294	\$52,264
Liabilities				
Current liabilities	\$664,042	\$20,245	\$976,427	\$29,961
Other liabilities	13,854	423	7,130	219
Total liabilities	677,896	20,668	983,557	30,180
Stockholders' equity				
Capital stock	650,000	19,817	650,000	19,944
Retained earnings	60,473	1,843	69,737	2,140
Total stockholders' equity	710,473	21,660	719,737	22,084
Total liabilities and stockholders' equity	\$1,388,369	\$42,328	\$1,703,294	\$52,264

**Cathay Futures Corp.
Condensed Statements of Income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earning per share)**

Items	2005		2006	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$166,349	\$5,071	\$73,703	\$2,262
Operating costs	(102,675)	(3,130)	(26,155)	(803)
Operating gross profit	63,674	1,941	47,548	1,459
Operating expenses	(87,593)	(2,670)	(61,197)	(1,878)
Non-operating revenues	16,618	507	32,558	999
Non-operating expenses	(778)	(24)	(9,816)	(301)
Income from continuing operations before income taxes	\$(8,079)	\$(246)	\$9,093	\$279
Cumulative effect of changes in accounting principles	\$-	\$-	\$159	\$5
Net income	\$(7,577)	\$(231)	\$9,264	\$284
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$(0.12)	\$-	\$0.14	\$-
Cumulative effect of changes in accounting principles	\$-	\$-	\$-	\$-
Net income	\$(0.12)	\$-	\$0.14	\$-