

Cathay Century Insurance Co., Ltd.
Financial Statements
As of June 30, 2006 and 2007
With Independent Auditors' Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”, “Business Entity Accounting Act” and “Regulation in Business Entity Accounting Handling”. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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Index to financial statements

	<u>Page</u>
Independent auditors' report	2
Balance sheets as of June 30, 2006 and 2007	3-4
Statements of income for the six months periods ended June 30, 2006 and 2007	5
Statements of changes in stockholders' equity for the six months periods ended June 30, 2006 and 2007	6
Statements of cash flows for the six months periods ended June 30, 2006 and 2007	7-8
Notes to Financial Statements	9-50

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

Board of Directors
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of June 30, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the six months periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audited.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of June 30, 2006 and 2007, and the results of its operations and its cash flows for the six months periods then ended in conformity with "Business Entity Accounting Act" and "Regulation on Business Entity Accounting Handling", "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

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

ERNST & YOUNG
Taipei, Taiwan
Republic of China
July 27, 2007

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets

As of June 30, 2007 and 2007

(Expressed in thousands of dollars)

Assets	Notes	June 30, 2006		June 30, 2007	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$1,958,491	60,578	\$1,703,139	\$51,878
Financial assets at fair value through profit or loss - current	2,5	371,556	11,493	981,252	29,889
Available-for-sale financial assets - current	2,6	2,224,091	68,793	2,703,447	82,347
Investments in debt securities with no active market - current	2,7	253,025	7,826	76,478	2,330
Notes receivable	2	174,963	5,412	248,335	7,564
Premiums receivable	2,8	1,411,777	43,668	1,738,089	52,942
Claims recoverable from reinsurers		183,111	5,664	107,027	3,260
Due from reinsurers and ceding companies		80,463	2,489	115,393	3,515
Accounts receivable-reinsurance		14,169	438	29,647	903
Other accounts receivable	2	65,131	2,014	48,739	1,485
Prepayments		3,095	96	3,623	110
Deferred income tax assets - current	2,20	50,441	1,560	29,788	907
Subtotal		6,790,313	210,031	7,784,957	237,130
Loans					
Secured loans	2,9	1,747,000	54,036	2,279,562	69,435
Subtotal		1,747,000	54,036	2,279,562	69,435
Funds and investments					
Held-to-maturity financial assets - noncurrent	10	3,544,387	109,632	4,271,002	130,094
Financial assets carried at cost - noncurrent	11	36,000	1,113	60,000	1,828
Investments in debt securities with no active market - noncurrent	12	305,871	9,461	227,795	6,939
Long-term investments under equity method	13	448,748	13,880	438,651	13,361
Subtotal		4,335,006	134,086	4,997,448	152,222
Fixed assets					
Communication and transportation equipments	14	15,743	487	11,355	346
Other equipments		186,682	5,774	200,570	6,109
Subtotal		202,425	6,261	211,925	6,455
Less: Accumulated depreciation		(156,253)	(4,833)	(171,866)	(5,235)
Prepayments for equipments		2,838	88	434	13
Subtotal		49,010	1,516	40,493	1,233
Intangible assets					
Computer software cost	2,15	9,899	306	6,360	194
Deferred pension cost		3,464	107	-	-
Subtotal		13,363	413	6,360	194
Other assets					
Guarantee deposits paid		406,507	12,574	413,485	12,595
Funds held by ceding companies		8	-	-	-
Overdue receivables	2	114,463	3,541	206,652	6,294
Other assets-others		19,035	589	22,443	684
Subtotal		540,013	16,704	642,580	19,573
Total assets		\$13,474,705	\$416,786	\$15,751,400	\$479,787

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 and 2007 were NT\$32.33 and NT\$32.83 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets - (Continued)

As of June 30, 2006 and 2007

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2006		June 30, 2007	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2	\$32,213	\$996	\$3,432	\$105
Commissions payable		3,517	109	12,680	386
Claims outstanding		770	24	27,012	823
Due to reinsurers and ceding companies		174,785	5,406	358,675	10,925
Accounts payable-reinsurance		698,262	21,598	961,430	29,285
Other payables		478,250	14,793	638,327	19,443
Subtotal		1,387,797	42,926	2,001,556	60,967
Long-term liabilities					
Accrued pension liabilities	2	8,855	274	3,405	104
Subtotal		8,855	274	3,405	104
Operating and liability reserve					
Unearned premiums reserve	2,16	4,695,964	145,251	5,064,943	154,278
Special reserve		2,974,142	91,993	3,596,354	109,545
Claims reserve		1,146,906	35,475	1,330,257	40,519
Subtotal		8,817,012	272,719	9,991,554	304,342
Other liabilities					
Funds held for reinsurers		184	5	-	-
Other liabilities-others		42,894	1,327	145,673	4,437
Subtotal		43,078	1,332	145,673	4,437
Total liabilities		10,256,742	317,251	12,142,188	369,850
Stockholders' equity					
Capital stock					
Common stock	17	2,317,006	71,667	2,317,006	70,576
Capital surplus		2,021	63	1,929	59
Retained earnings					
Legal reserve	18	343,857	10,636	416,834	12,697
Unappropriated retained earnings		494,013	15,280	679,537	20,699
Equity adjustment					
Unrealized gains or losses on financial instruments		61,066	1,889	193,906	5,906
Total stockholders' equity		3,217,963	99,535	3,609,212	109,937
Total liabilities and stockholders' equity		\$13,474,705	\$416,786	\$15,751,400	\$479,787

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 and 2007 were NT\$32.33 and NT\$32.83 to US\$1.00)

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

Cathay Century Insurance Co., Ltd.

Statements of income

For the six months ended June 30, 2006 and 2007

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

Items	Notes	January 1-June 30,2006		January 1-June 30,2007	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$4,821,528	\$149,135	\$5,507,439	\$167,756
Reinsurance commission earned		125,583	3,884	150,549	4,586
Claims recovered from reinsurers		579,969	17,939	399,894	12,181
Recovered unearned premiums reserve		4,449,253	137,620	4,955,218	150,936
Recovered special claim reserve		128,639	3,979	52,302	1,593
Recovered claims reserve		29,005	897	110,023	3,351
Handling fee earned		36	1	32	1
Interest revenues		152,219	4,708	178,518	5,438
Gains from valuation on financial assets		-	-	67,643	2,060
Gains from valuation on financial liabilities		-	-	58,414	1,779
Gains on investments recognized under the equity method		30,356	939	4,455	136
Exchanges gains		1,993	62	14,810	451
Gains on disposal of investments		65,083	2,013	71,537	2,179
Subtotal		10,383,664	321,177	11,570,834	352,447
Operating costs	2				
Reinsurance premiums ceded		(1,428,692)	(44,191)	(1,778,766)	(54,181)
Commissions expenses		(89,814)	(2,778)	(92,128)	(2,806)
Insurance claims payment		(2,034,607)	(62,932)	(1,971,257)	(60,045)
Provision for unearned premiums reserve		(4,695,964)	(145,251)	(5,064,943)	(154,278)
Provision for special claim reserve		(354,988)	(10,980)	(462,376)	(14,084)
Contribution to the stabilization funds		(9,186)	(284)	(10,596)	(323)
Provision for claims reserve		(110,023)	(3,403)	(161,305)	(4,913)
Handling fee paid		(114,094)	(3,529)	(128,043)	(3,900)
Losses from valuation on financial assets		(15,638)	(484)	-	-
Losses from valuation on financial liabilities		(15,700)	(486)	-	-
Exchanges losses		(45,127)	(1,396)	(1,543)	(47)
Other operating costs		(2,021)	(62)	(2,425)	(74)
Subtotal		(8,915,854)	(275,776)	(9,673,382)	(294,651)
Operating gross profit		1,467,810	45,401	1,897,452	57,796
Operating expenses	2				
Marketing expenses		(796,650)	(24,641)	(904,217)	(27,542)
Management and general affairs expenses		(123,345)	(3,815)	(149,112)	(4,542)
Operating income		547,815	16,945	844,123	25,712
Non-operating revenues					
Gains on disposal of fixed assets		-	-	642	20
Other non-operating revenues		940	29	1,616	49
Subtotal		940	29	2,258	69
Non-operating expenses					
Losses on disposal of fixed assets		-	-	(1)	-
Miscellaneous expenses		(55)	(2)	(47)	(2)
Subtotal		(55)	(2)	(48)	(2)
Income from continuing operations before income taxes		548,700	16,972	846,333	25,779
Income taxes	2,20	(114,828)	(3,552)	(166,796)	(5,080)
Income from continuing operations after income taxes		433,872	13,420	679,537	20,699
Cumulative effect of changes in accounting principles	3	60,141	1,860	-	-
Net income		\$494,013	\$15,280	\$679,537	\$20,699
Earning per share (In dollars)	21				
Income before income taxes		\$2.63	\$0.08	\$3.65	\$0.11
Net income		\$2.13	\$0.07	\$2.93	\$0.09

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 and 2007 were NT\$32.33 and NT\$32.83 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of changes in stockholders' equity

For the six months ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

Summary	Capital stock		Retained earnings				Equity adjustment				Total			
	Common stock		Capital surplus		Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2006	\$2,317,006	\$71,667	\$2,021	\$63	\$284,803	\$8,809	\$590,545	\$18,266	\$-	\$-	\$(158)	\$(5)	\$3,194,217	\$98,800
Unrealized gains or losses on financial instruments - first time adoption	-	-	-	-	-	-	-	-	(24,734)	(765)	-	-	(24,734)	(765)
Appropriations and distributions for 2005														
Legal reserve	-	-	-	-	59,054	1,827	(59,054)	(1,827)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(527,812)	(16,325)	-	-	-	-	(527,812)	(16,325)
Bonus paid to employees	-	-	-	-	-	-	(3,679)	(114)	-	-	-	-	(3,679)	(114)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	85,800	2,654	-	-	85,800	2,654
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	158	5	158	5
Net Income for the six months ended June 30, 2006	-	-	-	-	-	-	494,013	15,280	-	-	-	-	494,013	15,280
Balance on June 30, 2006	\$2,317,006	\$71,667	\$2,021	\$63	\$343,857	\$10,636	\$494,013	\$15,280	\$61,066	\$1,889	-	-	\$3,217,963	\$99,535
Balance on January 1, 2007	\$2,317,006	\$70,576	\$1,929	\$59	\$343,857	\$10,474	\$729,766	\$22,228	\$179,028	\$5,453	\$-	\$-	\$3,571,586	\$108,790
Appropriations and distributions for 2006														
Legal reserve	-	-	-	-	72,977	2,223	(72,977)	(2,223)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(650,605)	(19,817)	-	-	-	-	(650,605)	(19,817)
Bonus paid to employees	-	-	-	-	-	-	(6,184)	(188)	-	-	-	-	(6,184)	(188)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	14,878	453	-	-	14,878	453
Net Income for the six months ended June 30, 2007	-	-	-	-	-	-	679,537	20,699	-	-	-	-	679,537	20,699
Balance on June 30, 2007	\$2,317,006	\$70,576	\$1,929	\$59	\$416,834	\$12,697	\$679,537	\$20,699	\$193,906	\$5,906	\$-	\$-	\$3,609,212	\$109,937

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 and 2007 were NT\$32.33 and NT\$32.83 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the six months ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2006		January 1-June 30,2007	
		NTS	US\$	NTS	US\$
Cash flows from operating activities					
Net income		\$494,013	\$15,280	\$679,537	\$20,699
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		3,912	121	3,773	115
Depreciation		11,557	358	8,678	264
Provision for reserve for operations		5,160,975	159,634	5,688,624	173,275
Recovered unearned premiums reserve		(4,449,253)	(137,620)	(4,955,218)	(150,936)
Recovered special claim reserve		(128,639)	(3,979)	(52,302)	(1,593)
Recovered claims reserve		(29,005)	(897)	(110,023)	(3,351)
Gains on disposal of fixed assets		-	-	(642)	(20)
Losses on disposal of fixed assets		-	-	1	-
Gains from valuation on financial assets		-	-	(67,643)	(2,060)
Gains from valuation on financial liabilities		-	-	(58,414)	(1,779)
Losses from valuation on financial assets		15,638	484	-	-
Losses from valuation on financial liabilities		15,700	486	-	-
Unrealized gain on investments recognized under the equity method		(30,356)	(939)	19,545	595
Effects of exchange rate changes		43,134	1,334	(13,267)	(404)
Effects of changes in accounting principles		(60,141)	(1,860)	-	-
(Increase) decrease in financial assets at fair value through profit or loss - current		218,430	6,756	(401,925)	(12,243)
(Increase) decrease in notes receivable		21,723	672	(30,195)	(920)
Increase in premiums receivable		(234,663)	(7,258)	(240,442)	(7,324)
Decrease in claims recoverable from reinsurers		32,664	1,010	63,345	1,930
(Increase) decrease in due from reinsurers and ceding companies		(49,190)	(1,521)	59,263	1,805
Decrease in reinsurance accounts receivable		92,403	2,858	138,394	4,216
(Increase) decrease in other accounts receivable		(30,181)	(933)	176,476	5,375
Increase in prepayments		(256)	(8)	(815)	(25)
(Increase) decrease in deferred income tax assets-current		(12,453)	(385)	23,780	724
(Increase) decrease in overdue receivables		26,196	810	(69,437)	(2,115)
Increase in other assets-others		(4,911)	(152)	(5,476)	(167)
Increase in financial liabilities at fair value through profit or loss - current		14,258	440	-	-
Increase (decrease) in commissions payable		(3,756)	(116)	9,759	297
Increase in claims outstanding		142	4	7,463	227
Increase in other payables		36,194	1,120	58,221	1,774
Increase in accrued pension liabilities		1,985	61	-	-
Increase (decrease) in other liabilities-others		(32,862)	(1,017)	85,874	2,616
Increase in claims reserve		138,882	4,296	127,072	3,871
Net cash provided by (used in) operating activities		1,262,140	39,039	1,144,006	34,846

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 and 2007 were NT\$32.33 and NT\$32.83 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the six months ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2006		January 1-June 30,2007	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Increase in available-for-sale financial assets - current		(502,926)	(15,556)	(149,585)	(4,556)
Decrease in investments in debt securities with no active market - current		2,232	69	1,135	35
Increase in secured loans		(425,788)	(13,170)	(184,293)	(5,614)
Increase in held-to-maturity financial assets - noncurrent		(390,433)	(12,076)	(521,655)	(15,889)
Decrease in investments in debt securities with no active market - noncurrent		792	24	792	24
Disposal of fixed assets		-	-	1,072	33
Acquisition of fixed assets		(8,304)	(257)	(12,952)	(395)
Acquisition of intangible assets		(460)	(14)	(895)	(27)
(Increase) decrease in guarantee deposits paid		(22,648)	(701)	96,042	2,925
Decrease in funds held by ceding companies		-	-	8	-
Net cash provided by (used in) investing activities		<u>(1,347,535)</u>	<u>(41,681)</u>	<u>(770,331)</u>	<u>(23,464)</u>
Cash flows from financing activities					
Increase in funds held for reinsurers		-	-	(185)	(6)
Bonus to employees		(4,580)	(142)	(4,707)	(143)
Cash dividends		<u>(527,812)</u>	<u>(16,325)</u>	<u>(650,605)</u>	<u>(19,817)</u>
Net cash provided by (used in) financing activities		<u>(532,392)</u>	<u>(16,467)</u>	<u>(655,497)</u>	<u>(19,966)</u>
Effects of exchange rate changes		(43,134)	(1,334)	13,267	404
Decrease in cash and cash equivalents		(660,921)	(20,443)	(268,555)	(8,180)
Cash and cash equivalents at the beginning of periods		<u>2,619,412</u>	<u>81,021</u>	<u>1,971,694</u>	<u>60,058</u>
Cash and cash equivalents at the end of periods		<u>\$1,958,491</u>	<u>\$60,578</u>	<u>\$1,703,139</u>	<u>\$51,878</u>
Supplemental disclosure of cash flows information					
Income tax paid		<u>\$106,723</u>	<u>\$3,301</u>	<u>\$160,905</u>	<u>\$4,901</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 and 2007 were NT\$32.33 and NT\$32.83 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

1. Organization and business scope

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). The Company mainly engaged in the business of property and casualty insurance. On April 22, 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On August 2, 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

As of June 30, 2006 and 2007, the total numbers of employees were 902 and 976, respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”, “Business Entity Accounting Act” and “Regulation on Business Entity Accounting Handling”. A summary of significant accounting policies follows:

(1) Distinguish assets and liabilities, current and non-current

Current assets are assets which can be liquidated or disposed within one year. Assets that do not belong to current assets are classified as non-current assets. Current liabilities are debts which must be paid-off within one year. Debts do not belong to current liabilities are classified as non-current liabilities.

(2) Cash and cash equivalents

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(3) Financial assets and financial liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No.34 “Accounting for Financial Instruments” and “Criteria Governing the Preparation of Financial Reports by Property and Casualty Insurance”. Financial assets are categorized as the “financial assets at fair value through profit or loss”, “investments in debt securities with no active market”, “held-to-maturity financial assets” or “available-for-sale financial assets”, and accordingly, recognized at fair value initially. Financial liabilities are categorized as the “financial liabilities at fair value through profit or loss” or “financial liabilities measured at cost”.

All “regular way” purchases and sales of financial assets are recorded on the trade date (i.e. the date that the Company commits to purchase or sell the asset). “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 at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as held for trading or designated as assets to be measured at fair value. Gains or 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 or 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 principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between 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
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

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 value 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 those non-derivative financial assets that are designated as available-for-sale or are not classified in any forementioned categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

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

(4) Allowance for bad debts

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(5) Long – term investments under equity method

Long-term 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 over 5 years. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in inconformity with the acquisition cost allocation as provided in SFAS No.25 “Business Combination-Accounting Treatment under Purchase Method.” Goodwill is no longer amortized.

If the investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage and the equity in net assets for the investment that the investor company has invested will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment under the equity method.

If the adjustment stated above is to debit the additional paid-in capital account and the amount of additional paid-in capital from long-term investments is not enough to be offset, the difference shall be debited to the retained earnings account.

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

(6) Fixed assets

Fixed assets are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed when occurred. Upon the sale or disposal of fixed assets, the related cost and accumulated depreciation and accumulated depletion are eliminated. Gain or loss resulting from such sale or disposal is recorded as non-operating gain or loss. Depreciation on depreciable assets is calculated on the straight-line method over the estimated service lives prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the ROC Executive Yuan (the “Executive Yuan Depreciation Table”). Fixed assets that are still in use after their useful lives are depreciated based on their residual values and the newly estimated remaining useful lives.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(7) Intangible assets

The Company adopted the ROC SFAS No. 37 “Accounting for Intangible Assets” on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair values. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets of the Company are deemed finite.

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing are performed when there are indications of impairment on intangible assets. The Company reevaluates the residual values, amortization periods and amortization methods of the intangible assets with finite useful lives at each balance sheet date and the changes are treated as changes in accounting estimates.

The “intangible assets” of the Company are computer softwares and are amortized over the estimated useful lives of 3 years using the straight-line method.

(8) Accounting for Asset Impairment

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

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

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

- (a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- (b) if the goodwill has been written off, reduce the carrying amounts of other assets of the CGU proportionately.

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

(9) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is then 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

B. Financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 measured 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.

C. Available-for-sale financial assets

If an available-for-sale financial 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.

(10) Operating and liability reserves

Operating and liability reserves are organized according to the Insurance Law. These reserves include unearned premiums reserve, claims reserve and special claim reserve. The actuary provides the figures of such reserves in the financial statements.

(11) 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred 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 derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

(12) Premiums income

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

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

(13) Contribution to the stabilization funds

The Company makes a monthly contribution based on 2‰ of the gross premiums to the stabilization funds and deposits it in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

(14) Pension plan

The Company has established a pension plan for all employees. Pension plan benefits are primarily based on participants’ compensation and the length of service.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

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

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company adopted the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligations and the fair value of the plan assets.

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

(15) 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.

(16) Income Taxes

The Company adopted SFAS No. 22, “ Accounting for Income Taxes”, which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year’s loss

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with Article 49 of Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns with 10% surcharge on its inappropriate retained earnings under the Integrated Income Tax System. If there is any tax effects due to adopt forgoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to any assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits" for income tax credits. The income tax credits resulting from the expenditures on the purchases of equipments, R & D, education trainings, and investments in equity shall be recognized at the current period.

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

Effective from January 1, 2006, the Company has adopted "Income Basic Tax Act" and "Enforcement Rules of the Income Basic Tax Act" to estimate income basic tax.

(17) Capital expenditure expenses

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(18) Derivative financial instruments

The Company takes derivative financial instrument transactions such as forward currency contracts and futures to hedge its risks associated with foreign currency and stock fluctuations. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

Hedges of the foreign currency risk and stock fluctuation of a firm commitment are belong to fair value hedges. The Company adopted SFAS No. 34, Accounting for Financial Instruments categorized as financial assets at fair value through profit or loss are recognized in earnings.

(19) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of June 30, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.33 and NT\$32.83 provided by Federal Reserve Bank of New York of June 30, 2006 and 2007 are used for the conversion.

3. Changes in accounting and their effects

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of June 30, 2006 and 2007

At the effective date, the Company shall remeasure and reclassify financial assets and liabilities that should be measured at fair value or at amortized cost as appropriate according to ROC SFAS No.34. Any resulting adjustment shall be recognized. Adjustments for “financial assets/liabilities at fair value through profit and loss” are recognized as cumulative effects of changes in accounting principles. Adjustments for “Available-for-sale financial assets” are recognized as changes of stockholders’ equity.

The above changes in accounting principles increased the Company’s assets, by NT\$33,715 (US\$1,043) and decreased the Company’s liabilities and stockholders’ equity-unrealized gains or losses on financial instruments by NT\$1,692 (US\$52) and NT\$24,734 (US\$765) as of January 1, 2006, respectively. The company’s net income and earnings per share increased by NT\$60,141 (US\$1,860) and NT\$0.26 (US\$0.01), respectively, for the year ended June 30, 2006.

4. Cash and cash equivalents

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$12,557	\$388	\$11,640	\$355
Cash in banks	322,121	9,964	354,509	10,798
Time deposits	1,457,296	45,075	1,176,990	35,851
Cash equivalents	166,517	5,151	160,000	4,874
Total	<u>\$1,958,491</u>	<u>\$60,578</u>	<u>\$1,703,139</u>	<u>\$51,878</u>

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

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Common stock	\$215,862	\$6,677	\$486,573	\$14,821
Beneficiary certificates	162,424	5,024	265,642	8,091
Corporate bonds	-	-	123,997	3,777
Derivative financial instruments	8,908	276	8,489	259
Subtotal	387,194	11,977	884,701	26,948
Add: Valuation adjustment	(15,638)	(484)	96,551	2,941
Total	<u>\$371,556</u>	<u>\$11,493</u>	<u>\$981,252</u>	<u>\$29,889</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

6. Available-for-sale financial assets-current

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Common stock	\$783,121	\$24,223	\$925,734	\$28,198
Beneficiary certificates	472,657	14,620	730,634	22,255
Corporate bonds	441,505	13,656	400,396	12,196
Financial debentures	501,454	15,510	501,186	15,266
Subtotal	2,198,737	68,009	2,557,950	77,915
Add: Valuation adjustment	25,354	784	145,497	4,432
Total	<u>\$2,224,091</u>	<u>\$68,793</u>	<u>\$2,703,447</u>	<u>\$82,347</u>

7. Investments in debt securities with no active market-current

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Financial debentures	<u>\$253,025</u>	<u>\$7,826</u>	<u>\$76,478</u>	<u>\$2,330</u>

8. Premiums receivable

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,426,037	\$44,109	\$1,755,645	\$53,477
Less: Allowance for bad debts	(14,260)	(441)	(17,556)	(535)
Net	<u>\$1,411,777</u>	<u>\$43,668</u>	<u>\$1,738,089</u>	<u>\$52,942</u>

9. Loans

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Secured loans	\$1,871,029	\$57,873	\$2,377,994	\$72,433
Less: Allowance for bad debts	(124,029)	(3,837)	(98,432)	(2,998)
Net	<u>\$1,747,000</u>	<u>\$54,036</u>	<u>\$2,279,562</u>	<u>\$69,435</u>

Secured loans are secured by real estate.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

10. Held-to-maturity financial assets - noncurrent

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$3,544,387	\$109,632	\$4,271,002	\$130,094

11. Financial assets carried at cost - noncurrent

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	\$36,000	\$1,113	\$36,000	\$1,097
Tong Lung Metal Industry Co., Ltd. - preferred stock	-	-	24,000	731
Total	\$36,000	\$1,113	\$60,000	\$1,828

12. Investments in debt securities with no active market - noncurrent

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$558,896	\$17,287	\$304,273	\$9,268
Less: Financial debentures by payable with in one year	(253,025)	(7,826)	(76,478)	(2,329)
Total	\$305,871	\$9,461	\$227,795	\$6,939

13. Long-term investments under equity method

Investee	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$440,847	\$13,636	\$430,734	\$13,120
Vista Technology Venture Capital Corp.	7,901	244	7,917	241
Total	\$448,748	\$13,880	\$438,651	\$13,361

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

A. Changes in long-term investments under equity method are summarized as follows:

	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$382,522	\$11,832	\$449,041	\$13,678
Add (less):				
Investment income by equity method recognized	30,356	939	4,455	136
Cumulative conversion adjustments by equity method recognized	158	5	-	-
Cash dividends	-	-	(24,000)	(731)
Net gains or losses not recognized as retirement fund costs on long-term equity investment	35,712	1,104	9,155	278
Balance on June 30	<u>\$448,748</u>	<u>\$13,880</u>	<u>\$438,651</u>	<u>\$13,361</u>

B. The investment gains (losses) recognized by the equity method for the six months ended June 30, 2006 and 2007 are listed below:

Investee	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$30,409	\$941	\$4,516	\$138
Vista Technology Venture Capital Corp.	(53)	(2)	(61)	(2)
Total	<u>\$30,356</u>	<u>\$939</u>	<u>\$4,455</u>	<u>\$136</u>

C. Equity method was applied for the investees whose common stocks was jointly held by the Company and its related parties in an amount over 20%. The investment gains of Vista Technology Venture Capital Corp. for the six months ended June 30, 2006 and 2007 were recognized under the equity method based on the respective audited financial statements.

D. The investment gains of Cathay Venture Capital Corp. for the six months ended June 30, 2006 and 2007 were recognized under the equity method based on the respective audited financial statements of Cathay Venture Capital Corp.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

14. Fixed assets

Item	June 30, 2006					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$15,743	\$487	\$10,271	\$318	\$5,472	\$169
Other equipments	186,682	5,774	145,982	4,515	40,700	1,259
Subtotal	202,425	6,261	156,253	4,833	46,172	1,428
Prepayments for equipments	2,838	88	-	-	2,838	88
Total	<u>\$205,263</u>	<u>\$6,349</u>	<u>\$156,253</u>	<u>\$4,833</u>	<u>\$49,010</u>	<u>\$1,516</u>

Item	June 30, 2007					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$11,355	\$346	\$8,128	\$248	\$3,227	\$98
Other equipments	200,570	6,109	163,738	4,987	36,832	1,122
Subtotal	211,925	6,455	171,866	5,235	40,059	1,220
Prepayments for equipments	434	13	-	-	434	13
Total	<u>\$212,359</u>	<u>\$6,468</u>	<u>\$171,866</u>	<u>\$5,235</u>	<u>\$40,493</u>	<u>\$1,233</u>

There was no collateralized or pledged property and equipment of the Company as of June 30, 2006 and 2007.

15. Intangible assets – Computer software cost

Item	January 1, 2006		Increase		Decrease		June 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$42,240	\$1,307	\$460	\$14	\$-	\$-	\$42,700	\$1,321
Amortization and impairment								
Amortization	(28,889)	(894)	(3,912)	(121)	-	-	(32,801)	(1,015)
Book value	<u>\$13,351</u>	<u>\$413</u>					<u>\$9,899</u>	<u>\$306</u>

Item	January 1, 2007		Increase		Decrease		June 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$43,241	\$1,317	\$3,048	\$93	\$-	\$-	\$46,289	\$1,410
Amortization and impairment								
Amortization	(36,156)	(1,101)	(3,773)	(115)	-	-	(39,929)	(1,216)
Book value	<u>\$7,085</u>	<u>\$216</u>					<u>\$6,360</u>	<u>\$194</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

The intangible assets of the Company are computer softwares and are amortized over 3 years using the straight-line method.

16. Operating and liability reserve

	January 1, 2006		Provision		Recovered		June 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,449,253	\$137,620	\$4,695,964	\$145,251	\$4,449,253	\$137,620	\$4,695,964	\$145,251
Special reserve	2,747,793	84,992	354,988	10,980	128,639	3,979	2,974,142	91,993
Claims reserve	927,006	28,673	1,115,741	34,511	895,841	27,709	1,146,906	35,475
Total	<u>\$8,124,052</u>	<u>\$251,285</u>	<u>\$6,166,693</u>	<u>\$190,742</u>	<u>\$5,473,733</u>	<u>\$169,308</u>	<u>\$8,817,012</u>	<u>\$272,719</u>
	January 1, 2007		Provision		Recovered		June 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,955,218	\$150,936	\$5,064,943	\$154,278	\$4,955,218	\$150,936	\$5,064,943	\$154,278
Special reserve	3,186,280	97,054	462,376	14,084	52,302	1,593	3,596,354	109,545
Claims reserve	1,151,903	35,087	1,171,552	35,685	993,198	30,253	1,330,257	40,519
Total	<u>\$9,293,401</u>	<u>\$283,077</u>	<u>\$6,698,871</u>	<u>\$204,047</u>	<u>\$6,000,718</u>	<u>\$182,782</u>	<u>\$9,991,554</u>	<u>\$304,342</u>

The claims reserves above represent outstanding claims of NT\$1,010,247 and IBNR(Incurred But Not Reported) of NT\$161,305 as of June 30, 2007. Balances of outstanding claims and IBNR as of June 30, 2006 were NT\$1,005,718 and NT\$110,023, respectively.

Reserves for operations included the following reserves:

(1) Unearned premium reserve

Effective from December 24, 2002, unearned premium reserves should be provided based on assumed risks of different insurance products. The calculation of the reserve requires the involvement of actuaries as well as disclosures on the insurance product calculation statement which can not be changed unless approved by authorities. The unearned premium reserve should be reversed and then accrued at the next year end. The Company reported to the authorities on the method of calculating unearned premium reserve on July 31, 2003 and was approved by the Ministry of Finance with Article 0920708262. On December 8, 2006, the Company reported to the authorities on the change of method of calculating unearned premium reserve and was approved by the Ministry of Finance with Article 09502152840.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

The unearned premium on motor vehicles compulsory insurance is provided based on the assumed premium in accordance with the article of Ministry of Finance.

(2) Special claim reserve

Special claim reserve is provided based on the “Regulations on Calculation of Various Insurance Reserves” by Article 0910751651 of Ministry of Finance :

A. Catastrophe reserve :

- a. Addition: Catastrophe reserve should be accrued based on respective reserve rates of various insurance product categories.
- b. Reduction: The amount of assumed claims of catastrophe in excess of NT\$30 million should be deducted from the catastrophe reserve. In addition, the deducted amount is required to be reported to authorities.
- c. Recovery: The catastrophe reserve over 15 years should be recovered and recorded as income.

B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.

- a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve.
- b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.
- c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance contingency reserve exceeds 30% of the retained earned premium for the year, the excess amount should be recorded as

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.

- C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
- D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- E. The residential earthquake insurance product is in compliance of “Regulations for Method of Coinsurance and Contingency on Residential Earthquake”.

(3) Claims reserve:

Effective from December 24, 2002, the accruals of claim reserves are in accordance with “Insurance Industry Provision of Reserve for Indemnity” issued by the Ministry of Finance. The accruals include retained IBNR and outstanding claims. Effective from January 1, 2006, the accruals on reserves have changed from the fixed rates to a method subject to authorities’ approval based on the past experience and expenses. The Company has reported to the authorities for the accrual method and its has been approved by Insurance Bureau of FSC(Article 09500204880). The method is as follows:

- A. Reserve for outstanding claims is estimated based on historical information and circumstances surrounding each claim for each type of insurance.
- B. Reserve for IBNR is determined by the past experience and loss on each insurance product category.
- C. The unearned premium reserve should be reversed and then accrued at the next year end.
- D. The reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”. The reserve on retained outstanding claims is based on related information. The reserve on IBNR is based on 1% of the retained net earned premium.
- F. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- G. The residential earthquake insurance product is in compliance of “Regulations for Method of Coinsurance and Contingency on Residential Earthquake”.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

17. Capital stock and capital increment

As of June 30, 2006 and 2007, the Company has issued 231,701 thousand shares with a par value of NT\$10.

18. Retained Earnings

(1) Legal reserve

Pursuant to the Company Act, 10% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for 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 it approves by the Board of Directors.

(2) Unappropriated retained earnings

A. According to the Company Act and the Company's articles of incorporations, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, shall be appropriated as legal reserve. In addition to distributing stock interest and 2% as a bonus for employees, the remainder shall be allocated in accordance with the resolutions of the annual shareholder meeting.

B. According to the related regulations, if any unappropriated retained earnings of the Company assessed by the tax authority exceed 100% of the Company's paid-in capital, the "excessive" amounts shall be distributed as cash dividends or stock dividends in the following year of the assessment. Otherwise, either an additional 10% income tax will be levied on shareholders of the total unappropriated retained earnings; or the Company may pay an extra 10% income tax on the excessive unappropriated retained earnings.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of June 30, 2006 and 2007

- (4) 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 since 2007.

19. Personnel, depreciation, depletion and amortization expenses

Item	For the six months ended June 30, 2006 (NT\$)			For the six months r ended June 30, 2007 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$419,038	\$419,038	\$-	\$446,630	\$446,630
Labor & health insurance expenses	-	20,814	20,814	-	22,914	22,914
Pension expenses	-	21,101	21,101	-	22,047	22,047
Other expenses	-	9,646	9,646	-	13,994	13,994
Depreciation	-	11,557	11,557	-	8,678	8,678
Depletion	-	-	-	-	-	-
Amortization	-	3,912	3,912	-	3,773	3,773

Item	For the six months ended June 30, 2006 (US\$)			For the six months ended June 30, 2007 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$12,961	\$12,961	\$-	\$13,604	\$13,604
Labor & health insurance expenses	-	644	644	-	698	698
Pension expenses	-	653	653	-	672	672
Other expenses	-	298	298	-	426	426
Depreciation	-	358	358	-	264	264
Depletion	-	-	-	-	-	-
Amortization	-	121	121	-	115	115

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

20. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$548,700	\$16,972	\$846,333	\$25,779
Adjustments:				
Interest income of tax on a separate basis	(4,012)	(124)	(22,964)	(699)
Gains (losses) on appraising financial assets (liabilities)	31,337	969	(126,057)	(3,839)
Bad debts recovery	(6,125)	(190)	(6,662)	(203)
Gains on trading securities	(63,873)	(1,976)	(155,413)	(4,734)
Investment gains recognized by the equity method	(30,356)	(939)	(4,455)	(136)
Unrealized gains on foreign exchanges	-	-	(12,239)	(373)
Unrealized losses on foreign exchanges	41,991	1,299	-	-
Realized losses on foreign exchanges	-	-	(19,477)	(593)
Unrealized pension expenses recovery	(3,405)	(105)	-	-
Others	58	2	33	1
Taxable Income	514,315	15,908	499,099	15,203
Time; taxes rate less: progressive difference	25%	-	25%	-
Subtotal	128,579	3,977	124,775	3,801
Extra 10% income tax on unappropriated retained earnings	-	-	-	-
Tax effects under integrated income tax systems	-	-	18,398	560
Income tax credit	(829)	(26)	-	-
Subtotal	127,750	3,951	143,173	4,361
Tax on a separate basis	802	25	1,909	58
Adjustment of prior year's income tax	(274)	(8)	(2,066)	(63)
Deferred income tax expenses (benefits)	(12,453)	(385)	23,780	724
Share the cumulative effect of changes in accounting principles	(997)	(31)	-	-
Total income tax expenses	\$114,828	\$3,552	\$166,796	\$5,080

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

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

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$50,441	\$1,560	\$33,880	\$1,032
Total deferred income tax liabilities	\$-	\$-	\$4,092	\$125
B. Temporary differences:				
Bad debts exceeding legal limitation	\$142,062	\$4,394	\$124,293	\$3,786
Unrealized losses on foreign exchanges	42,350	1,310	-	-
Unrealized gains on foreign exchanges	-	-	(12,239)	(373)
Unrealized gains on valuation financial assets	-	-	(4,130)	(126)
Unrealized losses on valuation financial assets	1,652	51	-	-
Unrealized losses on valuation financial liabilities	15,700	486	3,432	105
Others	-	-	3,405	104
Total	\$201,764	\$6,241	\$114,761	\$3,496

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
C. Income tax credit	\$-	\$-	\$1,098	\$33

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
D. Deferred income tax assets-current	\$50,441	\$1,560	\$33,880	\$1,032
Deferred income tax liabilities	-	-	(4,092)	(125)
Net between current deferred income tax assets and liabilities	\$50,441	\$1,560	\$29,788	\$907

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
E. Deferred income tax assets-non current	\$-	\$-	\$-	\$-

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$1,098(US\$34)	\$1,098(US\$34)	2011

- (4) The Company's income tax returns have been examined by the tax authority through year 2003, however, the Company has requested the re-examination on the tax return of year 2003. The results of the re-examination of the tax authority were received and disputes on the bond premiums tax issue were filed by the Company. The appeal on year 1999 tax return is pending at the supreme court.

- (5) Information related to imputation:

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$68	\$2	\$8,775	\$267
	June 30, 2006 (Actual)		June 30, 2007 (Actual)	
Imputation credit account ratio	1.73%		1.62%	

- (6) Information relating of unappropriated earnings:

Year	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	-	-
Total	\$-	\$-	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

Net income after tax for the six months ended June 30, 2006 and 2007 are not included in the unappropriated earnings after 1998 expressed above.

21. Earnings per share

	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
	NT\$	US\$	NT\$	US\$
Net income from continuing operations (A)	\$433,872	\$13,420	\$679,537	\$20,699
Cumulative effect of changes in accounting principles(B)	60,141	1,860	-	-
Net income (C)	\$494,013	\$15,280	\$679,537	\$20,699
Outstanding number of shares at end of period	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares(D)	231,701	231,701	231,701	231,701
Earnings per share of net income from continuing operations (A)/(D) (dollars)	\$1.87	\$0.06	\$2.93	\$0.09
Earnings per share of cumulative effect of changes in accounting principles(B)/(D) (dollars)	0.26	0.01	-	-
Earnings per share of net income (C)/(D) (dollars)	\$2.13	\$0.07	\$2.93	\$0.09

22. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
Cathay Securities Corp.	Affiliate
Name	Relationship
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
San Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Lucky Bank	Affiliate (Have been merged with Cathay United Bank on January 1, 2007)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of June 30, 2006 and 2007

Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Futures Corp.	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Cathay Bank Property Agency of Association	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Insurance (Bermuda) Co., Ltd.	Affiliate
Cathay Life Insurance Co., Ltd.(Shanghai)	Affiliate
Cathay Bank Life Insurance Agency of Association	Affiliate
Seaward Card Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
China England Company Ltd.	Affiliate
Pao Shin Securities Co., Ltd.	Affiliate
Cathay Charity Foundation	Affiliate
Wu Ming-Yang	Vice-president of the Company
Que Ming-Huang	Manager of the Company
Chang Zhao-Yang	Manager of the Company
Yang Zhi-Quan	Manager of the Company
Fan Shi-Kai	Manager of the Company
Peng Yi-Miao	Manager of the Company
Jian Jie	Internal audit manager of the Company

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(2) Transactions with related parties

A. Premiums income

Name	For the six months ended June 30,			
	2006		2007	
	Direct written premiums		Direct written premiums	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$108,721	\$3,363	\$84,459	\$2,573
Cathay United Bank	38,700	1,197	66,619	2,029
Cathay Securities Corp.	-	-	367	11
Lucky Bank	4,688	145	-	-
Cathay General Hospital	1,713	53	1,755	53
Seaward Leasing Ltd.	2,832	87	3,379	103
Cathay Real Estate Development Co., Ltd.	656	20	811	25
Symphox Information Co., Ltd.	571	18	-	-
Total	<u>\$157,881</u>	<u>\$4,883</u>	<u>\$157,390</u>	<u>\$4,794</u>

B. Premiums receivable

Name	June 30,			
	2006		2007	
	Premiums receivable		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$13,718	\$424	\$1,565	\$48
Cathay United Bank	6,016	186	11,504	350
Lucky Bank	4,538	141	-	-
Cathay Real Estate Development Co., Ltd.	327	10	538	16
Total	<u>\$24,599</u>	<u>\$761</u>	<u>\$13,607</u>	<u>\$414</u>

C. Insurance claims payment

Name	For the six months ended June 30,			
	2006		2007	
	NT\$		US\$	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$389	\$12	\$-	\$-
Cathay United Bank	23,547	728	331	10
Total	<u>\$23,936</u>	<u>\$740</u>	<u>\$331</u>	<u>\$10</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

D. Cash in banks

Name	Type	For the six months ended June 30, 2006		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$287,670	0.10%	\$96
	Time deposits	\$290,155	1.72%~2.02%	\$3,271
Lucky Bank	Cash in banks	\$4,051	0.10%	\$2
	Time deposits	\$10,000	1.97%	\$13

Name	Type	For the six months ended June 30, 2006		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$8,898	0.10%	\$3
	Time deposits	\$8,975	1.72%~2.02%	\$101
Lucky Bank	Cash in banks	\$125	-	\$-
	Time deposits	\$309	-	\$-

Name	Type	For the six months ended June 30, 2007		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$255,846	0.10%	\$130
	Time deposits	\$386,450	2.09%~2.21%	\$4,679

Name	Type	For the six months ended June 30, 2007		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$7,793	0.10%	\$4
	Time deposits	\$11,771	1.93%~2.21%	\$143

E. Loans

Name	For the six months ended June 30, 2006			
	Maximum amount	Ending balance	Interest rate	Interest income
		NT\$		NT\$
Wu Ming-Yang	\$1,536	\$-	3.03%	\$5
Que Ming-Huang	\$7,596	\$7,459	2.20%	\$83
Chang Zhao-Yang	\$3,569	\$3,527	2.32%-3.07%	\$52
Jian Jie	\$1,548	\$1,509	3.07%	\$23

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)

As of June 30, 2006 and 2007

Name	For the six months ended June 30, 2006			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$48	\$-	3.03%	\$-
Que Ming-Huang	\$235	\$231	2.02%	\$3
Chang Zhao-Yang	\$110	\$109	2.32%-3.07%	\$2
Jian Jie	\$48	\$47	3.07%	\$1

Name	For the six months ended June 30, 2007			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$5,800	\$5,373	2.47%	\$69
Chang Zhao-Yang	\$3,475	\$3,420	2.47%	\$42
Fan Shi-Kai	\$10,600	\$10,491	1.93%	\$51
Peng Yi-Miao	\$5,000	\$5,000	2.47%	\$-
Jian Jie	\$1,461	\$1,436	2.47%	\$18

Name	For the six months ended June 30, 2007			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$177	\$164	2.47%	\$2
Chang Zhao-Yang	\$106	\$104	2.47%	\$1
Fan Shi-Kai	\$323	\$320	1.93%	\$2
Peng Yi-Miao	\$152	\$152	2.47%	\$-
Jian Jie	\$45	\$44	2.47%	\$1

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

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$82,270	\$2,545	\$154,376	\$4,702
Cathay Futures Corp.	4,688	145	4,872	149
Total	\$86,958	\$2,690	\$159,248	\$4,851

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

G. Available-for-sale financial assets-current

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$77,127	\$2,349

H. Guarantee deposits paid

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$14,036	\$434	\$17,144	\$522

I. Commissions expenses

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Bank Property Agency of Association	\$16,345	\$506	\$350	\$11

J. Handling fee paid

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,190	\$68	\$1,393	\$42

K. Accrued marketing expense

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$157,972	\$4,886	\$260,490	\$7,935

L. Other payables – tax payable

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$122,498	\$3,789	\$136,475	\$4,157

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

M. Other payable

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$1,482	\$45

N. Guarantee deposits received- guarantee notes

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$400	\$12

O. Operating expenses

Name	Summary	For the six months ended June 30,			
		2006		2007	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$27,064	\$837	\$32,893	\$1,002
	Marketing expenses	293,075	9,065	277,892	8,465
	Party premium expenses	2,989	92	4,016	122
	Training expenses	-	-	710	22
	Administrative expenses	-	-	2,869	87
Seaward Leasing Ltd.	Rental expenses	856	27	1,319	40
Cathay United Bank	Marketing expenses	-	-	20,062	611
Total		\$323,984	\$10,021	\$339,761	\$10,349

P. Other expenses

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$2,293	\$71	\$9,316	\$284
Seaward Card Co., Ltd.	-	-	765	23
Total	\$2,293	\$71	\$10,081	\$307

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

Q. Other

As of June 30, 2006 and 2007 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	For the six months ended June 30,	
	2006	2007
Forward foreign exchange contracts	USD\$1,300	USD\$21,054
CS contracts	USD\$57,150	USD\$34,550

23. Pledged assets

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Government bonds	\$352,640	\$10,908	\$350,510	\$10,677

According to Article 141 of the ROC Insurance Law, the Company should deposit government bonds at an amount equal to 15% of its paid-in capital in the Central Bank of China as capital guarantee deposit. The above assets were stated at book value.

24. Other important matters and contingent liabilities

A. The Company and Itanara Import Export Company have a dispute on cargo insurance benefits. The Itanara filed a lawsuit against the Company and it 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. The Company appealed to the higher court and the lawsuit is still in progress.

B. As of June 30, 2007, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount (NT\$)	Amount (US\$)
July 01, 2007 ~ June 30, 2008	\$67,483	\$2,056
July 01, 2008 ~ June 30, 2009	68,134	2,075
July 01, 2009 ~ June 30, 2010	70,132	2,136
July 01, 2010 ~ June 30, 2011	72,189	2,199
July 01, 2011 ~ June 30, 2012	74,307	2,263
Total	\$352,245	\$10,729

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

25. Serious damages

None

26. Subsequent events

None

27. Other important events

(1) Pension related information

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

(2) Risk management policies and hedge strategies

The Company’s primary financial instruments other than derivatives consists cash and cash equivalents, current and non current investments. The main purpose of holding these financial instruments is to manage cash flow. The Company 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.

The Company 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 the Company’s investment activities. The company 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, 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

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.

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

The Company 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 the Company did not seek to hedge this exposure.

Credit risk

The company 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, the Company will freeze the related contracts until the credit of the third party recovers. Thus the Company has minimal bad debts.

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

The company's exposure to liquidity risk is minimal.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(3) Financial instruments related information:

Assets	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$1,958,491	\$1,958,491	\$60,578	\$60,578
Financial assets at fair value through profit or loss - current	363,386	363,386	11,240	11,240
Available-for-sale financial assets - current	2,224,091	2,224,091	68,793	68,793
Investments in debt securities with no active market-current	253,025	253,025	7,826	7,826
Receivables	1,651,871	1,651,871	51,094	51,094
Claims recoverable from reinsurers	183,111	183,111	5,664	5,664
Due from reinsurers and ceding Companies	80,463	80,463	2,489	2,489
Secured loans	1,747,000	1,747,000	54,036	54,036
Held-to-maturity financial assets - noncurrent	3,544,387	3,544,387	109,632	109,632
Financial assets carried at cost - noncurrent	36,000	-	1,113	-
Investments in debt securities with no active market - noncurrent	305,871	305,871	9,461	9,461
Long-term investments under equity method	448,748	448,748	13,800	13,800
Guarantee deposits paid	406,507	406,507	12,574	12,574
Derivative financial instruments:				
Financial assets at fair value through profit or loss - current				
Futures Contract	7,655	7,655	237	237
Options Contract	515	515	16	16
June 30, 2006				
Liabilities	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instrument :				
Claims outstanding	770	770	24	24
Due to reinsurers and ceding companies	174,785	174,785	5,406	5,406
Operating and debt reserve	8,817,012	8,817,012	272,719	272,719
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	32,213	32,213	996	996

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

Assets	June 30, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$1,703,139	\$1,703,139	\$51,878	\$51,878
Financial assets at fair value through profit or loss - current	973,666	973,666	29,658	29,658
Available-for-sale financial assets - current	2,703,447	2,703,447	82,347	82,347
Investments in debt securities with no active market-current	76,478	76,478	2,330	2,330
Receivables	2,035,163	2,035,163	61,991	61,991
Claims recoverable from reinsurers	107,027	107,027	3,260	3,260
Due from reinsurers and ceding companies	115,393	115,393	3,515	3,515
Secured loans	2,279,562	2,279,562	69,435	69,435
Held-to-maturity financial assets- noncurrent	4,271,002	4,271,002	130,094	130,094
Financial assets carried at cost-noncurrent	60,000	-	1,828	-
Investments in debt securities with no active market – noncurrent	227,795	227,795	6,939	6,939
Long-term investments under equity method	438,651	438,651	13,361	13,361
Guarantee deposits paid	413,485	413,485	12,595	12,595
Derivative financial instruments:				
Financial assets at fair value through profit or loss - current				
Futures Contract	7,000	7,000	213	213
Options Contract	586	586	18	18
June 30, 2007				
Liabilities	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	Non-derivative financial instrument:			
Claims outstanding	27,012	27,012	823	823
Due to reinsurers and ceding companies	358,675	358,675	10,925	10,925
Operating and debt reserve	9,991,554	9,991,554	304,342	304,342
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	3,432	3,432	105	105

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

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

- ① 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, 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.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ 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 the Company'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. The Company 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.
- ④ The fair value of the Company'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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at June 30, 2006 and 2007:

Financial Instruments	June 30,			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	2006	2007	2006	2007
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or loss-current	\$363,386	\$973,666	\$-	\$-
Available-for-sale financial assets-current	2,224,091	2,703,447	-	-
Investment in debt securities with no active market-current	-	-	253,025	76,478
Held-to-maturity financial assets-noncurrent	-	-	3,544,387	4,271,002
Financial assets carried at cost-noncurrent	-	-	36,000	60,000
Investment in debt securities with no active market-noncurrent	-	-	305,871	227,795
Long-term investments in stocks under the equity method	-	-	448,748	438,651
<u>Assets- derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	7,655	7,000	-	-
Option	515	586	-	-
<u>Liability-derivative</u>				
Financial liability at fair value through profit and loss-current				
Forward contracts	32,213	3,432	-	-

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

Financial Instruments	June 30,			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	2006	2007	2006	2007
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or loss-current	11,240	29,658	-	-
Available-for-sale financial assets-current	68,793	82,347	-	-
Investment in debt securities with no active market-current	-	-	7,826	2,330
Held-to-maturity financial assets-noncurrent	-	-	109,632	130,094
Financial assets carried at cost-noncurrent	-	-	1,113	1,828
Investment in debt securities with no active market-noncurrent	-	-	9,461	9,317
Long-term investments in stocks under the equity method	-	-	13,880	13,361
<u>Assets-derivative</u>				
Financial assets at fair value through profit or loss-current				
Futures	237	213	-	-
Option	16	18	-	-
<u>Liability- derivative</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	996	105	-	-

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at June 30, 2006 and 2007:

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

Fix interest rate:

① June 30, 2006

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Investments in debt securities								
with no active market	253,025	7,826	76,478	2,366	229,393	7,095	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Held-to-maturity financial assets	\$908,608	\$28,104	\$2,635,779	\$81,528	\$3,544,387	\$109,632		
Investments in debt securities								
with no active market	-	-	-	-	558,896	17,287		

② June 30, 2007

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	\$-	\$-	\$890,959	27,139	\$-	\$-	\$195,518	\$5,955
Investments in debt securities								
with no active market	76,478	2,330	125,257	3,815	102,538	3,123	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Held-to-maturity financial assets	\$640,624	\$19,513	\$2,543,901	\$77,487	\$4,271,002	\$130,094		
Investments in debt securities								
with no active market	-	-	-	-	304,273	9,268		

(5) Credit risk

The Company's exposure to credit risk is minimal.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(6) Fair value hedges

		Designated as hedging instruments			
		Fair value			
		June 30, 2006		June 30, 2007	
Hedged item	Financial instruments of designated as hedging instruments	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	Foreign exchange SWAP	\$(32,213)	\$(996)	\$(3,432)	\$(104)

(7) Discretionary account management

		June 30, 2006			
		Book value		Fair value	
Item		NT\$	US\$	NT\$	US\$
Listed stocks		\$129,350	\$4,001	\$129,350	\$4,001
Short-term notes		37,012	1,145	37,012	1,145
Cash in banks		101,621	3,143	101,621	3,143
Net other assets less liabilities		3,090	96	3,090	96
Total		\$271,073	\$8,385	\$271,073	\$8,385

		June 30, 2007			
		Book value		Fair value	
Item		NT\$	US\$	NT\$	US\$
Listed stocks		\$359,962	\$10,965	\$359,962	\$10,965
Short-term notes		100,229	3,053	100,229	3,053
Cash in banks		55,038	1,676	55,038	1,676
Net other assets less liabilities		366	11	366	11
Total		\$515,595	\$15,705	\$515,595	\$15,705

As of June 30, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT\$250,000(US\$7,733) and NT\$400,000(US\$12,184), respectively.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2006 and 2007

(8) Material Contract

None.

(9) Presentation of Financial Statements:

Certain accounts in financial statements for the six months ended June 30, 2006 have been reclassified in order to be comparable with those in the financial statements for the six months ended June 30, 2007.

28. Information for investment in Mainland China

None.

29. Segment information

None.